

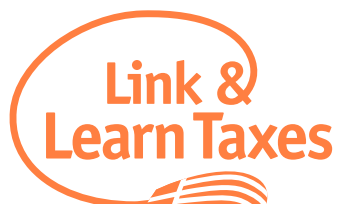
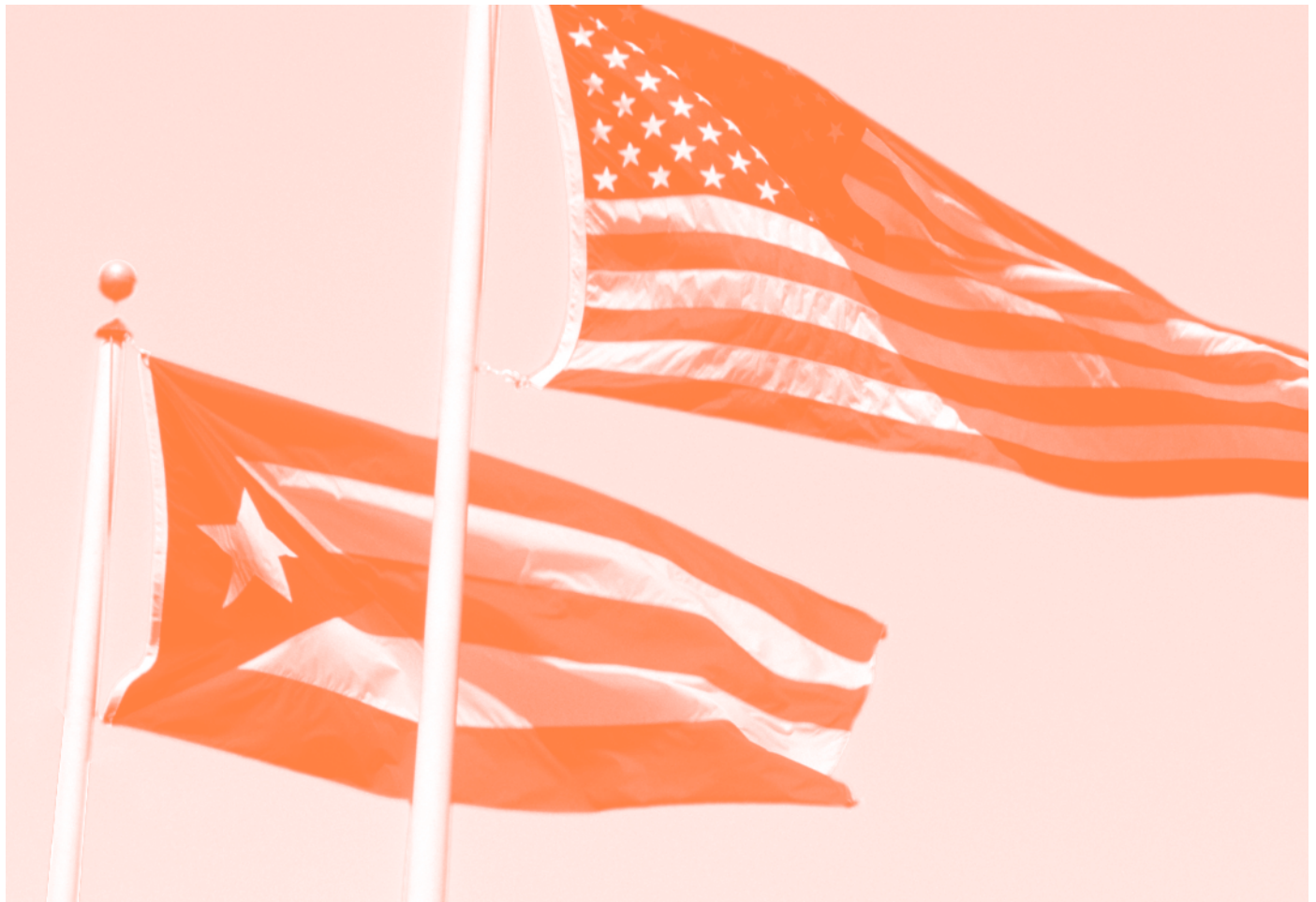


# 4696 (PR)

## VITA/TCE Puerto Rico Resource Guide

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

**2023 RETURNS**



Take your VITA/TCE training online at **[www.apps.irs.gov/app/vita](https://www.apps.irs.gov/app/vita)**. 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 4491-X, VITA/TCE Training Supplement. The most recent version can be downloaded at: [www.irs.gov/pub/irs-pdf/p4491x.pdf](http://www.irs.gov/pub/irs-pdf/p4491x.pdf)

## Volunteer Standards of Conduct

### VITA/TCE Program

The mission of the VITA/TCE return preparation program 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.

Annually all VITA/TCE volunteers must pass the Volunteer Standards of Conduct (VSC) certification test and agree that they will adhere to the VSC by signing and dating Form 13615, Volunteer Standards of Conduct Agreement, prior to volunteering at a VITA/TCE site. In addition, return preparers, quality reviewers, coordinators, and tax law instructors must certify in Intake/Interview and Quality Review. Volunteers who answer tax law questions, instruct tax law classes, prepare or correct tax returns, or conduct quality reviews of completed returns must also certify in tax law prior to signing the form. Form 13615 is not valid until the site coordinator, sponsoring partner, instructor, or IRS contact confirms the volunteer's identity, name and address, and signs and dates the form and signs and dates the form.

As a volunteer in the VITA/TCE programs, you must adhere to the following Volunteer Standards of Conduct:

**VSC 1** – Follow the Quality Site Requirements (QSR).

**VSC 2** – Do not accept payment, ask for donations, or accept refund payments for federal or state tax return preparation from customers.

**VSC 3** – Do not solicit business from taxpayers you assist or use the information you gained about them (their information) for any direct or indirect personal benefit for yourself or any other specific individual.

**VSC 4** – Do not knowingly prepare false returns.

**VSC 5** – Do not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct considered to have a negative effect on the VITA/TCE programs.

**VSC 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.

# Table of Contents

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How to Use this Guide .....	2
Are You Ready to Get Started? .....	2
Quality and Tax Alerts for IRS Volunteer Programs .....	2
The Five-Step Interview Process .....	3
Determining Puerto Rico Residency Status For U.S. Tax Purposes .....	5
<b>Level I</b> .....	6
Who Must File? .....	6
Source Rules for Income .....	8
Standard Deduction .....	9
Refundable and Non Refundable Credits .....	10
<b>Level II</b> .....	13
Bona Fide Residents of Puerto Rico .....	13
Adjustments to Income .....	16
Itemized Deductions .....	18
Social Security Benefits .....	20
Foreign Tax Credit .....	22
Other Taxes .....	30
<b>TaxSlayer Software Hints</b> .....	32
Starting TaxSlayer - New Return .....	32
TaxSlayer - Additional Child Tax Credit .....	36
TaxSlayer - Adjustments to Income .....	44
TaxSlayer - Deductions .....	45
TaxSlayer - Foreign Tax Credit .....	47

## How to Use this Guide

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This publication is designed to assist you in preparing an accurate paper or software-prepared return using TaxSlayer. It is divided into three major sections—Level I, Level II, and Software Hints.

**Level I** section contains tax law in the form of decision trees, charts, and interview tips. Level II section has advanced tax law topics. The TaxSlayer section has step-by-step procedures for electronic tax return preparation using computer software.

The Link & Learn Taxes Puerto Rico course is divided into **Level I** and **Level II**. For volunteers assisting taxpayers in Puerto Rico, volunteers must first pass the **regular Basic or Advanced VITA/TCE test**. Next they should proceed to the **Level I** of the Puerto Rico test. Students can stop there or proceed to the **Level II** of the Puerto Rico exam. Each course must be passed with a minimum score of 80% for certification.

\* TaxSlayer is a copyrighted software program developed by a family owned company with over 50 years in the tax preparation business. The screen shots in this publication should not be extracted, copied, or distributed without written approval of the IRS.



**Caution:** Some of the software screen shots in this guide may not be updated for current tax law. Generally, the screens depicted mirror the current year's version. However, there are some instances where there are embedded references to earlier tax years.

## Are You Ready to Get Started?

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Complete this assessment by entering a check mark in the box for “Yes.” Resolve all “No” (unchecked boxes) responses with your site coordinator before assisting taxpayers.

- 1. Have you signed:
  - ☐ a. The Volunteer Agreement/Standards of Conduct?
  - ☐ b. The Property Loan Agreement (if applicable)?
- 2. Do you know the following:
  - ☐ a. Your duties at the site?
  - ☐ b. Site contacts (emergency, reporting delays, technical issues, etc.)?
  - ☐ c. When you are expected at the site?
  - ☐ d. Your site identification number (SIDN)?
- 3. Do you have your:
  - ☐ a. *VITA/TCE Volunteer Resource Guide* (Publication 4012)?
  - ☐ b. *Your Federal Income Tax* (Publication 17)?
  - ☐ c. Name badge (Form 14509, *Volunteer ID Insert*) depicting your certification level?
  - ☐ d. *VITA/TCE Puerto Rico Resource Guide* (Publication 4696 (PR))?
- 4. Are the following items at the site:
  - ☐ a. *Intake/Interview & Quality Review Sheet* (Form 13614-C)?
  - ☐ b. Overprinted return forms, schedules, worksheets, etc.?

## Quality and Tax Alerts for IRS Volunteer Programs

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For the latest volunteer tax law updates and other helpful tips throughout the filing season you can go to **www.irs.gov**—keyword: Volunteer Tax Alerts. Your site coordinator should share these messages with you. Also, for more information you can visit the Partner and Volunteer Resource Center.

# The Five-Step Interview Process



Interview Steps	Goal	Suggested Actions
Step <b>1</b>	Cultivate a comfortable environment and put the taxpayer at ease.	<ul style="list-style-type: none"><li>• Introduce yourself; engage in small talk (discuss the weather, difficulty in locating the site, apologize if long wait, etc.).</li><li>• 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.</li><li>• 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.</li></ul>
Step <b>2</b>	Use active listening skills	<ul style="list-style-type: none"><li>• Watch for nonverbal listening cues (tone of voice, body language, eye contact, etc.).</li><li>• Listen, then respond by restating, paraphrasing, and/or encouraging further dialogue.</li></ul>
Step <b>3</b>	Review responses to the intake questions (Form 13614-C or equivalent).	<ul style="list-style-type: none"><li>• Confirm all the information completed by the taxpayer on the intake form responses to the (Form 13614-C or approved alternative)</li><li>• Review all the information and documents presented by the taxpayer including W-2s, 1099s, 1098s, etc.</li><li>• Scan the information for completeness.</li></ul>
Step <b>4</b>	Working with the taxpayer, complete the critical intake questions – page 2-3 of Form 13614-C	<ul style="list-style-type: none"><li>• Don't assume anything use the interview tips and decision trees in Publication 4012 and Publication 4696(PR) to confirm:<ul style="list-style-type: none"><li>◦ Marital status (filing status)</li><li>◦ Eligibility for Child Tax Credit</li></ul></li></ul>
Step <b>5</b>	Advise taxpayer of the next steps	<ul style="list-style-type: none"><li>• Restate the tax return preparation process, quality review procedures, signature and record keeping requirements, etc.</li></ul>

# Form 13614-C, Intake/Interview and Quality Review Sheet

## Form 13614 C Page 1

Form <b>13614-C</b> (October 2023)	Department of the Treasury - Internal Revenue Service <b>Intake/Interview and Quality Review Sheet</b>	OMB Number 1545-1964											
<div style="display: flex; justify-content: space-between;"><div style="width: 45%;"><b>You will need:</b><ul style="list-style-type: none"><li>• Tax Information such as Forms W-2, 1099, 1098, 1095.</li><li>• Social Security cards or ITIN letters for all persons on your tax return.</li><li>• Picture ID (such as valid driver's license) for you and your spouse.</li></ul></div><div style="width: 50%;"><ul style="list-style-type: none"><li>• Please complete pages 1-4 of this form.</li><li>• You are responsible for the information on your return. Please provide complete and accurate information.</li><li>• If you have questions, please ask the IRS-certified volunteer preparer.</li></ul></div></div>													
<b>Volunteers are trained to provide high quality service and uphold the highest ethical standards.</b> <b>To report unethical behavior to the IRS, email us at <a href="mailto:wi.voltax@irs.gov">wi.voltax@irs.gov</a></b>													
<b>Part I – Your Personal Information</b> (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	Best contact number	Are you a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No									
2. Your spouse's first name	M.I.	Last name	Best contact number	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> 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 <input type="checkbox"/> Yes <input type="checkbox"/> No							
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No									
7. Your spouse's Date of Birth	8. Your spouse's job title		9. Last year, was your spouse:			a. Full-time student <input type="checkbox"/> Yes <input type="checkbox"/> No							
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No									
10. Can anyone claim you or your spouse as a dependent? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unsure													
11. Have you, your spouse, or dependents been a victim of tax related identity theft or been issued an Identity Protection PIN? <input type="checkbox"/> Yes <input type="checkbox"/> No													
12. Provide an email address (optional) (this email address will not be used for contacts from the Internal Revenue Service)													
<b>Part II – Marital Status and Household Information</b>													
1. As of December 31, 2023, what was your marital status?		<input type="checkbox"/> Never Married (This includes registered domestic partnerships, civil unions, or other formal relationships under state law)											
		<input type="checkbox"/> Married a. If Yes, Did you get married in 2023? <input type="checkbox"/> Yes <input type="checkbox"/> No											
		b. Did you live with your spouse during any part of the last six months of 2023? <input type="checkbox"/> Yes <input type="checkbox"/> No											
		<input type="checkbox"/> Divorced Date of final decree _____											
		<input type="checkbox"/> Legally Separated Date of separate maintenance decree _____											
		<input type="checkbox"/> Widowed Year of spouse's death _____											
2. List the names below of: • <b>everyone</b> who lived with you last year (other than your spouse) • <b>anyone</b> you supported but did not live with you last year													
If additional space is needed check here <input type="checkbox"/> and list on page 3													
<b>To be completed by a Certified Volunteer Preparer</b>													
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of US, Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/23 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Is this person a qualifying child/relative of any other person? (yes/no)	Did this person provide more than 50% of his/her own support? (yes,no,n/a)	Did this person have less than \$4,700 of income? (yes,no,n/a)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no/n/a)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					

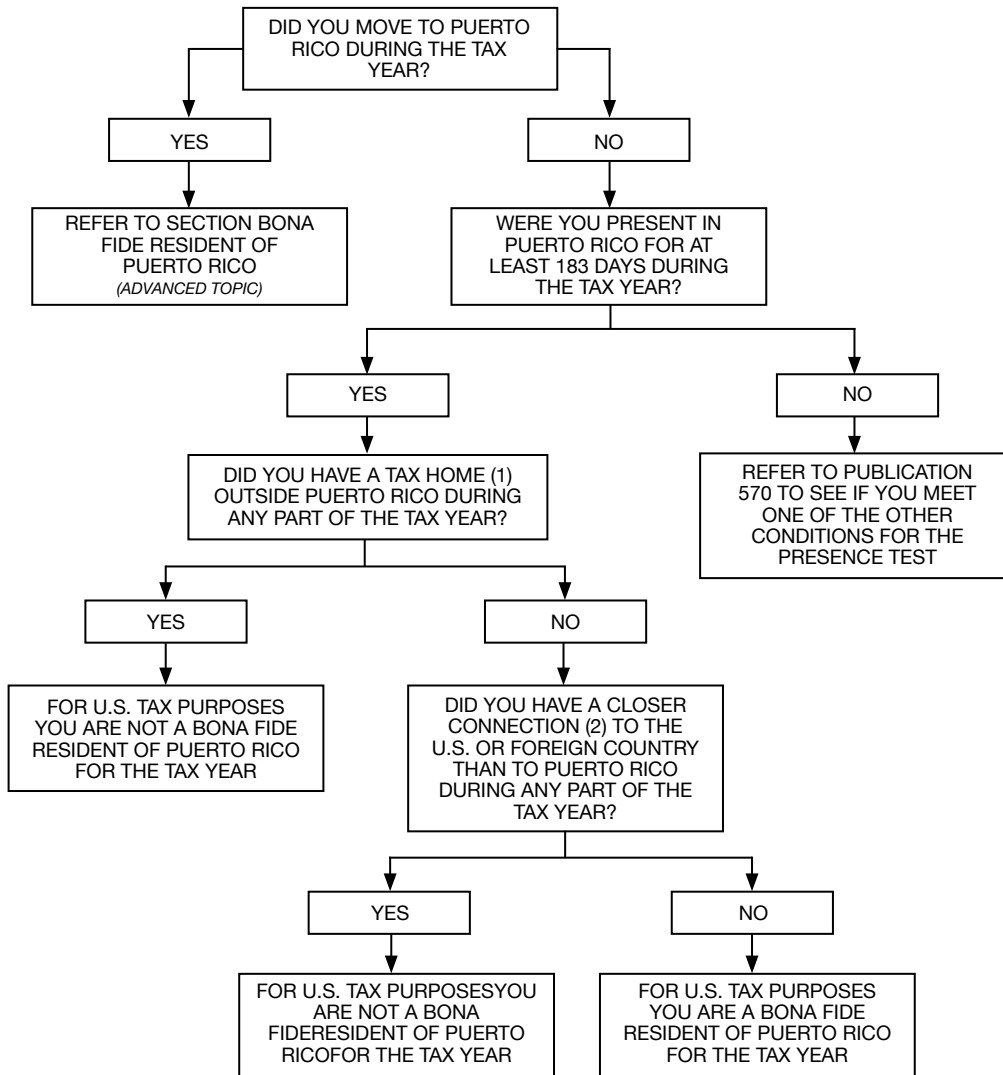
Catalog Number 52121E

www.irs.gov

Form **13614-C** (Rev. 10-2023)

# Determining Puerto Rico Residency Status For U.S. Tax Purposes

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(1) Your tax home is your regular or main place of business, employment, or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

(2) You will be considered to have a closer connection to Puerto Rico than to the United States or to a foreign country if you maintained more significant contacts with Puerto Rico than with the United States or foreign country. In determining if you have maintained more significant contacts with Puerto Rico review the facts and circumstances to be considered in Publication 570, Tax Guide for Individuals With Income From U.S. Possessions.

## Chart A: Who Must File

Chart A: Who Must file?	
Were you a bona fide resident of Puerto Rico for at least part of the tax year?	Yes: Continue No: Consult Publication 4012 Tab A
Do you have any of the following income: <ul style="list-style-type: none"><li>• Income from sources outside of Puerto Rico?</li><li>• Income as a civilian or military employee of the U.S. government?</li><li>• Income from pensions as a civilian or military employee of the U.S. government?</li><li>• Taxable Social Security benefits?</li></ul>	Yes: Go to Chart B: Who Must File-Worksheet for Bona Fide Residents of Puerto Rico with Exempt Income to determine if a U.S. return must be filed.  No: Continue
Do you have any of the following income: <ul style="list-style-type: none"><li>• Net earnings from self-employment of at least \$400?</li><li>• Wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer Social Security and Medicare taxes?</li><li>• Tips you did not report to your employer or wages you received from an employer who did not withhold Social Security and Medicare taxes?</li></ul>	Yes: File Form 1040 SS, U.S. Self-employment Tax Return.  No: You are not required to file a Federal Tax Return. However, Use Chart C to determine if you should file a tax return to claim a refund and/or any refundable credits.

Complete the worksheet (Chart B: Who Must File – Worksheet for Bona Fide Residents of Puerto Rico with Exempt Income) on the next page to determine if a U.S. return must be filed. After completing the worksheet, a return must be filed if the taxpayer's gross income subject to U.S. tax, line 2a, is equal to or more than line 2d of the worksheet. If the taxpayer is married filing a separate return, a return must be filed if the taxpayer's gross income subject to U.S. tax is equal to or more than \$5.

## Residents of Puerto Rico

If you are a resident of Puerto Rico for the entire year, gross income does not include income from sources within Puerto Rico, except for amounts received as an employee of the United States or a U.S. agency. If you receive income from Puerto Rico sources that is not subject to U.S. tax, you must reduce your standard deduction. As a result, the amount of income you must have before you are required to file a U.S. income tax return is lower than the applicable amount.

This computation (allowable portion of standard deduction), must be made before you can determine if you must file a U.S. tax return, because the minimum income level at which you must file a return is based, in part, on the standard deduction for your particular filing status.



## Residents of Puerto Rico (continued)

### Chart B: Who Must File – Worksheet for Bona Fide Residents of Puerto Rico with Exempt Income (under IRC Section 933)

#### 1. Enter STANDARD DEDUCTION .....

If your filing status is:

Single	under 65 enter \$13,850 65 or older enter \$ 15,700
Married filing jointly	both under 65 enter \$ 27,700 one 65 or older enter \$29,200 both 65 or older enter \$30,700
Head of household	under 65 enter \$20,800 65 or older enter \$ 22,650
Qualifying Surviving spouse with dependent child	under 65 enter \$27,700 65 or older enter \$29,200
Married filing separately	See note after line 2d below.

**CAUTION:** *If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet for Dependents in Instructions for Form 1040 or Form 1040SR, as applicable.*

#### 2. Allowable portion of STANDARD DEDUCTION

- a. Gross Income subject to U.S. tax (include taxable social security benefits).....
- b. Total gross income from all sources (including exempt P.R. Income) .....
- c. Divide line 2a by line 2b .....
- d. Multiply STANDARD DEDUCTION (line 1) by line 2c. ....

\* You must file a return if your gross income subject to U.S. tax (line 2a) is equal to or more than line 2d. If you are married filing a separate return, you must file a return if your gross income subject to U.S. tax is equal to or more than \$5.

Chart C: Should you file a tax return?	
Did you have federal income tax withheld from any income, including unemployment benefits?	Yes: File form 1040 or 1040SR to claim a refund of taxes withheld.  No: Continue
Do you qualify for the additional child tax credit?	Yes: File Form 1040 SS (SP) or Form 1040 SS to claim the credit. No: You should not file a federal tax return.

# Source Rules for Income

The origin of the income determines the source either the U.S., Puerto Rico, or foreign.

- U.S. citizens and residents are taxed by the United States on their worldwide income, no matter where it originates.
- The source of income is very important to nonresident aliens because they are taxed by the U.S. only on U.S. source income.
- Source rules are also used to determine the foreign tax credit.

The following table will help you to decide the source of income.

**Table 1: Determining Source of Income**

Sources Rule	
Item of Income	Factor Determining Source
Salaries and other compensation	Where the service is performed
U.S. Social Security Benefits	*U.S. Source income by definition (IRC Sec. 861)
Pensions	<b>Contributions:</b> Where services were performed that earned the pensions. <b>Investment earnings:</b> Where pension trust is located.
Interest	Residence of the payer
Dividends	Location of the payer
Rents	Location of the property
Royalties:	<b>Natural resources:</b> Location of property. <i>Patents, copyrights, etc.:</i> Where the property is used.
Sale of stock or other nondepreciable personal property	** Seller's tax home (but see <i>Special Rules for Gains From Dispositions of Certain Property in Publication 570</i> for exceptions)
Sale of real property	Location of the property
Capital Gain Distribution paid by U.S.	Residence of shareholder
Unemployment Compensation.	For U.S. income tax purposes, generally the source of income is where the taxpayer performed the underlying services

## \* Special Rules

\* Bona Fide Residents of Puerto Rico should use Publication 915, Social Security Benefits and Equivalent Railroad Retirement Benefits, to determine how much of their Social Security Benefits may be taxable.

\*\* There are special rules for gains from dispositions of certain investment property (for example, stocks, bonds, debt instruments, diamonds, and gold) owned by a U.S. citizen or resident alien prior to becoming a bona fide resident of a possession. For additional details see Publication 570.

# Standard Deduction

## Allocation of the Standard Deduction When the Taxpayer Has Exempt Puerto Rico Source Income

The standard deduction is a dollar amount that reduces the amount of income on which the taxpayer is taxed.

The standard deduction depends on:

- the taxpayer's filing status,
- whether the taxpayer (or the taxpayer's spouse) is age 65 or older and/or blind, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

For those taxpayers who do not itemize, the standard deduction must be apportioned on the ratio of gross income subject to U.S. federal tax to gross income from all sources. This adjustment must be made prior to entering the standard deduction on Form 1040, line 12 or line 12 of Form 1040SR.

Filing status	Standard deduction
Single	\$13,850
Married filing jointly, or Qualifying Surviving Spouse	\$27,700
Married filing separately	\$13,850
Head of household	\$20,800

If the taxpayer is 65 or older at the end of the year and/or blind, he or she is allowed a higher standard deduction.

## Chart C: Standard Deduction Worksheet

### Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions

1. Enter STANDARD DEDUCTION for:

Single or Married filing separately enter \$13,850 . . . . . }  
Married filing jointly or Qualifying Surviving Spouse enter \$27,700 . . . . . }  
Head of Household enter \$20,800 . . . . . }

**CAUTION:** If you are 65 or over and/or blind, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040, as applicable;

**or**

If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040, as applicable.

2. Allowable portion of STANDARD DEDUCTION:

- a. Gross income subject to U.S. tax . . . . . \_\_\_\_\_  
b. Total gross income from all sources (including exempt P.R. income) . . . . . \_\_\_\_\_  
c. Divide line 2a by line 2b . . . . . \_\_\_\_\_  
d. Multiply Standard Deduction (line 1) by line 2c and enter this amount  
on Form 1040, line 12 (allowable portion of STANDARD DEDUCTION) . . . . . \_\_\_\_\_

Write the following above line 12, Form 1040 "Standard Deduction modified due to exempt income under section 933."

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## Child Tax Credit and Additional Child Tax Credit

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The American Rescue Plan Act of 2021 amended the requirements for bona fide residents of Puerto Rico who claim the additional child tax credit. For tax year 2023, bona fide residents of Puerto Rico with one qualifying child **who are not required to file a U.S. income tax return and have Social Security and/or Medicare taxes withheld from their wages or paid Self-Employment tax** will be eligible to claim the credit.

### Requirements

To qualify, the taxpayer must meet the following conditions:

- Be a bona fide resident of Puerto Rico
- Have one or more qualifying children under 17 years old at the end of the tax year (born on 2007 or after)
- Must claim the child as a dependent
- Child must have a valid Social Security Number

### Income limits on this credit?

To be eligible for the full amount of credit, Modified Adjusted Gross Income (MAGI) cannot exceed:

- \$400,000 for married filing a joint return
- \$200,000 For all other filing statuses

### Amount of Credit

For 2023, the amount of credit is \$2,000 per qualifying child. Up to \$1,600 of the credit is refundable if the taxpayer has earned income subject to U.S. tax or had Social Security and Medicare taxes withheld or paid Self-Employment taxes.

The credit is reduced \$50 for each \$1,000 (or fraction thereof) of income limits indicated above. The taxpayer must consider all income received in Puerto Rico.

### Modified Adjusted Gross Income (MAGI)-

Is determined under the U.S. Internal Revenue Code (and not under the income tax laws of Puerto Rico). For this limit, MAGI includes items exempt under IRC Section 933 such as wages, interest, dividends, unemployment compensation, alimony received (if taxable), and taxable amount of pensions and annuities. Include any profit or (loss) from Schedule F, Profit or Loss From Farming, or Schedule C, Profit or Loss From Business (Sole Proprietorship). Also, include your taxable social security benefits. Also, please verify the instructions of Form 1040 SS and Form 1040 SS (SP).

### How to claim the credit?

- If the taxpayer pays self-employment tax use Form 1040 SS (SP), Declaración de Impuestos Federal sobre el Trabajo por Cuenta Propia (Incluyendo el Credito Tributario Adicional por Hijos para Residentes Bona Fide de Puerto Rico) or Form 1040 (SS) U.S. Self Employment Tax Return (Including the Child Tax Credit for Bona Fide Residents of Puerto Rico). Bona fide residents of Puerto Rico who do not have to file a federal income tax return use Form 1040 SS (SP) or Form 1040 SS to claim the additional child tax credit if they have at least one qualifying child and have Social Security and Medicare taxes withheld or paid Social Security and Medicare taxes on self-employment income.
- Bona fide residents of Puerto Rico who must file a federal income tax return must complete Form 1040, or Form 1040SR, and Schedule 8812, Credits for Qualifying Children and Other Dependents.

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## Other Dependents Non-Refundable Credit

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There is a \$500 Non refundable credit per dependent other than a qualifying child. This credit can only be used to reduce the federal income tax obligation and cannot be claimed on Form 1040 SS (SP) or 1040 SS.

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## Child and Dependent Care Credit

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For 2023, the Child and Dependent Care Credit is non-refundable and can only be used to reduce the federal income tax obligation.

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## Interview Tips for the Additional Child Tax Credit

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### Qualifying Child

Step <b>1</b>	Is this child your son, daughter, adopted child, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)?	If YES, go to Step 2. If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.
Step <b>2</b>	Is this child 16 years old or younger at end of the tax year?	If YES, go to Step 3. If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.
Step <b>3</b>	Did the child provide over half of his or her own support for	If NO, go to Step 4. If YES, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.
Step <b>4</b>	Did the child live with you for more than half of tax year? If did not live with you for the required time, exceptions apply such as; <ul style="list-style-type: none"><li>• Exception to Time-Lived-with-You</li><li>• Kidnapped Child</li><li>• Children of Divorced or Separated or Never Married Parents.</li></ul>	If YES, go to Step 5. If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.
Step <b>5</b>	Is this child a U.S. citizen, U.S. national, or resident of the United States?  Note: A national is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who become U.S. nationals instead of U.S. citizens.	If YES, go to Step 6. If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.
Step <b>6</b>	Does the child have a valid Social Security number?	If NO, you cannot claim the additional child tax credit for this child STOP if the taxpayer has no other children. If YES, the child is a qualifying child. Go to step 7.
Step <b>7</b>	Is the child your dependent? Only the taxpayer who is claiming the child as a dependent can claim the child for the child tax credit.	If YES, the child is a qualifying child. Go to Step 8. If No, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.

## Interview Tips for the Additional Child Tax Credit

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### Qualifying Child

Step <b>8</b>	Were you a bona fide resident of Puerto Rico during 2023?	If YES, go to Step 9 If NO, STOP. Use Schedule 8812 and Form 1040 to claim the credit. Consult Pub. 4012 Tab G for more information.
Step <b>9</b>	Are you required to file a U.S. Individual Income Tax Return (Form 1040/1040SR)? (Refer to Who Must File?	If YES, STOP. Use Schedule 8812 and Form 1040 to claim the credit If NO, use Form 1040 SS (SP) or Form 1040 SS to claim the credit.

# Bona Fide Residents of Puerto Rico

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In order to be able to exclude the income sourced in Puerto Rico, the taxpayer must be a bona fide resident of Puerto Rico for the entire tax year.

Generally, taxpayers are considered bona fide resident of Puerto Rico if during the tax year, the taxpayer:

- *Meet the presence test,*
- *Do not have a tax home outside Puerto Rico during any part of the tax year, and*
- *Do not have a closer connection, during any part of the tax year, to the U.S. or to a foreign country than to Puerto Rico.*

## Presence Test

If you are a U.S. citizen or resident alien, you will satisfy the presence test for the entire tax year if you meet one of the following conditions.

1. You were present in the relevant possession for at least 183 days during the tax year.
2. You were present in the relevant possession for at least 549 days during the 3-year period that includes the current tax year and the 2 immediately preceding tax years. During each year of the 3-year period, you must be present in the relevant possession or at least 60 days.
3. You were present in the United States for no more than 90 days during the tax year.
4. You had earned income in the United States of no more than a total of \$3,000 and were present for more days in the relevant possession than in the United States during the tax year. Earned income is pay for personal services performed, such as wages, salaries, or professional fees.
5. You had no significant connection to the United States during the tax year.

## Tax Home

You will have met the tax home test if you did not have a tax home outside the relevant possession during any part of the tax year. Your tax home is your regular or main place of business, employment, or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

## Closer Connection

You will have met the closer connection test if, during any part of the tax year, you do not have a closer connection to the United States or a foreign country than to the relevant U.S. possession.

You will be considered to have a closer connection to a possession than to the United States or to a foreign country if you have maintained more significant contacts with the possession(s) than with the United States or foreign country. In determining if you have maintained more significant contacts with the relevant possession, the facts and circumstances to be considered include, but are not limited to, the following:

- The location of your permanent home.
- The location of your family.
- The location of personal belongings, such as automobiles, furniture, clothing, and jewelry owned by you and your family.
- The location of social, political, cultural, professional, or religious organizations with which you have a current relationship.
- The location where you conduct your routine personal banking activities.

## Bona Fide Residents of Puerto Rico (continued)

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- The location where you conduct business activities (other than those that go into determining your tax home).
- The location of the jurisdiction in which you hold a driver's license.
- The location of the jurisdiction in which you vote.
- The location of charitable organizations to which you contribute.
- The country of residence you designate on forms and documents.
- The types of official forms and documents you file, such as Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting, or Form W-9, Request for Taxpayer Identification Number and Certification.

Your connections to the relevant possession will be compared to the total of your connections with the United States and foreign countries. Your answers to the questions on Form 8898, *Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession*, Part III, will help establish the jurisdiction to which you have a closer connection.

Refer taxpayer to Publication 570 for more details.

## Special Rules for Year of Move to Puerto Rico

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Taxpayers moving to Puerto Rico during the year may still be able to meet the tax home and closer connection test for that year.

Taxpayers will satisfy the tax home and closer connection test in the tax year of move to Puerto Rico if they meets all of the following:

- Taxpayer has not been a bona fide resident of Puerto Rico in any of the 3 tax year immediately preceding the move.
- In the year of move, taxpayer does not have a tax home outside Puerto Rico or a closer connection to the U.S. or foreign country than to Puerto Rico during any of the last 183 days of the tax year.
- Taxpayer is a bona fide resident of Puerto Rico for each of the 3 tax years immediately following the move.



## Year of Move from Puerto Rico

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Taxpayer will be considered a bona fide resident of Puerto Rico for the part of the tax year preceding their move from Puerto Rico if:

- Taxpayer is a U.S. citizen,
- Taxpayer is a bona fide resident of Puerto Rico for at least 2 tax years immediately preceding the tax year of move,
- Cease to be a bona fide resident of Puerto Rico during the tax year,
- Cease to have a tax home in Puerto Rico during the tax year, and
- Have a closer connection to Puerto Rico than to the U.S. or a foreign country throughout the part of the tax year preceding the date on which the taxpayer ceases to have a tax home in Puerto Rico.

**Taxpayers who meet the above conditions can exclude the income sourced in Puerto Rico prior to their move from Puerto Rico.**

## Reporting a Change in Bona Fide Residence

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This form must be completed when the worldwide gross income, including Puerto Rico exempt income, in that tax year, is more than \$75,000. If both spouses are required to file Form 8898, a separate Form 8898 must be filed for each one.

Mail Form 8898 separately from your tax return by the due date (including extensions) for filing Form 1040.

Mail form to: **Internal Revenue Service**  
3651 S. IH 35  
MS 4301AUSC  
Austin TX 78741

One of the conditions of filing this form is having worldwide gross income in that tax year of more than \$75,000. Completing this form is out-of-scope for the VITA/TCE Program.

## Adjustments to Income

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Adjustments to income are amounts that a taxpayer can subtract from their total income. The result is “adjusted gross income”, which the taxpayer uses to compute certain deductions that are subject to income limitations.

### **There are several adjustments to income that mostly affect Puerto Rico residents:**

- Self-employment tax deduction
- Student loan interest deduction
- Alimony Paid
- IRA

### **What do I need?**

- Taxpayer’s Intake/Interview & Quality Review Sheet
- Publication 970
- Form 1098-E, Student Loan Interest Statement
- Social Security Number (SSN) of the spouse paying/receiving alimony

## Puerto Rico Exempt Income

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*Adjustments that apply to exempt Puerto Rico source income are not deductible on a federal tax return.*

### **Self-Employment Tax Deduction**

Individuals who do not have a U.S. tax filing requirement, but have income connected with a trade or business in Puerto Rico:

- Must file Form 1040-SS (SP) or Form 1040 SS, *U.S. Self Employment Tax Return*, to report their self-employment income
- May have to pay self-employment tax
- Cannot take the self-employment tax deduction on Form 1040, Schedule 1 Part II Line 15 because this deduction is related to excluded income.

### **Student Loan Interest Deduction**

Taxpayers, who paid interest on a student loan during the tax year, may be able to deduct up to \$2,500 of the interest paid. If the taxpayer paid \$600 or more in interest to a single lender, the taxpayer should receive a statement from the lender showing the amount of interest paid.

### **Alimony Paid**

Taxpayers who paid alimony to a resident of Puerto Rico during the tax year may deduct their payments regardless of whether the recipient reports their income.



*Alimony paid pursuant to a divorce or separation instrument executed on or before December 31, 2018 is deductible. Under the Tax Cuts and Jobs Act, alimony payments are no longer deductible by the payer and are not included as income to the recipient if the divorce or separation agreement was executed after December 31, 2018.*

## **IRAs**

Puerto Rico residents may be able to contribute money to an IRA and take the IRA deduction on their U.S. income tax return. To take the deduction:

- The taxpayer must have earned income from U.S. sources. Income excluded under IRC Section 933 is not eligible for an IRA deduction.
- All other rules for IRA contributions are met.
- The IRA trust account must be in the U.S.

## Itemized Deductions

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Itemized deductions are subtractions from a taxpayer's Adjusted Gross Income (AGI) that reduce the amount of income that is taxed. Most taxpayers have a choice of taking a standard deduction or itemizing deductions. Taxpayers should use the type of deduction that results in the lowest tax. 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 the Standard Deduction or Itemized Deductions

For Puerto Rico 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

#### Formula for allowable portion:

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

*Note: Round all fractions to four places.*

The numerator of the fraction is the gross income subject to U.S. tax and the denominator is the total gross income from all sources. See the example for Elias and Delani below for the computation of the standard deduction.

**Example:** Elias Noble and Delani Santa are filing a joint return and both are under age 65. This year, Elias earned \$40,000 as a federal employee in Puerto Rico and Delani earned \$10,000 from her job at a bank in Puerto Rico.

#### Formula for allowable portion of the standard deduction

$$\begin{aligned} &= \frac{\$40,000}{\$50,000} \times \$27,700 \\ &= 0.80 \times \$27,700 \\ &= \$22,160 \end{aligned}$$

## Puerto Rico Exempt Income

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*Deductions that apply to exempt Puerto Rico income are not deductible on a federal tax return.*

## Itemized Deductions (continued)

Deductions that do not specifically apply to a particular type of income must be allocated 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

Elias and Delani are filing a joint return. They are bona fide residents of Puerto Rico and both are under 65 years of age. Elias works for the federal government and Delani for a bank in Puerto Rico. During 2023, Elias earned \$ 40,000 as a federal employee and Delani 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 allocated as follows:

Effect of Puerto Rico exempt income on itemized deductions:			
Itemized	Expense Amount	Formula : Allowable Portion	Deduction
Medical and Dental	\$4,000	$(40,000 \div 50,000) \times 4,000$	*\$200
Real Estate Taxes	\$5,000	$(40,000 \div 50,000) \times 5,000$	\$4,000
Mortgage Interest	\$12,000	$(40,000 \div 50,000) \times 12,000$	\$9,600
Charitable Contributions	\$6,000	$(40,000 \div 50,000) \times 6,000$	\$4,800
Total	\$27,000		\$18,600

\*Medical expenses must exceed 7.5% of the taxpayer's Adjusted Gross Income.

To figure the standard deduction amount for Elias and Delani use the "Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions" in Publication 1321. The allowable portion of the standard deduction for Elias & Delani is \$22,160 ( $\$27,700 \times 0.80$ ). The allowable amount of the 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 the standard deduction.



*It may be advantageous for the taxpayer to itemize deductions only if the amount is larger than the allowable standard deduction amount.*

# Social Security Benefits

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Social security benefits are payments made under Title II of the Social Security Act. They include OASDI (Old Age, Survivors, Disability Insurance), and some workers' compensation benefits. Generally, if social security benefits are the taxpayer's only source of income, then the benefits are not taxable and the taxpayer probably does not need to file a federal income tax return.

If the taxpayer received social security benefits plus other income (including exempt Puerto Rico source income), up to 85% of the social security benefit may be taxable.

Social security benefits are reported to the taxpayer on Form SSA-1099, *Social Security Benefit Statement*. To correctly calculate the taxable portion, you need to know the amount in box 5 (Net Benefits) of Form SSA-1099.

## Calculating the Taxable Portion

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 *The Tax Cuts and Jobs Act of 2017 (TCJA) suspended (reduced to \$0) the personal and dependency exemptions for tax years 2018 through 2025.. Now, residents of Puerto Rico with exempt Puerto Rico source income under Internal Revenue Code Section 933 can only claim the adjusted standard deduction to reduce the taxable portion of the Social Security benefits. Publication 1321 is used to calculate the allowable portion of the standard deduction.*

### Are the benefits taxable?

To determine if any portion of the social security benefits is taxable, compare taxpayer's (and spouse's, if married filing jointly):

- Base amount (corresponding to the taxpayer's filing status), and
- Total income (including exempt Puerto Rico source income and interest), plus one-half of the social security benefits

If the total income is more than the base amount for the taxpayer's filing status, part of the social security benefits may be taxable. In general, the higher the taxpayer's total income is, the greater the taxable portion of social security benefits will be (up to 85% of the benefits received ).

### Worksheet 1 Figuring Your Taxable Benefits

Residents of Puerto Rico with exempt Puerto Rico source income must use the Worksheet 1 in Publication 915 to calculate the taxable portion of social security benefits, not the worksheet included with Form 1040 instructions.

- Enter the amount from box 5 of each of the Form(s) SSA-1099s on line 1 of Worksheet 1. Also, enter this amount on line 6a of Form 1040 or 1040SR.
- Include benefits received by both spouses if filing Married Filing Jointly
- Do not include any dependents' SSA-1099s
- Enter the total amount from Form 1040 or 1040SR, lines 1z, 2b, 3b, 4b, 5b, 7 and 8 on line 3 of the Worksheet 1
- Enter the amount from Form 1040 or 1040SR, line 2a, on line 4 of the Worksheet 1
- On line 5 of the Worksheet 1, enter the total of any exclusions/adjustments for: adoption benefits (Form 8839, line 28), Foreign Earned Income or Housing (Form 2555, lines 45 and 50), certain income of bona fide residents of Puerto Rico\*
- Give the completed worksheet to the taxpayer for their records

\* Wages, exempt and taxable interest, dividends, taxable IRAs and pensions (without the \$11,000 or \$15,000 exemption amount granted by the Puerto Rico Treasury Department), net capital gain or loss (up to \$3,000), net income from self-employment and any other Puerto Rico source income exempt under Section 933.

## Calculating the Taxable Portion (continued)

### Base Amounts

Taxpayer's base amounts are determined by their filing status.

Filing Status	Base Amount
Married Filing Separately (and taxpayer lived with spouse for any part of tax year)	\$0
Single Head of Household Qualifying Surviving spouse Married Filing Separately (and taxpayer lived separately from spouse for entire tax year)	\$25,000
Married Filing Jointly	\$32,000

### Filing Status

**TIP** For taxpayers who plan to file as Married Filing Separately, be sure to ask whether they lived with their spouse for any part of the tax year, as that changes the base amount.

### Income Calculation

When calculating the taxable portion of taxpayer's social security benefits, compare the base amount to the total of:

- Exempt income earned by Puerto Rico residents
- All other income, including tax-exempt interest
- One-half of the
  - Social security net benefit for the year (Form SSA-1099, box 5) or
  - Railroad Retirement Benefits (Form RRB-1099, box 5)

If the amount on line 8 of the Worksheet 1: Figuring Your Taxable Benefits exceeds the taxpayers' base amount (line 9 of the worksheet), complete the worksheet to determine the taxable portion of Social Security benefits (Line 19 of the worksheet). Enter this amount on line 6b of Form 1040 or 1040SR.

# Foreign Tax Credit

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## **What is the foreign tax credit (FTC)?**

The foreign tax credit was created to avoid double taxation when foreign source income is taxed by both the U.S. and the country or U.S. possession from which it is derived.

For Puerto Rico residents, the foreign tax credit reduces a taxpayer's tax liability by some or all of the Puerto Rico taxes paid or accrued during the tax year.

## **What form is used to claim the foreign tax credit?**

Form 1116 is used to claim the Foreign Tax Credit

## **Who may take the credit?**

Taxpayers who paid income taxes to a foreign country or U.S. possession may be entitled to take the foreign tax credit.

## **QUALIFYING TAXES**

The foreign tax credit, generally include taxes paid to a foreign country or U.S. possession on:

- Wages
- Dividends
- Interest
- Royalties
- Annuities



## Interview Tips for the Foreign Tax Credit

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Step		
Step <b>1</b>	Did you receive income from Puerto Rico or foreign sources? Note: Refer to Table 1, Determining Source of Income in Tab B	If YES, go to Step 2 If NO, STOP. You cannot claim FTC
Step <b>2</b>	Was this income taxable to the United States?	If YES, go to Step 3 If NO, STOP. You cannot claim FTC. Explain to the taxpayer they cannot take the credit on exempt Puerto Rico income.
Step <b>3</b>	Did you pay income taxes to Puerto Rico or foreign country?	If YES, you may be eligible to claim FTC. You must use Form 1116 to figure out the credit. If NO, explain to the taxpayer they cannot take the credit because the credit is limited to the allocated amount of U.S. taxes imposed on the foreign income, or the actual amount of foreign tax paid or accrued*

\* Carry back and forward rules may allow a taxpayer to use excess foreign taxes paid in prior years to be used in current year Form 1116, Foreign Tax Credits. This topic is out-of-scope for the VITA/TCE Program. Publication 514, Foreign Tax Credit for Individuals, explains in detail the computation to claim the unused foreign taxes paid or accrued. Form 1116, Foreign Tax Credit

Determine the taxable gross income sourced in the foreign country or U.S. possession taxable to the United States.

# Taxable Income from Sources Outside the United States

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## **Form 1116, *Foreign Tax Credit***

### **Gross Income from sources Outside the United States (line 1 of Part 1, Form 1116):**

Amounts entered on Part I, line 1a of Form 1116 are gross income figures.

Gross income does not include:

- exempt income from foreign or possession Sources exempt under IRC Section 933 or the Cost of Living Allowance (COLA) earned by federal employees which is exempt under IRC Section 912.

### **Categories of Income**

A separate Form 1116 must be completed for each category of income listed in the heading section and only one income category can be checked per form.

### **Examples of Categories of Income**

**Passive Category Income:** Includes dividends, interest, royalties, rents and annuities

**General Category Income:** Includes wages and salaries.

## Foreign Tax Credit – Allocation of Income

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### ***Compensation for services or retirement income performed within and outside the United States***

*If you can not segregate compensation for services or retirement income performed partly within and partly outside the United States, use the following formulas to compute foreign income.*

### **Allocation of Income for compensation for services and retirement income**

In order to determine how much income should be considered foreign for purposes of Form 1116, an apportionment should be made on a time basis. That is, you must include foreign gross income, or the amount that results from multiplying the total amount received by a fraction, the numerator of which is the number of days services performed in foreign countries, and the denominator of which is the total number of days of service for which payment was received.

### **Formula for compensation for services:**

$$\frac{\text{Days in Puerto Rico and/or foreign country}}{\text{Total number of days for total payment}} \times \text{Total Compensation} = \text{Amount of foreign income (line 1a of Part 1, Form 1116)}$$

### **Formula for retirement Income ( Distributions attributable to contributions):**

$$\frac{\text{Years in Puerto Rico and/or foreign country}}{\text{Total years of service}} \times \text{Annual pension} = \text{Amount of foreign income (line 1a of Part 1, Form 1116)}$$

# Deductions and Losses

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## **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 I, line 1a 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).

### **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 (TCJA eliminates deductions for alimony payments required by post-2018 divorce agreements), certain itemized deductions, or the standard deduction) which are not definitely related to specific items of income.

### **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 for your home. These amounts are taken from lines 4, 5 a and 5 b 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 1, Form 1116)**

Enter any other deductions that do not definitely relate to any specific type of income (for example, the deduction for alimony paid) (TCJA eliminates deductions for alimony payments required by post-2018 divorce agreements) and any other deductions that are not definitely related to a specific class of income, including deductions shown on Schedule 1, Part II, Adjustments to Income.

### **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".

## 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.

#### Worksheet for Home Mortgage Interest

##### —Line 4a

Keep for Your Records



**Note.** Before you complete this worksheet, read the instructions for [line 4a](#), earlier.

1. Enter gross foreign source income\* of the type shown on Form 1116. **Don't** enter income excluded on Form 2555 ..... 1. \_\_\_\_\_
2. Enter gross income from all sources. **Don't** enter income excluded on Form 2555 ..... 2. \_\_\_\_\_
3. Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places) ..... 3. \_\_\_\_\_
4. Enter deductible home mortgage interest (from line 8e of Schedule A (Form 1040)) ..... 4. \_\_\_\_\_
5. Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a ..... 5. \_\_\_\_\_

\* If you have to report income from more than one country on Form 1116, complete a separate worksheet for each country. Use only the income from that country on line 1 of the worksheet.

**Other interest expense (line 4b of Part 1, 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 1, Form 1116)** If you have capital losses from foreign sources, see Publication 514 for more information. Foreign Taxes Paid or Accrued

### Part II. Form 1116

**Taxpayers may choose to take the foreign tax credit for their Puerto Rico taxes in the year those taxes were paid or accrued.**

- If they take the foreign tax credit the year the taxes are paid, then they can claim payments and withholdings of taxes to the Puerto Rico government for their foreign tax credit. Additional taxes owed to the Puerto Rico government for that tax year are not included.
- If they take the foreign tax credit the year the taxes are accrued, then they can claim their entire Puerto Rico tax liability as of December 31 (Total Tax Determined) on Form 482 Puerto Rico Individual Income Tax Return for their foreign tax credit, regardless of when the taxes are paid.

# Figuring the Credit

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## Part III. Form 1116

### Reduction in Foreign Taxes

Taxpayers **cannot** claim a foreign tax credit for taxes paid on excluded Puerto Rico source income.

The taxes allocated to the exempt Puerto Rico source income **should be included in Part III, line 12 of Form 1116, as a reduction in foreign taxes.**

Taxes paid on exempt income **are not allowed** as part of the foreign tax credit. To find the amount allocable to the exempt income, multiply the taxes paid or accrued to Puerto Rico by a fraction. The numerator of the fraction is the exempt income from Puerto Rico sources under IRC Section 933, less deductible expenses allocable to that income. The denominator is the total amount of income subject to Puerto Rico tax less deductible expenses allocable to that income. This fraction is multiplied by the tax paid or accrued to Puerto Rico.

### Formula for reduction in foreign taxes:

Income from Puerto Rico sources not subject  
to federal tax under IRC Section 933 less  
deductible expenses allocable to that income

X

Tax Paid or accrued to Puerto Rico

=

Reduction in foreign taxes

\_\_\_\_\_  
Total Income subject to Puerto Rico tax, less  
deductible expenses allocable to that income

## Foreign Tax Credit Redeterminations

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If you claim a credit for foreign taxes paid, and you receive a refund of all or part of those taxes in a later year, you must file an amended return reducing the taxes credited by the amount refunded.

If you claim the foreign tax credit based on foreign taxes accrued instead of foreign taxes paid, your credit must be redetermined in any of the following situations.

1. Your accrued taxes when paid differ from the amount you claimed as a credit.
2. You do not pay the accrued taxes within 2 years after the close of the tax year to which they relate.
3. After you pay the accrued taxes, you receive a full or partial refund of them.

**Caution:** Starting 2021 Schedule C, Form 1116 is used to report Foreign Tax Credit Redetermination. This form is out of scope of VITA.

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## Other Taxes

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### Earnings Subject to Self-Employment Tax

#### Includes

- Net earnings from self-employment (SE) from other than a church employee of \$400 or more.
- Partnership income and guaranteed payments.
- Wages of employees of churches and other religious organizations (not ministers), if you earned at least \$108.28.
- Services performed as a minister, member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner (unless IRS approval for exemption has been obtained).
- Income from farm rental if you materially participated in the production or management of farm products on such land.
- Cash or a payment in kind from the Department of Agriculture for participating in a land diversion program.
- Fees and other payments received for services as a Director of a corporation.
- Income from the retail sale of newspapers if you were age 18 or older and kept the profits.
- Income received as a direct seller.
- Income of certain crew members of fishing vessels with crews of normally fewer than 10 people.
- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a federal-state social security coverage agreement.
- Fees received as a professional fiduciary, or as a non-professional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

#### Does Not Include

- Salaries, fees, etc subject to Social Security and Medicare withholding received for performing services as an employee.
- Fees received for services performed as a notary public.
- Income from real estate rental not in the course of a trade or business as a real estate broker.
- Income from farm rental if you did not materially participate in the production or management of farm products on such land.
- Dividend and interest income earned not in the course of a trade or business as a dealer in stocks and securities.
- Net operating losses from previous years.
- Gain or loss from the sale or exchange of capital assets, or other property not held as stock or inventory in a trade or business, or held primarily for sale in the course of an ordinary trade or business.

**Caution:** Neither the owner's contribution for a Keogh plan nor the Self-Employed Health Insurance deduction are allowed for SE tax on Schedule SE or Form 1040 SS (SP).



## Other Taxes (continued)

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### Overview of the Methods for Calculating Self-Employment Tax

There are three ways to figure your net earnings from self-employment:

1. The regular method
2. The non-farm optional method
3. The farm optional method

You must use the regular method unless you are eligible to use one or both of the optional methods.

**Why use an optional method?** You may want to use the optional methods when you have a loss or a small net profit and any of the following applies:

- You want to receive credit for Social Security benefit coverage.
- You are entitled to the additional child tax credit (An optional method may increase your earned income, which could increase your credit.)
- You incurred child or dependent care expenses for which you could claim a credit (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the earned income credit (An optional method may increase your earned income, which could increase your credit.)

**Effects of using an optional method.** Using an optional method could increase your SE tax. Paying more SE tax could result in you getting higher benefits when you retire.

If you use either or both optional methods, you must figure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure income tax, include your actual earnings in gross income, regardless of which method you use to determine SE tax.

For VITA/TCE scope purposes, you will not be using the farm optional method.

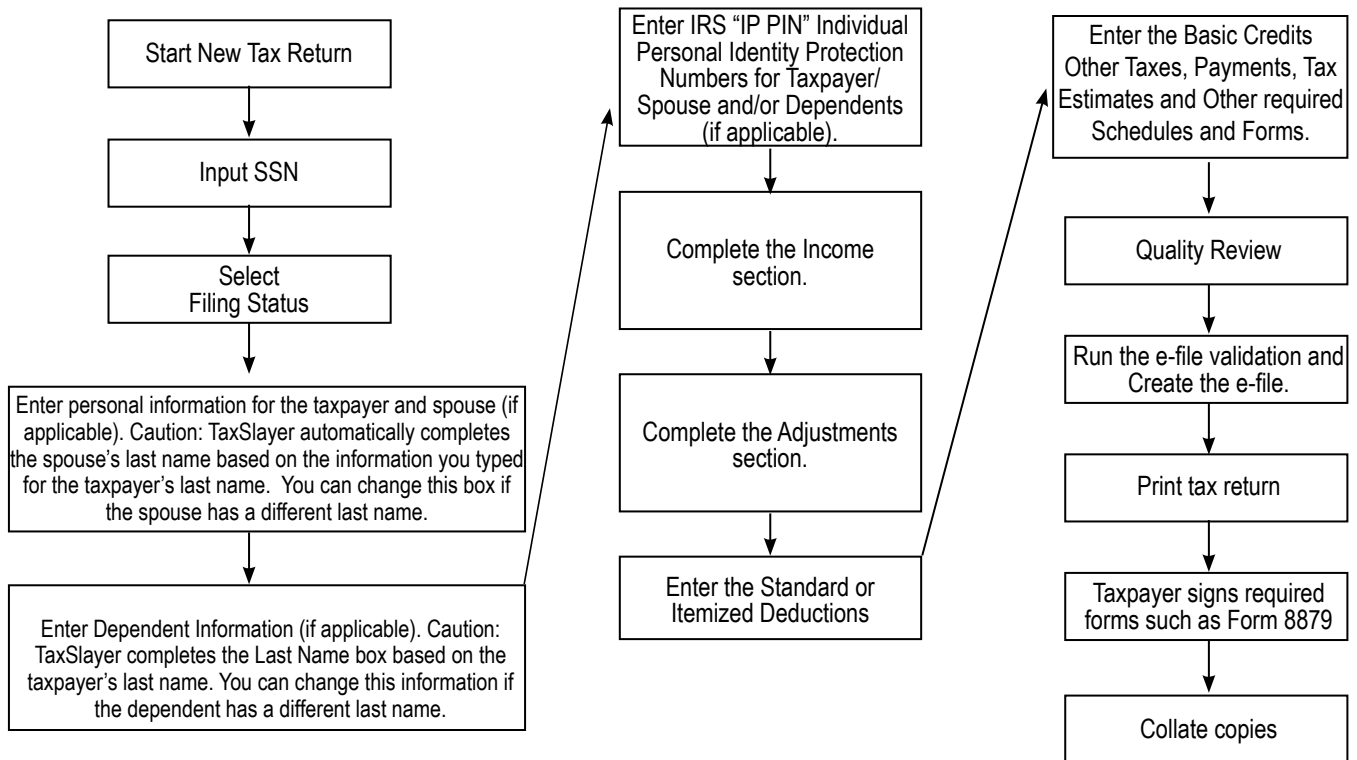
**Self-employment tax** consists of Social Security tax (12.4%) and Medicare tax (2.9%) on earnings of workers who work for themselves and have no employer withholding.

For 2023, the maximum amount of self-employment income subject to social security is \$160,200.

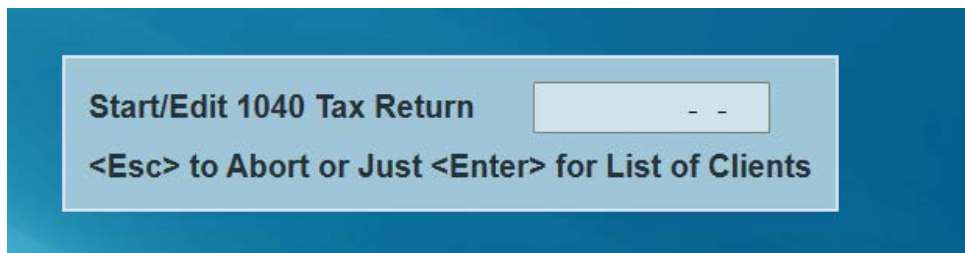
Medicare taxes are imposed at a flat tax rate of 2.9% on wages, salaries, and business or farming income earned by self-employed individuals.

If you expect to owe self-employment tax of \$1,000 or more for 2023, you may need to make estimated tax payments. Use Form 1040-ES, to figure your required payments.

# Starting - New Return Flow Chart



Create a NEW Return – Select Start New Tax Return



Input and confirm social security numbers

The screenshot shows a form titled 'Enter Social Security Number'. It has two rows of input fields. The first row is labeled 'Social Security Number' and the second row is labeled 'Confirm Social Security Number'. A red box highlights the first input field. Below the input fields, there is a red error message that says 'Social Security Number must match'. At the bottom right, there is a blue button labeled 'Start Return'.

Select the correct filing status:

The screenshot shows a form titled 'What's your filing status?'. It has a list of filing status options: Single, Married Filing Joint, Married Filing Separate, Head of Household, Qualifying Widow(er) with Dependent Children, and Nonresident Alien. The 'Single' option is selected. To the right of the list, there is a link that says 'Need help determining your filing status?'. Below the link, there is a button labeled 'FILING STATUS WIZARD'. At the bottom left, there is a button labeled 'BACK', and at the bottom right, there is a button labeled 'CONTINUE'.

## Starting a New Return (continued)

Enter the Taxpayer's and Spouse's Information

**Personal Information Entry**

**Taxpayer's Information**

Name: [ ] [ ] [ ] SSN: [ ] [ ] [ ]  
Date of Birth: [ ] / [ ] / [ ] Occupation: [ ]  
Name: [ ] [ ] [ ] A=Applied, N=NRA or SSN: [ ] [ ]  
Date of Birth: [ ] / [ ] / [ ] Occupation: [ ]

U.S. Address Check for Foreign Address ☐

Street Address: [ ] Apt: [ ]  
Zip Code: [ ] - [ ]  
City/Post Office: [ ] State: [ ]  
Phone 1: [ ] ( ) - [ ] Phone 2: [ ] ( ) - [ ] Phone 3: [ ] ( ) - [ ]  
E-Mail: [ ]

Ok Cancel

Use Publication 4696(PR), VITA/TCE Puerto Rico Resource Guide to determine Residency Status for U.S. Tax Purposes.

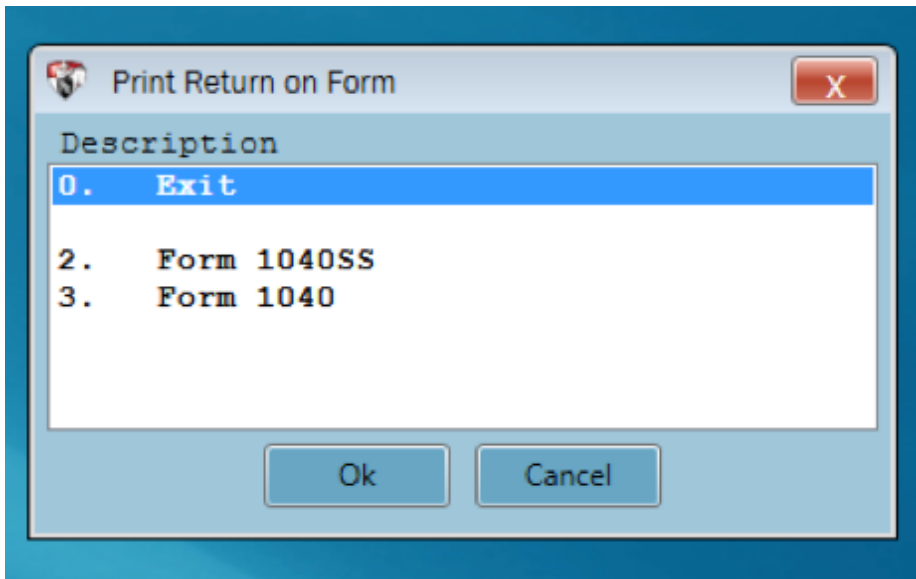
**Question**

Are You a Bona fide Resident of Puerto Rico?

Yes No

## Starting a New Return (continued)

Always use Form 1040, except for bona fide residents of Puerto Rico filing a U.S. return just to claim the additional child tax credit.



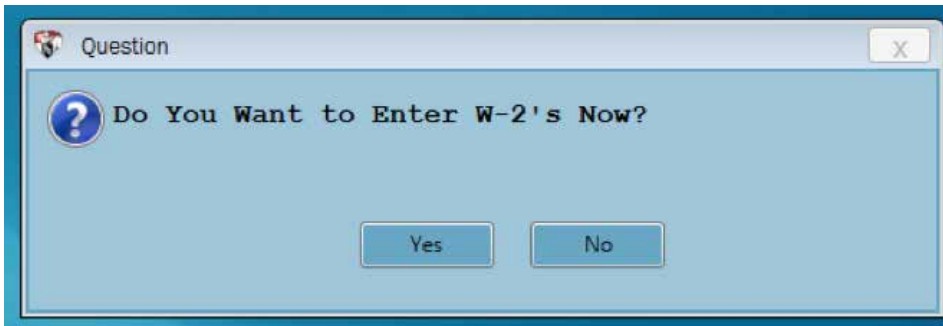
Enter Taxpayer's dependents (Name, Age, SSN, Relation, Months in Home, etc.)

A screenshot of a web form titled "Basic Information". The form contains four sections, each with an "EDIT" or "BEGIN" button to its right: "Filing Status" (EDIT), "Personal Information" (EDIT), "Dependents / Qualifying Person" (BEGIN), and "IRS Identity Protection PIN" (BEGIN). At the bottom of the form are two large buttons: "BACK" and "CONTINUE".

## Starting a New Return (continued)

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Complete Form W-2 to report the salaries of federal employees working in Puerto Rico. Also, Form W-2 is used to report salaries and other compensation for services performed in the United States.



# Additional Child Tax Credit (ACTC)

## A. Residents of Puerto Rico who files a Federal Tax Return just to claim the ACTC.

**Example:** Edward Rico and Angelina Alta are married, Edward works for a private company in Puerto Rico and file a joint return only to claim the ACTC. His wages for this year were \$25,000. They have two qualifying children. (see Form 1040 -SS for Edward and Angelina on Page 41).

Select Form W-2 PR if the taxpayer works for the local government or for the private sector in Puerto Rico.



Select the Correct Filing Status

Select the Filing Status and Complete the Personal Information Section.

*Hint, if the taxpayer is filing a U.S. tax return just to claim the Additional Child Tax Credit and the earned income is only from Puerto Rico sources, select Form 1040 SS (SP) or Form 1040 SS.*

Determine the residency status and check Yes if the taxpayer is a Bona fide resident of Puerto Rico. Remember: In general, Section 933 of the Internal Revenue Code states that if you are a resident of Puerto Rico for the entire tax year, you are considered a bona fide resident.

**Taxpayers with self-employment income can claim the additional child tax credit on Form 1040 SS.**

## Additional Child Tax Credit (ACTC) (continued)

**Income**

Wages and Salaries (Puerto Rico) Form W-2PR **BEGIN**

Profit or Loss From a Business Schedule C **BEGIN**

Payment Card and Third Party Network Transactions Form 1099-K **BEGIN**

Profit or Loss From Farming Schedule F **BEGIN**

Income Derived From Sources Within Puerto Rico **BEGIN**

**BACK** **CONTINUE**

The additional child tax credit is available with one qualifying child. For tax year 2023, bona fide residents of Puerto Rico with one qualifying child who are not required to file a U.S. income tax return and have Social security and Medicare taxes withheld from their wages or paid SE tax will be eligible to claim the credit.

Click “BEGIN” to input Form W-2PR.

**Hints:** Input the amounts of Wages, Social Security Wages and Medicare Wages.

The Entire TaxSlayer Pro Program Requires Whole Dollar Entries Only. You Must Round Everything to the Nearest Whole Dollar. (Whole Dollar Amount Example: 1200 NOT 1200.49)

**Form W-2PR Information Entry**

Employer's EIN:

Employer's Name:

U.S. Address ☐ Check for Foreign Address

Street Address:

Zip Code:

City/Post Office:  State:

Wages:

Commissions:

Allowances:

Tip:

Social Security Wages:

Social Security Tax Withheld:  .00

Medicare Wages:

Medicare Tax Withheld:  .00

**OK** **Cancel**

Input Wages from Form W-2PR.

Input Social Security Wages from Form W-2PR.

Input Medicare Wages from Form W-2PR.

## Additional Child Tax Credit (ACTC) (continued)

Income Menu

1. Wages, Salaries, Tips (W-2)	25000
2. Interest or Dividends (Sch B, 8815)	0
3. Interest or Dividends (Less than \$1500)	0
4. State & Local Refunds (1099-G Box 2)	0
5. Alimony Received	0
6. Business Income/Loss (Sch C, C-EZ, 1099MISC)	0
7. Capital Gain/Loss (Sch D)	0
8. Installment Sale (6252)	
9. Other Gains/Loss (4797, 8824)	0
10. IRA/Pension Distributions (1099R, RRB-1099-R)	0
11. Rents, Royalties, Estates (Sch E, K-1, 4835, 8582)	0
12. Farm Income (Sch F)	0
13. Unemployment Compensation (1099-G Box 1)	0
14. Social Security Benefits (1099-SSA, RRB-1099)	0
15. Other Income (W-2G, 2555)	0
* 16. Total Income	25000
17. Form 1099-MISC	
18. Income Derived from Sources within Puerto Rico	0
0. Exit	

Enter Option:

**Line 18.** Check line 18 to input income derived from sources within Puerto Rico from Form W-2PR.

Income Derived from Sources within Puerto Rico: \$

Income

**W-2PR**  
Wages and tax statement (Puerto Rico)

**Profit or loss from business**  
Reported on Schedule C

**Form 1099-K**  
Payment card and third party network transactions

**Profit or Loss From Farming**  
Reported on Schedule F

**Puerto Rico Income**  
Taxable Income from sources within Puerto Rico

**TIP:** In order for Form 1040 SS or Form SS (SP) to calculate the Additional Child Tax Credit you must enter the amount of Income Derived from Sources within Puerto Rico

**Important:** Input the Income derived from Puerto Rico sources



## Additional Child Tax Credit (ACTC) (continued)

Answer the Due Diligence Questions

- Have you determined that the taxpayer has not release the claim for this dependent to another person?
- Did you review adequate information to determine that the taxpayer is eligible to claim the credit and in what amount?

Form 8867 - Preparer's Due Diligence Checklist Menu	
1. Due Diligence for All Credits Claimed.....	[ ANSWERED ]
2. Documents Relied On, if any.....	[ ]
3. Due Diligence for EIC.....	[ N/A ]
4. Preparer EIC Due Diligence Notes.....	[ ]
5. Due Diligence for Child Tax Credit.....	[ ANSWERED ]
6. Due Diligence for American Opportunity Tax Credit.....	[ N/A ]
7. Due Diligence for Head of Household.....	[ N/A ]
8. Credit Eligibility Certification.....	[ CERTIFIED ]
9. Form 8867 Due Diligence Notes.....	[ ]
10. Due Diligence Warnings	
0. Exit	

Enter Option:

The federal Volunteer Protection Act of 1997 (the VPA or the Act) aims to promote volunteerism by limiting, and in many cases completely eliminating, a volunteer's risk of tort liability when acting for nonprofit organization or government entities. You are protected by the federal Volunteer Protection Act of 1997 as long as you are only preparing returns within the scope of the VITA/TCE programs.

### Credit Eligibility Certification

☐ Check box if the dependent does not have an SSN/ITIN/ATIN

Was this person a U.S. citizen, U.S. national, or U.S. resident alien? (See Pub. 519 for the definition of a U.S. national or U.S. resident alien) If they were not, you can't claim the child tax credit or the credit for other dependents for this person. \*

☐ Yes

☐ No

## Additional Child Tax Credit (ACTC) (continued)

*Hint: Verify the listing of forms for the return, go to "Client Form Listing Summary"*

LISTING OF FORMS FOR THIS RETURN

FORM 1040 (PR)  
FORM W-2PR  
FORM 8812 (ADDITIONAL CHILD TAX CREDIT)  
FORM 8879 (E-FILE SIGNATURE AUTHORIZATION)

\* QUICK SUMMARY \*

<u>SUMMARY</u>	<u>FEDERAL</u>
FILING STATUS	2
TOTAL INCOME	0
TOTAL ADJUSTMENTS	0
ADJUSTED GROSS INCOME	0
DEDUCTIONS	0
EXEMPTIONS	0
TAXABLE INCOME	0
TAX	0
CREDITS	0
PAYMENTS	6,600
REFUND	6,600
AMOUNT DUE	0

# Additional Child Tax Credit (ACTC) (continued)

## Additional Child Tax Credit – Form 1040 – SS (English version)

**Example:** Edward Rico and Angelina Alta have two qualifying children (ages 3 and 9 years old) that entitled them to claim the additional child tax credit. Edward works for a private company in Puerto Rico and file a joint return only to claim the ACTC. His wages for this year were \$25,000 (had Social Security and Medicare taxes withheld; \$1,550 and \$362.50, respectively). They have two qualifying children (Juan and Linda).

Form <b>1040-SS</b>		<b>U.S. Self-Employment Tax Return</b> (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or Puerto Rico		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		For the year Jan. 1–Dec. 31, 2023, or other tax year beginning , 2023, and ending , 20		<b>2023</b>
Please type or print	Your first name and initial <b>EDWARD</b>	Last name <b>RICO</b>	Your social security number	
	If a joint return, spouse's first name and initial <b>ANGELINA</b>	Last name <b>ALTA</b>	Spouse's social security number	
	Home address (number, street, and apt. no., or rural route) <b>123 TABONUCO ST</b>			
	City, town or post office, commonwealth or territory, and ZIP code <b>GUAYNABO PR 00968</b>			
	Foreign country name Foreign province/state/county Foreign postal code			
At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
<b>Part I Total Tax and Credits</b>				
<b>1 Filing status.</b> Check the box for your filing status. See instructions. <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying surviving spouse If you checked the MFS box, enter spouse's social security no. above and full name here: _____				
<b>2 Qualifying children.</b> Complete <b>only</b> if you are a bona fide resident of Puerto Rico and you are claiming the additional child tax credit. See instructions. If more than four qualifying children, see instructions and check here <input type="checkbox"/>				
(a) First name		Last name	(b) Child's social security number	(c) Child's relationship to you
<b>JUAN RICO</b>			<b>125-00-XXXX</b>	<b>SON</b>
<b>LINDA RICO</b>			<b>126-00-XXXX</b>	<b>DAUGHTER</b>
<b>3</b> Self-employment tax from Schedule SE (Form 1040), line 12. Attach applicable schedules (see instructions) <b>3</b>				
<b>4</b> Household employment taxes (see instructions). Attach Schedule H (Form 1040) <b>4</b>				
<b>5</b> Additional Medicare Tax. Attach Form 8959 <b>5</b>				
<b>6 Total tax.</b> Add lines 3 through 5. See instructions <b>6</b>				
<b>7</b> 2023 estimated tax payments (see instructions) <b>7</b>				
<b>8</b> Excess social security tax withheld (see instructions) <b>8</b>				
<b>9</b> Additional child tax credit from Part II, line 19 <b>9 1,913</b>				
<b>10</b> Reserved for future use <b>10</b>				
<b>11a</b> Credit for qualified sick and family leave wages from Schedule(s) H paid in 2023 for leave taken before April 1, 2021 <b>11a</b>				
<b>11b</b> Credit for qualified sick and family leave wages from Schedule(s) H paid in 2023 for leave taken after March 31, 2021, and before October 1, 2021 <b>11b</b>				
<b>12 Total payments and credits</b> (see instructions) <b>12 1,913</b>				
<b>13</b> If line 12 is more than line 6, subtract line 6 from line 12. This is the amount you <b>overpaid</b> <b>13 1,913</b>				
<b>14a</b> Amount of line 13 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/> <b>14a 1,913</b>				
<b>b</b> Routing number <input type="text"/> <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings				
<b>d</b> Account number <input type="text"/>				
<b>15</b> Amount of line 13 you want <b>applied to 2024 estimated tax</b> <b>15</b>				
<b>16 Amount you owe.</b> If line 6 is more than line 12, subtract line 12 from line 6. See instructions <b>16</b>				

Verify names and social security numbers with social security cards.

All of the following tests must be met to claim someone as a qualifying child:

Relationship test  
Residency test  
Age test  
Support test  
Citizen, resident or national test

Type account numbers exactly as shown on check.

For savings account obtain a statement from the financial institution to verify the routing number and account number.

Form <b>1040-SS</b>		<b>U.S. Self-Employment Tax Return</b> (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico) U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, or Puerto Rico		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		For the year Jan. 1–Dec. 31, 2023, or other tax year beginning , 2023, and ending , 20		<b>2023</b>
<b>Part II Bona Fide Residents of Puerto Rico Claiming Additional Child Tax Credit—See instructions.</b>				
<b>1</b> Do you have one or more qualifying children under age 17 with the required social security number? <input type="checkbox"/> <b>No.</b> Stop. You can't claim the credit. <input checked="" type="checkbox"/> <b>Yes.</b> Go to line 2.				
<b>2</b> Number of qualifying children under age 17 with the required social security number: <b>2</b> x \$1,600. Enter the result <b>2 3,200</b>				
<b>3</b> Enter your <b>modified adjusted gross income</b> <b>3 25,000</b>				
<b>4</b> Enter the amount shown below for your filing status <b>4 400,000</b> • Married filing jointly = \$400,000				

Include all income under IRC Section 933. (see definition of Modified Adjusted Gross Income on the instructions of Form 1040 SS or Form 1040 SS (SP)).

# Additional Child Tax Credit (ACTC) (continued)

## B. Taxpayers with U.S. Taxable Earned Income

**Example:** Francis Geneva and Dulce Carrizo are married, both under 65, filing a joint return and have two children Elsa and Fabian who are 4 and 11 years old, respectively. The children qualify for claiming the ACTC. Francis is a federal employee in Puerto Rico who receives a Form W-2 showing \$40,000 on box 1. Elsa is a housewife who did not have an outside career. The Puerto Rico tax liability for this year is \$1,500.

### Schedule 8812

<b>SCHEDULE 8812</b> <b>(Form 1040)</b>	<b>Credits for Qualifying Children and Other Dependents</b>	OMB No. 1545-0074
Department of the Treasury Internal Revenue Service	Attach to Form 1040, 1040-SR, or 1040-NR. Go to <a href="http://www.irs.gov/Schedule8812">www.irs.gov/Schedule8812</a> for instructions and the latest information.	<b>2023</b> Attachment Sequence No. <b>47</b>
Name(s) shown on return <b>FRANCIS GENEVA AND DULCE CARRIZO</b>		Your social security number <b>XXX-XX-XXXX</b>

<b>Part I Child Tax Credit and Credit for Other Dependents</b>	
1 Enter the amount from line 11 of your Form 1040, 1040-SR, or 1040-NR	1 40,000
2a Enter income from Puerto Rico that you excluded	2a
b Enter the amounts from lines 45 and 50 of your Form 2555	2b
c Enter the amount from line 15 of your Form 4563	2c
d Add lines 2a through 2c	2d 0
3 Add lines 1 and 2d	3 40,000
4 Number of qualifying children under age 17 with the required social security number	4 2
5 Multiply line 4 by \$2,000	5 4,000
6 Number of other dependents, including any qualifying children who are not under age 17 or who do not have the required social security number	6 0
<b>Caution:</b> Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4.	
7 Multiply line 6 by \$500	7 0
8 Add lines 5 and 7	8 4,000
9 Enter the amount shown below for your filing status. • Married filing jointly—\$400,000 • All other filing statuses—\$200,000	9 400,000
10 Subtract line 9 from line 3. • If zero or less, enter -0-. • If more than zero and not a multiple of \$1,000, enter the next multiple of \$1,000. For example, if the result is \$425, enter \$1,000; if the result is \$1,025, enter \$2,000, etc.	10 0
11 Multiply line 10 by 5% (0.05)	11 0
12 Is the amount on line 8 more than the amount on line 11? <input type="checkbox"/> <b>No. STOP.</b> You cannot take the child tax credit, credit for other dependents, or additional child tax credit. Skip Parts II-A and II-B. Enter -0- on lines 14 and 27. <input checked="" type="checkbox"/> <b>Yes.</b> Subtract line 11 from line 8. Enter the result.	12 4,000
13 Enter the amount from <b>Credit Limit Worksheet A</b>	13 0
14 Enter the smaller of line 12 or line 13. <b>This is your child tax credit and credit for other dependents.</b> <b>Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 19.</b>	14 0

If the taxpayer has income subject to federal income tax, the credit must be claimed using Form 1040 along with Schedule 8812.

Otherwise, go to line 21.	
<b>Part II-B Certain Filers Who Have Three or More Qualifying Children and Bona Fide Residents of Puerto Rico</b>	
21 Withheld social security, Medicare, and Additional Medicare taxes from Form(s) W-2, boxes 4 and 6. If married filing jointly, include your spouse's amounts with yours. If your employer withheld or you paid Additional Medicare Tax or tier 1 RRTA taxes, or if you are a bona fide resident of Puerto Rico, see instructions.	21 3,060
22 Enter the total of the amounts from Schedule 1 (Form 1040), line 15; Schedule 2 (Form 1040), line 5; Schedule 2 (Form 1040), line 6; and Schedule 2 (Form 1040), line 13	22 0
23 Add lines 21 and 22	23 3,060
24 <b>1040 and</b> <b>1040-SR filers:</b> Enter the total of the amounts from Form 1040 or 1040-SR, line 27, and Schedule 3 (Form 1040), line 11. <b>1040-NR filers:</b> Enter the amount from Schedule 3 (Form 1040), line 11.	24 0
25 Subtract line 24 from line 23. If zero or less, enter -0-	25 3,060
26 Enter the <b>larger</b> of line 20 or line 25. Next, enter the <b>smaller</b> of line 17 or line 26 on line 27.	26 5,625
<b>Part II-C Additional Child Tax Credit</b>	
27 This is your additional child tax credit. Enter this amount on Form 1040, 1040-SR, or 1040-NR, line 28	27 3,200
Schedule 8812 (Form 1040) 2023	



# Adjustments to Income

Schedule 1 (Form 1040) 2023

Page **2**

## Part II Adjustments to Income

<b>11</b>	Educator expenses . . . . .	<b>11</b>	
<b>12</b>	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 . . . . .	<b>12</b>	
<b>13</b>	Health savings account deduction. Attach Form 8889 . . . . .	<b>13</b>	
<b>14</b>	Moving expenses for members of the Armed Forces. Attach Form 3903 . . . . .	<b>14</b>	
<b>15</b>	Deductible part of self-employment tax. Attach Schedule SE . . . . .	<b>15</b>	
<b>16</b>	Self-employed SEP, SIMPLE, and qualified plans . . . . .	<b>16</b>	
<b>17</b>	Self-employed health insurance deduction . . . . .	<b>17</b>	
<b>18</b>	Penalty on early withdrawal of savings . . . . .	<b>18</b>	
<b>19a</b>	Alimony paid . . . . .	<b>19a</b>	
<b>b</b>	Recipient's SSN . . . . .		
<b>c</b>	Date of original divorce or separation agreement (see instructions): . . . . .		
<b>20</b>	IRA deduction . . . . .	<b>20</b>	
<b>21</b>	Student loan interest deduction . . . . .	<b>21</b>	
<b>22</b>	Reserved for future use . . . . .	<b>22</b>	
<b>23</b>	Archer MSA deduction . . . . .	<b>23</b>	
<b>24</b>	Other adjustments:		
<b>a</b>	Jury duty pay (see instructions) . . . . .	<b>24a</b>	
<b>b</b>	Deductible expenses related to income reported on line 8i from the rental of personal property engaged in for profit . . . . .	<b>24b</b>	
<b>c</b>	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m . . . . .	<b>24c</b>	
<b>d</b>	Reforestation amortization and expenses . . . . .	<b>24d</b>	
<b>e</b>	Repayment of supplemental unemployment benefits under the Trade Act of 1974 . . . . .	<b>24e</b>	
<b>f</b>	Contributions to section 501(c)(18)(D) pension plans . . . . .	<b>24f</b>	
<b>g</b>	Contributions by certain chaplains to section 403(b) plans . . . . .	<b>24g</b>	
<b>h</b>	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions) . . . . .	<b>24h</b>	
<b>i</b>	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations . . . . .	<b>24i</b>	
<b>j</b>	Housing deduction from Form 2555 . . . . .	<b>24j</b>	
<b>k</b>	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041) . . . . .	<b>24k</b>	
<b>z</b>	Other adjustments. List type and amount: . . . . .	<b>24z</b>	
<b>25</b>	Total other adjustments. Add lines 24a through 24z . . . . .	<b>25</b>	
<b>26</b>	Add lines 11 through 23 and 25. These are your <b>adjustments to income</b> . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10 . . . . .	<b>26</b>	

Schedule 1 (Form 1040) 2023

If the deduction is related to excluded income for U.S. income tax purposes, deductible part of self-employment tax on line 15 can not be taken.

IRA trust account must be in the U.S.

# Deductions

**Example:** Mike Gallatin and Maria Granite are U.S. citizens and bona fide residents of Puerto Rico for the entire year. They file a joint return and both are under age 65. This year, Mike earned \$22,500 from Puerto Rico sources. Maria earned \$67,500 from the U.S. Government. They have \$27,000 of itemized deductions that do not apply to any specific type of income (see the table below with the itemized deductions).

<b>was withheld.</b> If you did not get a Form W-2, see instructions.	<b>f</b> Employer-provided adoption benefits from Form 8839, line 29	<b>1f</b>	
	<b>g</b> Wages from Form 8919, line 6	<b>1g</b>	
	<b>h</b> Other earned income (see instructions)	<b>1h</b>	
	<b>i</b> Nontaxable combat pay election (see instructions)	<b>1i</b>	
	<b>z</b> Add lines 1a through 1h	<b>1z</b>	67,500
Attach Sch. B if required.	<b>2a</b> Tax-exempt interest	<b>2a</b>	
	<b>3a</b> Qualified dividends	<b>3a</b>	
	<b>4a</b> IRA distributions	<b>4a</b>	
	<b>5a</b> Pensions and annuities	<b>5a</b>	
	<b>6a</b> Social security benefits	<b>6a</b>	
<b>Standard Deduction for—</b> • Single or Married filing separately, \$13,850 • Married filing jointly or Qualifying surviving spouse, \$27,700 • Head of household, \$20,800 • If you checked any box under Standard Deduction, see instructions.	<b>c</b> If you elect to use the lump-sum election method, check here (see instructions)	<b>7</b>	
	<b>8</b> Additional income from Schedule 1, line 10	<b>8</b>	
	<b>9</b> Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	<b>9</b>	67,500
	<b>10</b> Adjustments to income from Schedule 1, line 26	<b>10</b>	
	<b>11</b> Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	<b>11</b>	67,500
	<b>12</b> Standard deduction or itemized deductions (from Schedule A)	<b>12</b>	20,775
	<b>13</b> Qualified business income deduction from Form 8995 or Form 8995-A	<b>13</b>	
	<b>14</b> Add lines 12 and 13	<b>14</b>	20,775
	<b>15</b> Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b>	<b>15</b>	46,725

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2023)

Only the allowable portion of the standard or itemized deductions are reported on Form 1040.

"Standard deduction modified due to exempt income under IRC Section 933". Allowable portion of Standard Deduction **\$20,775** =  $(\$67,500/\$90,000) \times \$27,700$ .

- In most cases, your federal income tax will be less if you take the larger amount between standard deduction or itemized deductions.

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

Itemized Deduction	Expense Amount	Formula: Allowable Portion	Deduction
Medical and Dental	\$4,000	$(67,500 \div 90,000) \times 4,000$	\$0*
Real Estate Taxes	\$5,000	$(67,500 \div 90,000) \times 5,000$	\$3,750
Mortgage Interest	\$12,000	$(67,500 \div 90,000) \times 12,000$	\$9,000
Charitable Contributions	\$6,000	$(67,600 \div 90,000) \times 6,000$	\$4,500
Total	\$27,000		\$17,250

\*Medical expenses must exceed 7.5% of the taxpayer's Adjusted Gross Income.

## Exhibit Allocation of Itemized Deduction for Mike and Maria – Medical Expenses

<b>SCHEDULE A</b> <b>(Form 1040)</b>	<b>Itemized Deductions</b> Attach to Form 1040 or 1040-SR. Go to <a href="http://www.irs.gov/ScheduleA">www.irs.gov/ScheduleA</a> for instructions and the latest information.	OMB No. 1545-0074 <b>2023</b> Attachment Sequence No. <b>07</b>
Department of the Treasury Internal Revenue Service	<b>Caution:</b> If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.	
Name(s) shown on Form 1040 or 1040-SR <b>MIKE GALLATIN AND MARIA GRANITE</b>		Your social security number
<b>Medical and Dental Expenses</b>	<b>Caution:</b> Do not include expenses reimbursed or paid by others.	
<b>1</b> Medical and dental expenses (see instructions)	<b>1</b>	3000
<b>2</b> Enter amount from Form 1040 or 1040-SR, line 11	<b>2</b>	67,500
<b>3</b> Multiply line 2 by 7.5% (0.075)	<b>3</b>	5,063
<b>4</b> Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	<b>4</b>	0

\$3000 (Only the allowable portion is transferred to line 1  $(\$4,000 \times 0.75 = \$3,000)$ )

## Deductions (continued)

### Exhibit Allocation of itemized deduction for Mike and Maria– Real Estate Taxes

<b>Taxes You Paid</b>	<b>5</b> State and local taxes. <b>a</b> State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input type="checkbox"/> <b>b</b> State and local real estate taxes (see instructions) <b>c</b> State and local personal property taxes <b>d</b> Add lines 5a through 5c <b>e</b> Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing separately) <b>6</b> Other taxes. List type and amount: <b>7</b> Add lines 5e and 6	<b>5a</b> <b>5b</b> 3,750 <b>5c</b> <b>5d</b> 3,750 <b>5e</b> <b>6</b> <b>7</b> 3,750
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### Exhibit Allocation of itemized deduction for Mike and Maria – Home Mortgage

<b>Interest You Paid</b> <b>Caution:</b> Your mortgage interest deduction may be limited. See instructions.	<b>8</b> Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/> <b>a</b> Home mortgage interest and points reported to you on Form 1098. See instructions if limited <b>b</b> Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address <b>c</b> Points not reported to you on Form 1098. See instructions for special rules <b>d</b> Reserved for future use <b>e</b> Add lines 8a through 8c <b>9</b> Investment interest. Attach Form 4952 if required. See instructions. <b>10</b> Add lines 8e and 9	<b>8a</b> 9,000 <b>8b</b> <b>8c</b> <b>8d</b> <b>8e</b> 9,000 <b>9</b> <b>10</b> 9,000
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### Exhibit Allocation of itemized deduction for Mike and Maria – Charitable

<b>Gifts to Charity</b> <b>Caution:</b> If you made a gift and got a benefit for it, see instructions.	<b>11</b> Gifts by cash or check. If you made any gift of \$250 or more, see instructions <b>12</b> Other than by cash or check. If you made any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500. <b>13</b> Carryover from prior year <b>14</b> Add lines 11 through 13	<b>11</b> 4,500 <b>12</b> <b>13</b> <b>14</b> 4,500
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### Exhibit Allocation of itemized deduction for Mike and Maria – Total Allowable Itemized Deductions

<b>Total Itemized Deductions</b>	<b>17</b> Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12 <b>18</b> If you elect to itemize deductions even though they are less than your standard deduction, check this box <input type="checkbox"/>	<b>17</b> 17,250
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# Foreign Tax Credit – Form 1116

## Taxable Income or Loss from Sources Outside United States

<b>Form 1116</b>	<b>Foreign Tax Credit</b> (Individual, Estate, or Trust) Attach to Form 1040, 1040-SR, 1040-NR, 1041, or 990-T. Go to <a href="http://www.irs.gov/Form1116">www.irs.gov/Form1116</a> for instructions and the latest information.	OMB No. 1545-0121 <b>2023</b> Attachment Sequence No. <b>19</b>												
Department of the Treasury Internal Revenue Service														
Name _____		Identifying number as shown on page 1 of your tax return _____												
<small>Use a separate Form 1116 for each category of income listed below. See <i>Categories of Income</i> in the instructions. Check only one box on each Form 1116. Report all amounts in U.S. dollars except where specified in Part II below.</small>														
<div style="display: flex; justify-content: space-between;"><div><b>a</b> <input type="checkbox"/> Section 951A category income</div><div><b>c</b> <input type="checkbox"/> Passive category income</div><div><b>e</b> <input type="checkbox"/> Section 901(j) income</div><div><b>g</b> <input type="checkbox"/> Lump-sum distributions</div></div> <div style="display: flex; justify-content: space-between;"><div><b>b</b> <input type="checkbox"/> Foreign branch category income</div><div><b>d</b> <input type="checkbox"/> General category income</div><div><b>f</b> <input type="checkbox"/> Certain income re-sourced by treaty</div></div>														
<b>h</b> Resident of (name of country) _____														
<small><b>Note:</b> If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to more than one foreign country or U.S. possession, use a separate column and line for each country or possession.</small>														
<b>Part I Taxable Income or Loss From Sources Outside the United States</b> (for category checked above)														
<b>i</b> Enter the name of the foreign country or U.S. possession _____	<table border="1" style="width:100%"><tr><th colspan="3">Foreign Country or U.S. Possession</th><th>Total</th></tr><tr><th>A</th><th>B</th><th>C</th><th>(Add cols. A, B, and C.)</th></tr><tr><td colspan="4" style="height: 100px;"></td></tr></table>	Foreign Country or U.S. Possession			Total	A	B	C	(Add cols. A, B, and C.)					<b>1a</b>
Foreign Country or U.S. Possession			Total											
A	B	C	(Add cols. A, B, and C.)											
<b>1a</b> Gross income from sources within country shown above and of the type checked above (see instructions): _____														
<b>b</b> Check if line 1a is compensation for personal services as an employee, your total compensation from all sources is \$250,000 or more, and you used an alternative basis to determine its source. See instructions <input type="checkbox"/>														
<b>Deductions and losses</b> (Caution: See instructions):														
<b>2</b> Expenses <b>definitely related</b> to the income on line 1a (attach statement) _____														
<b>3</b> Pro rata share of other deductions <b>not definitely related</b> :														
<b>a</b> Certain itemized deductions or standard deduction (see instructions) _____														
<b>b</b> Other deductions (attach statement) _____														
<b>c</b> Add lines 3a and 3b _____														
<b>d</b> Gross foreign source income (see instructions) _____														

Only one category of income can be selected in each Form 1116. General category includes wages and salaries.

Gross income does not include exempt Puerto Rico source income nor COLA.

<b>Part II Foreign Taxes Paid or Accrued</b> (see instructions)									
<b>Country</b>	<b>Foreign taxes paid or accrued</b>								
	<b>Credit is claimed for taxes (you must check one)</b>								
	<div style="display: flex; justify-content: space-between;"><div><b>(j)</b> <input type="checkbox"/> Paid</div><div><b>(k)</b> <input type="checkbox"/> Accrued</div></div>								
	<div style="display: flex; justify-content: space-between;"><div>In foreign currency</div><div>In U.S. dollars</div></div>								
	Taxes withheld at source on:				Taxes withheld at source on:				<b>(u)</b> Total foreign taxes paid or accrued (add cols. (q) through (t))
	<b>(l)</b> Date paid or accrued	<b>(m)</b> Dividends	<b>(n)</b> Rents and royalties	<b>(o)</b> Interest	<b>(p)</b> Other foreign taxes paid or accrued	<b>(q)</b> Dividends	<b>(r)</b> Rents and royalties	<b>(s)</b> Interest	
<b>A</b>									
<b>B</b>									
<b>C</b>									
<b>8</b> Add lines A through C, column (u). Enter the total here and on line 9, page 2 _____									<b>8</b>
<small>For Paperwork Reduction Act Notice, see instructions.</small>									
<small>Cat. No. 11440U Form <b>1116</b> (2023)</small>									

If you can not segregate compensation for services or retirement income performed partly within and partly outside the United States, use the formula to compute the foreign gross income. **Hint: See Foreign Tax Credit section:** Formula for allocation of income for services or retirement.

# Foreign Tax Credit – Form 1116 (continued)

## FORM 1116 –“Standard Deduction - Example Continue - Mike and Maria”

If you paid taxes to only one foreign country or U.S. possession, use column A in Part I and line A in Part II. If you paid taxes to more than one foreign country or U.S. possession, use a separate column and line for each country or possession.

### Part I Taxable Income or Loss From Sources Outside the United States (for category checked above)

Enter the name of the foreign country or U.S. possession	Foreign Country or U.S. Possession			Total (Add cols. A, B, and C.)
	A	B	C	
PUERTO RICO				
Gross income from sources within country shown above and of the type checked above (see instructions): <u>WAGES</u>				
Check if line 1a is compensation for personal services as an employee, your total compensation from all sources is \$250,000 or more, and you used an alternative basis to determine its source. See instructions <input type="checkbox"/>				
	67,500			1a 67,500
Expenses definitely related to the income on line 1a (attach statement)				
Pro rata share of other deductions not definitely related:				
Certain itemized deductions or standard deduction (see instructions)	20,775			
Other deductions (attach statement)				
Add lines 3a and 3b	20,775			
Gross foreign source income (see instructions)	67,500			
Gross income from all sources (see instructions)	67,500			
Divide line 3d by line 3e (see instructions)	1.00			
Multiply line 3c by line 3f	20,775			
Pro rata share of interest expense (see instructions):				
Home mortgage interest (use the Worksheet for				

If not itemizing, TaxSlayer enters the standard deduction in line 3a (margin).

To complete this line you must transfer the allowable portion from the margin to column A line 3a. TaxSlayer computes the modified standard deduction. It is important that in the Income Menu section Line 9 you enter the total amount of “Section 933 Excluded Income from Puerto Rico”.

Itemized deductions should be modified on Schedule A, only the allowable portion is included.

TaxSlayer computes the mortgage interest expenses on line 4a, automatically.

TaxSlayer enters certain itemized deductions such as real estate taxes, and medical expenses on line 3a.

Other Income Menu	Amount
<<1. Other Income.....	22500
* 2. Form 1099-MISC Other Income.....	0
>>3. Qualified Education Program Payments (1099-Q).....	0
>>4. Cancellation of Debt (1099-C).....	0
>>5. NOL Carryover from Prior Year(s).....	0
>>6. Gambling Winnings (W-2G).....	0
>>7. Foreign Earned Income Exclusion (2555, 2555-E2).....	0
* 8. Income from Form(s) 6478, 8814, 8853, 8864 & 8889.....	0
9. Section 933 Excluded Income from PR.....	-22500
* 10. Medicaid Waiver Payments included on Form W-2 Box 1.....	0
* 11. Medicaid Waiver Payments included on Form 1099Misc Box 3....	0
12. Taxable Clergy Parsonage.....	0
* 13. Total Other Income.....	0
0. Exit	

## Foreign Tax Credit – Form 1116 (continued)

### Foreign Taxes Paid or Accrued

**Cash Basis Taxpayers:** Have the option to take the Foreign Tax Credit for their Puerto Rico taxes in the year those taxes were paid or accrued.

Foreign Taxes Paid Or Accrued - Part II - Column A	
1. Are Taxes Paid or Accrued ?.....	[ PAID ]
2. Date paid or accrued.....	[ / / ]
3. Taxes Withheld at Source on Dividends (for. currency).....	[ 0 ]
4. Taxes Withheld at Source on Rent/Roy (foreign currency)...	[ 0 ]
5. Taxes Withheld at Source on Interest (foreign currency)...	[ 0 ]
6. Other Foreign Taxes Paid/Accrued (foreign currency).....	[ 0 ]
7. Taxes Withheld at Source on Dividends (U.S. Dollars).....	[ 0 ]
8. Taxes Withheld at Source on Rent/Royalty (U.S. Dollar)....	[ 0 ]
9. Taxes Withheld at Source on Interest (U.S. Dollars).....	[ 0 ]
10. Other Foreign Taxes Paid/Accrued (U.S. Dollars).....	[ 0 ]
0. Exit	
Enter Options	

Check the appropriate box to indicate whether the foreign tax was actually paid during 2023 or if the tax was billed in one year but paid in another ("accrued").

If the taxpayer takes the taxes paid, he/she can claim payments and withholding of taxes to the Puerto Rico government during 2023.

If the taxpayer takes the taxes accrued, then he/she can claim the entire Puerto Rico tax liability as of December 31, regardless of whether the taxes are paid the following year.

The taxpayer must continue to use the accrual method for the Foreign Tax Credit on all future returns.

All Puerto Rico taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116.

# Foreign Tax Credit – Form 1116 (continued)

## Taxpayer without exempt income

This page shows how to figure out the foreign tax credit for a taxpayer without exempt income. Assume that the taxpayer is single, under age 65 and received \$31,000 in wages taxable to U.S. from sources outside the United States (Puerto Rico) and the taxes paid to Puerto Rico were \$3,900.

## Figuring the Credit

### Part III – Form 1116

Form 1116 (2023)		Page <b>2</b>
<b>Part III Figuring the Credit</b>		
<b>9</b> Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I . . . . .	<b>9</b>	3,900
<b>10</b> Enter the sum of any carryover of foreign taxes (from Schedule B, line 3, column (xiv)) plus any carrybacks to the current tax year. If you enter an amount on line 10 and you don't need to attach Schedule B, check here (see instructions) <input type="checkbox"/> . . . . . (If your income was section 951A category income (box a above Part I), leave line 10 blank.)	<b>10</b>	0
<b>11</b> Add lines 9 and 10 . . . . .	<b>11</b>	3,900
<b>12</b> Reduction in foreign taxes (see instructions) . . . . .	<b>12</b>	( )
<b>13</b> Taxes reclassified under high tax kickout (see instructions) . . . . .	<b>13</b>	
<b>14</b> Combine lines 11, 12, and 13. This is the total amount of foreign taxes available for credit . . . . .	<b>14</b>	3,900
<b>15</b> Enter the amount from line 7. This is your taxable income or (loss) from sources outside the United States (before adjustments) for the category of income checked above Part I. See instructions . . . . .	<b>15</b>	17,150
<b>16</b> Adjustments to line 15 (see instructions) . . . . .	<b>16</b>	
<b>17</b> Combine the amounts on lines 15 and 16. This is your net foreign source taxable income. (If the result is zero or less, you have no foreign tax credit for the category of income you checked above Part I. Skip lines 18 through 24. However, if you are filing more than one Form 1116, you must complete line 20.) . . . . .	<b>17</b>	17,150
<b>18</b> <b>Individuals:</b> Enter the amount from line 15 of your Form 1040, 1040-SR, or 1040-NR. <b>Estates and trusts:</b> Enter your taxable income without the deduction for your exemption . . . . .	<b>18</b>	17,150
<b>Caution:</b> If you figured your tax using the lower rates on qualified dividends or capital gains, see instructions.		
<b>19</b> Divide line 17 by line 18. If line 17 is more than line 18, enter "1" . . . . .	<b>19</b>	1.0
<b>20</b> <b>Individuals:</b> Enter the total of Form 1040, 1040-SR, or 1040-NR, line 16, and Schedule 2 (Form 1040), line 2. <b>Estates and trusts:</b> Enter the amount from Form 1041, Schedule G, line 1a; or the total of Form 990-T, Part II, lines 2, 3, 4, and 6. Foreign estates and trusts should enter the amount from Form 1040-NR, line 16. See instructions . . . . .	<b>20</b>	1,841
<b>Caution:</b> If you are completing line 20 for separate category g (lump-sum distributions), or, if you file Form 8978, Partner's Additional Reporting Year Tax, see instructions.		
<b>21</b> Multiply line 20 by line 19 (maximum amount of credit) . . . . .	<b>21</b>	1,841
<b>22</b> Increase in limitation (section 960(c)) (see instructions) . . . . .	<b>22</b>	0
<b>23</b> Add lines 21 and 22 . . . . .	<b>23</b>	1,841
<b>24</b> Enter the <b>smaller</b> of line 14 or line 23. If this is the only Form 1116 you are filing, skip lines 25 through 32 and enter this amount on line 33. Otherwise, complete the appropriate line in Part IV. See instructions . . . . .	<b>24</b>	1,841

The foreign tax credit is limited to the allocated amount of U.S. taxes imposed on the foreign income, or the actual amount of foreign tax paid (after reductions on line 12), whichever is less. The Foreign Tax Credit is not a refundable credit.

Instructions		24	1,841
<b>Part IV Summary of Credits From Separate Parts III (see instructions)</b>			
<b>25</b> Credit for taxes on section 951A category income . . . . .	<b>25</b>		
<b>26</b> Credit for taxes on foreign branch category income . . . . .	<b>26</b>		
<b>27</b> Credit for taxes on passive category income . . . . .	<b>27</b>		
<b>28</b> Credit for taxes on general category income . . . . .	<b>28</b>		
<b>29</b> Credit for taxes on section 901(j) income . . . . .	<b>29</b>		
<b>30</b> Credit for taxes on certain income re-sourced by treaty . . . . .	<b>30</b>		
<b>31</b> Credit for taxes on lump-sum distributions . . . . .	<b>31</b>		
<b>32</b> Add lines 25 through 31 . . . . .	<b>32</b>		1,841
<b>33</b> Enter the <b>smaller</b> of line 20 or line 32 . . . . .	<b>33</b>		1,841
<b>34</b> Reduction of credit for international boycott operations. See instructions for line 12 . . . . .	<b>34</b>		
<b>35</b> Subtract line 34 from line 33. This is your <b>foreign tax credit</b> . Enter here and on Schedule 3 (Form 1040), line 1; Form 1041, Schedule G, line 2a; or Form 990-T, Part III, line 1a . . . . .	<b>35</b>		1,841

Form **1116** (2023)

# Foreign Tax Credit – Form 1116 (continued)

## Foreign Taxes Paid or Accrued

**Taxpayer with exempt income.** Assume that the taxpayer is single under age 65 and a bona fide resident of Puerto Rico who receives \$20,000 in wages taxable to U.S. from Puerto Rico sources and \$5,000 exempt income under IRC Section 933. The Puerto Rico tax liability was \$3,135.

leave line 10 blank.)			
11	Add lines 9 and 10 . . . . .	11	3,135
12	Reduction in foreign taxes (see instructions) . . . . .	12	( 627 )
13	Taxes reclassified under high tax kickout (see instructions) . . . . .	13	
14	Combine lines 11, 12, and 13. This is the total amount of foreign taxes available for credit . . . . .	14	2,508
15	Enter the amount from line 7. This is your taxable income or (loss) from sources outside the United States (before adjustments) for the category of income checked above Part I. See instructions . . . . .	15	8,920
16	Adjustments to line 15 (see instructions) . . . . .	16	
17	Combine the amounts on lines 15 and 16. This is your net foreign source taxable income. (If the result is zero or less, you have no foreign tax credit for the category of income you checked above Part I. Skip lines 18 through 24. However, if you are filing more than one Form 1116, you must complete line 20.) . . . . .	17	8,920
18	<b>Individuals:</b> Enter the amount from line 15 of your Form 1040, 1040-SR, or 1040-NR. <b>Estates and trusts:</b> Enter your taxable income without the deduction for your exemption . . . . .	18	8,920
<b>Caution:</b> If you figured your tax using the lower rates on qualified dividends or capital gains, see instructions.			
19	Divide line 17 by line 18. If line 17 is more than line 18, enter "1" . . . . .	19	1.00
20	<b>Individuals:</b> Enter the total of Form 1040, 1040-SR, or 1040-NR, line 16, and Schedule 2 (Form 1040), line 2. <b>Estates and trusts:</b> Enter the amount from Form 1041, Schedule G, line 1a; or the total of Form 990-T, Part II, lines 2, 3, 4, and 6. Foreign estates and trusts should enter the amount from Form 1040-NR, line 16. See instructions . . . . .	20	893
<b>Caution:</b> If you are completing line 20 for separate category g (lump-sum distributions), or, if you file Form 9978, Partner's Additional Reporting Year Tax, see instructions.			
21	Multiply line 20 by line 19 (maximum amount of credit) . . . . .	21	893
22	Increase in limitation (section 960(c)) (see instructions) . . . . .	22	
23	Add lines 21 and 22 . . . . .	23	893
24	Enter the <b>smaller</b> of line 14 or line 23. If this is the only Form 1116 you are filing, skip lines 25 through 32 and enter this amount on line 33. Otherwise, complete the appropriate line in Part IV. See instructions . . . . .	24	893
<b>Part IV Summary of Credits From Separate Parts III</b> (see instructions)			
25	Credit for taxes on section 951A category income . . . . .	25	

Taxpayers cannot claim a foreign tax credit for taxes paid on excluded Puerto Rico source income.

The taxes allocated to the exempt Puerto Rico source income should be included in Part III, line 12, as a reduction in foreign taxes.

Use Publication 1321 to calculate the reduction in Foreign Taxes.

To complete reduction in foreign taxes, line 12 of Form 1116:

Taxes paid on exempt income are not allowed as part of the foreign tax credit. To find the amount allocable to the exempt income, multiply the taxes paid or accrued to Puerto Rico by a fraction. The numerator of the fraction is the exempt income from Puerto Rico sources under IRC Section 933, less deductible expenses allocable to that income. The denominator is the total amount of income subject to Puerto Rico tax less deductible expenses allocable to that income.

Income from PR sources not subject to Federal tax  
under IRC Section 933 less deductible Expenses  
allocable to that income

Total income subject to Puerto Rico tax, less  
Deductible expenses allocable to that income

X

Tax paid or accrued  
to Puerto Rico

=

Reduction in foreign taxes



# Link & Learn Taxes

**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 Publication 4012, VITA/TCE Volunteer Resource Guide, work together to help volunteers learn and practice.

## Link & Learn Taxes for 2023 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 questions.

**Virtual VITA/TCE** model includes any site where face-to-face activities are not used during the tax preparation process. That is, the intake specialist, IRS-tax law certified preparer (who prepares the return) and/or the quality reviewer are not face-to-face with the taxpayer. 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

[www.irs.gov/Individuals/Partner-and-Volunteer-Resource-Center](http://www.irs.gov/Individuals/Partner-and-Volunteer-Resource-Center)

- What's Hot!
- Site Coordinator's Corner

Quality and Tax Alerts for IRS Volunteer Programs

[www.irs.gov/individuals/quality-and-tax-alerts-for-irs-volunteer-programs](http://www.irs.gov/individuals/quality-and-tax-alerts-for-irs-volunteer-programs)

- Volunteer Tax Alerts

Volunteer Training Resources

[www.irs.gov/Individuals/Volunteer-Training-Resources](http://www.irs.gov/Individuals/Volunteer-Training-Resources)

Outreach Connection

[www.irs.gov/Individuals/Outreach-Corner](http://www.irs.gov/Individuals/Outreach-Corner)

Interactive Tax Assistant (ITA)

[www.irs.gov/help/ita](http://www.irs.gov/help/ita)

Online Services and Tax Information for Individuals

[www.irs.gov/Individuals](http://www.irs.gov/Individuals)

### Plan

- Tax Withholding (Paycheck Checkup)
- When to File
- Recordkeeping
- Choosing a Tax Professional
- Get Answers to Your Tax Questions Online
- Year-round Tax Planning is for Everyone, Publication 5349

### Tools

- View Your Tax Account
- Get Your Transcript
- Where's My Refund?

### Identity Theft Protections

#### Get Help Now

#### eBooks

Want to view our training products on your mobile or tablet devices? Click here to access our eBooks: [www.irs.gov/individuals/site-coordinator-corner](http://www.irs.gov/individuals/site-coordinator-corner)

#### Mobile App

Another device to use for additional information is IRS2Go. Click here to download IRS2Go mobile app: [www.irs.gov/newsroom/irs2goapp](http://www.irs.gov/newsroom/irs2goapp).

#### and much more!

Your direct link to tax information 24/7: [www.irs.gov](http://www.irs.gov)

### File

- IRS Free File
- How to File
- Filing Past Due Returns
- Correcting Your Tax Return
- Social Security Benefit Statement

### Pay

- Tax Withholding
- Estimated Taxes
- Options for Paying Your Taxes
- How to Choose a Payment Option
- Understanding Your IRS Notice or Letter
- What to Do If You Can't Pay