Take your VITA/TCE training online at [www.irs.gov](http://www.irs.gov) (keyword: Link & Learn Taxes). Link to the Practice Lab to gain experience using tax software and take the certification test online, with immediate scoring and feedback.
Volunteer Standards of Conduct

VITA/TCE Programs

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

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

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

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

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

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

TaxSlayer® is a copyrighted software program owned by Rhodes Computer Services. All screen shots that appear throughout the official Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) training materials are used with the permission of Rhodes Computer Services. The screen shots used in this publication—or any other screen shots from TaxSlayer or its affiliated programs—may not be extracted, copied, or distributed without written approval from the IRS SPEC Office of Products, Systems, & Analysis.

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

How to Use This Guide ................................................................. 2  
Are You Ready to Get Started? .................................................. 2  
Volunteer Tax Alerts (VTAs) ...................................................... 2  
The Interview Process ............................................................... 3  
Decision Tree – Determining Residency Status .......................... 5  

**Level I**

Tab A: Who Must File? ............................................................... 7  
Tab B: Source Rules for Income ................................................. 9  
Tab C: Standard Deduction ....................................................... 11  
Tab D: Refundable and Non Refundable Credits ....................... 13  

**Level II**

Tab E: Bona Fide Residents of Puerto Rico ............................... 15  
Tab F: Adjustments to Income .................................................. 19  
Tab G: Itemized Deductions .................................................... 21  
Tab H: Social Security Benefits ................................................ 23  
Tab I: Foreign Tax Credit .......................................................... 25  
Tab J: Other Taxes ................................................................ 33  

**TaxSlayer Software Hints**

Tab 1: Starting TaxSlayer - New Return .................................... 37  
Tab 2: TaxSlayer - Additional Child Tax Credit .......................... 41  
Tab 3: TaxSlayer - Adjustments to Income ................................ 49  
Tab 4: TaxSlayer - Deductions .................................................. 51  
Tab 5: TaxSlayer - Foreign Tax Credit ....................................... 53
How to Use this Guide

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.

The Tabs A, B, C and D contain Level I tax law in the form of decision trees, charts, and interview tips. The Tabs E, F, G, H, I and J contain Level II - tax law information. The Tabs 1, 2, 3, 4 and 5 contain 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?

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

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

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

Please complete pages 1-4 of this form.
You are responsible for the information on your return. Please provide complete and accurate information.
If you have questions, please ask the IRS-certified volunteer preparer.

Volunteers are trained to provide high quality service and uphold the highest ethical standards.
To report unethical behavior to the IRS, email us at wi.voltax@irs.gov

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

1. Your first name
M.I.
Last name
Daytime telephone number
Are you a U.S. citizen? □ Yes □ No

2. Your spouse’s first name
M.I.
Last name
Daytime telephone number
Is your spouse a U.S. citizen? □ Yes □ No

3. Mailing address
Apt #
City
State
ZIP code

4. Your Date of Birth
5. Your job title
6. Last year, were you:
   a. Full-time student □ Yes □ No
   b. Totally and permanently disabled □ Yes □ No
   c. Legally blind □ Yes □ No

7. Your spouse’s Date of Birth
8. Your spouse’s job title
9. Last year, was your spouse:
   a. Full-time student □ Yes □ No
   b. Totally and permanently disabled □ Yes □ No
   c. Legally blind □ Yes □ No

10. Can anyone claim you or your spouse as a dependent? □ Yes □ No □ Unsure

11. Have you, your spouse, or dependents been a victim of tax related identity theft or been issued an Identity Protection PIN? □ Yes □ No

Part II – Marital Status and Household Information
1. As of December 31, 2019, what was your marital status?
   □ Never Married
   □ Married
   (This includes registered domestic partnerships, civil unions, or other formal relationships under state law)
   a. If Yes, Did you get married in 2019? □ Yes □ No
   b. Did you live with your spouse during any part of the last six months of 2019? □ Yes □ No
   □ Divorced
   Date of final decree
   □ Legally Separated
   Date of separate maintenance decree
   □ Widowed
   Year of spouse’s death

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

To be completed by a Certified Volunteer Preparer

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

Catalog Number 52121E
www.irs.gov

Form 13614-C (Rev. 10-2019)
Determining Puerto Rico Residency Status
For U.S. Tax Purpose

(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

Who Must File a U.S. federal income tax return?

In general, under Section 933 of the U.S. Internal Revenue Code (IRC) you must file a return if:

- You are a U.S. citizen or resident alien, and
- You are a bona fide resident of Puerto Rico during the entire taxable year, and
- Receive income from sources outside Puerto Rico, and/or
- Receive income as a civilian employee of the U.S. government, and/or
- Receive income as military employee of the U.S. government
- You had net earnings from self-employment of at least $400.
- You qualify for the additional child tax credit.
- You had wages of $108.28 or more from a church or qualified church-controlled organization that is exempt from employer Social Security and Medicare taxes.

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 $0.

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 Rican 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 $12,200
   65 or older enter $13,850

   Married filing jointly
   both under 65 enter $24,400
   one 65 or older enter $25,700
   both 65 or older enter $27,000

   Head of household
   under 65 enter $18,350
   65 or older enter $20,000

   Qualifying widow(er) with
dependent child
   under 65 enter $24,400
   65 or older enter $25,700

   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 $0.
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

<table>
<thead>
<tr>
<th>Sources Rule</th>
<th>Item of Income</th>
<th>Factor Determining Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries and other compensation</td>
<td>Where the service is performed</td>
</tr>
<tr>
<td></td>
<td>U.S. Social Security Benefits</td>
<td>*U.S. Source income by definition (IRC Sec. 861)</td>
</tr>
<tr>
<td></td>
<td>Pensions</td>
<td>Contributions: Where services were performed that earned the pensions. Investment earnings: Where pension trust is located.</td>
</tr>
<tr>
<td></td>
<td>Interest</td>
<td>Residence of the payer</td>
</tr>
<tr>
<td></td>
<td>Dividends</td>
<td>Location of the payer</td>
</tr>
<tr>
<td></td>
<td>Rents</td>
<td>Location of the property</td>
</tr>
<tr>
<td>Royalties:</td>
<td></td>
<td>Natural resources: Location of property. Patents, copyrights, etc.: Where the property is used.</td>
</tr>
<tr>
<td>Sale of stock or</td>
<td>** Seller’s tax home (but see Special Rules for Gains</td>
<td>From Dispositions of Certain Property in Publication 570 for exceptions)</td>
</tr>
<tr>
<td>other nondepreciable property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of real property</td>
<td></td>
<td>Location of the property</td>
</tr>
</tbody>
</table>

* 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 9 or line 9 of Form 1040-SR.

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Standard deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$12,200</td>
</tr>
<tr>
<td>Married filing jointly, or Qualifying widow(er)</td>
<td>$24,400</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$12,200</td>
</tr>
<tr>
<td>Head of household</td>
<td>$18,350</td>
</tr>
</tbody>
</table>

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: If your filing status is
   - Single or Married filing separately enter $12,200.
   - Married filing jointly or Qualifying widow(er) enter $24,400.
   - Head of Household enter $18,350.
   
   CAUTION: If you are 65 or over and/or blind, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040-SR, as applicable;
   or
   If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040-SR, 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 or Form 1040-SR, line 9 (allowable portion of STANDARD DEDUCTION)

Write the following above line 9, Form 1040 or line 9 of Form 1040-SR: “Standard Deduction modified due to exempt income under section 933.”
Additional Child Tax Credit

Refundable credit available to taxpayers who have Social Security and Medicare taxes withheld from their wages or who pay self-employment tax.

This credit is available even though the taxpayer does not have income subject to federal income tax.

The credit is worth up to $2,000 per qualifying child but only $1,400 are refundable credit and is claimed by filing a tax return with the Internal Revenue Service.

The taxpayer must claim the child as a dependent to be a qualifying child for the child tax credit.

Requirements - Who qualifies?

To qualify, the taxpayer must meet the following conditions:

• Be a bona fide resident of Puerto Rico, and
• Have paid Social Security and Medicare taxes, and
• Have three or more qualified children 16 years old or under at end of the tax year. However, federal employees qualify with one or two children or
• Paid self-employment tax contributions or
• Has income subject to federal income tax.
• Child must have a valid Social Security Number

Any limits on this credit?

There is also an income limitation on this credit. The credit begins to phase out at the following income levels:

• $400,000 for married filing a joint return
• $200,000 for all other filers

For the purpose of this limitation you must consider all income received in Puerto Rico. If you exceed these income levels you must obtain a worksheet for the additional child tax credit and complete instructions from Publication 972, Child Tax Credit, to figure your credit.

How to claim the credit?

• If the taxpayer has Social Security and Medicare taxes withheld from wages or pays self-employment tax use Form 1040-PR, Planilla para la Declaración de la Contribución Federal sobre el Trabajo por Cuenta Propia.
• If the taxpayer has income subject to federal income tax complete Form 1040, Sch 3 and Schedule 8812, Child Tax Credit.

American Opportunity Tax Credit

Bona fide residents of Puerto Rico will receive the refundable part of this credit from the Puerto Rico Treasury Department.

Other Dependents Non-Refundable Credit

There is a $500 Non refundable credit per dependent other than a qualifying child.
# Interview Tips for the Additional Child Tax Credit

## Qualified Child

<table>
<thead>
<tr>
<th>Step</th>
<th>Question</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>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)?</td>
<td>go to Step 2.</td>
<td>cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.</td>
</tr>
<tr>
<td>2</td>
<td>Is this child under age 17 at end of the tax year?</td>
<td>go to Step 3.</td>
<td>cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.</td>
</tr>
<tr>
<td>3</td>
<td>Did the child provide over half of his or her own support for</td>
<td>go to Step 4.</td>
<td>cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.</td>
</tr>
<tr>
<td>4</td>
<td>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: • Exception to Time-Lived-with-You • Kidnapped Child • Children of Divorced or Separated or Never Married Parents.</td>
<td>go to Step 5.</td>
<td>cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.</td>
</tr>
<tr>
<td>5</td>
<td>Is this child a U.S. citizen, U.S. national, or resident of the United States? <strong>Note:</strong> 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.</td>
<td>go to Step 6.</td>
<td>cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.</td>
</tr>
<tr>
<td>6</td>
<td>Are you excluding income from Puerto Rico?</td>
<td>go to Step 7.</td>
<td>must use Publication 972 to figure the credit.</td>
</tr>
<tr>
<td>7</td>
<td>Is the amount of AGI more than:</td>
<td>go to Step 8.</td>
<td>must use Publication 972 to figure the credit.</td>
</tr>
<tr>
<td></td>
<td>• $400,000 if you are married filing jointly,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $200,000 if your are filing as single, head of household, or as a qualifying widow(er), or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• $200,000 if you are married filing separately?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Are you a bona fide resident of Puerto Rico and all or part of your income is from Puerto Rico sources?</td>
<td>go to Step 9</td>
<td>must use Publication 972 to figure the credit.</td>
</tr>
<tr>
<td>9</td>
<td>Are you a bona fide resident of Puerto Rico and/or self-employed with all your income considered from Puerto Rico sources?</td>
<td>are encouraged to file Form 1040-PR and follow the applicable instructions to calculate the credit</td>
<td>must use Publication 972 to figure the credit.</td>
</tr>
</tbody>
</table>
Bona Fide Residents of Puerto Rico

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.

Rules to determine if a taxpayer qualifies as a bona fide resident of Puerto Rico for the entire tax year were changed by the American Jobs Creation Act of 2004.

The American Jobs Creation Act of 2004 added Section 937(b) to the U.S. Internal Revenue Code. IRC Section 937(b) clarifies and provides source rules for U.S. possessions, including 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 for 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 no 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.
Bona Fide Residents of Puerto Rico (continued)

Closer Connection (continued)

- 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.
- 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

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 meet all of the following:

- Taxpayer has not been a bona fide resident of Puerto Rico in any of the 3 tax years 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.
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

Beginning with tax year 2001, taxpayers who become or ceased to be a bona fide resident of a U.S. possession may need to file Form 8898. Taxpayers who are required to file this form and fail to file it, may owe a penalty of $1,000.

See Publication 570 for the requirements to file this form.

One of the conditions of filing this form is having worldwide gross income in that tax year of more than $75,000. These taxpayers are out-of-scope for the VITA/TCE Program.
Adjustments to Income

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

There are four adjustments to income that mostly affect Puerto Rican 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

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-PR 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 line 14 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. For divorce or separation agreements (or amendments) executed after 2018, the deduction for alimony payments and the inclusion of alimony in income is eliminated.
IrAs

Puerto Rican 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

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 Itemized Deductions and the Standard Deduction

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

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

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

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 Robert and Elena below for the computation of the standard deduction.

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

Formula for allowable portion of the standard deduction

\[
= \frac{$40,000}{55,000} \times $24,400 = 0.7273 \times $24,400 = $17,746
\]

Puerto Rico Exempt Income

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

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

Example (continued):

Robert and Elena are filing a joint return. They are bona fide residents of Puerto Rico and both are under 65 years of age. Robert works for the federal government and Elena for a bank in Puerto Rico. During 2019, Robert earned $40,000 as a federal employee and Elena earned $10,000 from her job. They have itemized deductions of $27,000 that do not apply to any specific type of income (medical and dental $4,000, real estate taxes $5,000, mortgage interest on their home of $12,000 and charitable contributions $6,000 (cash contributions). Each deduction is apportioned as follows:

Effect of Puerto Rico exempt income on itemized deductions:

<table>
<thead>
<tr>
<th>Itemized Deduction</th>
<th>Expense Amount</th>
<th>Formula : Allowable Portion</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Dental</td>
<td>$4,000</td>
<td>(40,000 ÷ 50,000) x 4,000</td>
<td>*$0</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$5,000</td>
<td>(40,000 ÷ 50,000) x 5,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Mortgage Interest</td>
<td>$12,000</td>
<td>(40,000 ÷ 50,000) x 12,000</td>
<td>$9,600</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>$6,000</td>
<td>(40,000 ÷ 50,000) x 6,000</td>
<td>$4,800</td>
</tr>
<tr>
<td>Total</td>
<td>$27,000</td>
<td></td>
<td>$18,400</td>
</tr>
</tbody>
</table>

*Medical expenses must exceed 10% of the taxpayer’s Adjusted Gross Income.

To figure the standard deduction amount for Robert and Elena 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 Robert & Elena is $19,520. The allowable amount of the Itemized deductions from Schedule A is $18,400. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or the standard deduction.

Standard Deduction

It may be advantageous for the taxpayer to itemize deductions if the amount is larger than the allowable standard deduction amount.
Social Security Benefits

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), some portion 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

The Tax Cuts and Jobs Act of 2017 (TCJA) eliminated the personal and dependency exemptions. 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 adjusted standard deduction.

When Benefits Are Taxable

To determine the taxable portion of the social security benefits, use Worksheet 1 Figuring Your Taxable Benefits in Publication 915, Social Security and Equivalent Railroad Retirement Benefits, to compare taxpayer’s:
- Base amount (assigned by their filing status), and
- Total income (including exempt income and interest), plus one-half of the social security benefits

If the total income is more than the base amount for your filing status, part of the social security benefits may be taxable. In general, the higher total income, the greater taxable portion of social security benefits, 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
- Include benefits received by both spouses if filing Married Filing Jointly
- Exclude any dependents’ SSA-1099s
- Give the completed worksheet to the taxpayer for their records
Calculating the Taxable Portion (continued)

Base Amounts
Taxpayer's base amounts are determined by filing status.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Base Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married Filing Separately (and taxpayer lived with spouse for any part of tax year)</td>
<td>$0</td>
</tr>
<tr>
<td>Single</td>
<td>$25,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td></td>
</tr>
<tr>
<td>Qualifying Widow(er)</td>
<td></td>
</tr>
<tr>
<td>Married Filing Separately (and taxpayer lived separately from spouse for entire tax year)</td>
<td></td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$32,000</td>
</tr>
</tbody>
</table>

**Filing Status**

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.

**TIP**

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)
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

<table>
<thead>
<tr>
<th>Step</th>
<th>Question</th>
<th>YES/NO Action</th>
</tr>
</thead>
</table>
| 1    | 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 |
| 2    | 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. |
| 3    | 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* |

* 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.
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**

**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

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**

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:**

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

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

\[
\frac{\text{Years in Puerto Rico and/or foreign country}}{\text{Total years of service}} \times \text{Annual pension} = \text{Amount of foreign income} \tag{line 1a of Part 1, Form 1116}
\]
TIP: 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.
- Those incurred to move to a new principal place of work outside the United States or supplies you bought for your job outside 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, 5a and 5b of Schedule A.

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

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

Other deductions (line 3b of Part I, Form 1116)
Enter any other deductions that do not definitely relate to any specific type of income (for example, the deduction for alimony paid (TCJA eliminates deductions for alimony payments required by post-2018 divorce agreements), or any other deductions shown on Schedule 1 line 22).

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”.
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

---

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 for their foreign tax credit, regardless of whether they have paid the taxes.

• Most U.S. government employees who live in Puerto Rico use the accrual method to determine their foreign tax credit because Puerto Rico taxes are paid after the end of the year.

All Puerto Rican taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116 when computing the credit.

Figuring the Credit

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 Rican 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:

\[
\text{Income from Puerto Rican sources not subject to federal tax under IRC Section 933 less deductible expenses allocable to that income} \times \frac{\text{Tax Paid or accrued to Puerto Rico}}{\text{Total Income subject to Puerto Rico tax, less deductible expenses allocable to that income}} = \text{Reduction in foreign taxes}
\]
Foreign Tax Credit Redeterminations

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.
### Earnings Subject to Self Employment Tax

<table>
<thead>
<tr>
<th>Includes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Net earnings from self-employment (SE) from other than a church employee of $400 or more.</td>
</tr>
<tr>
<td>• Partnership income and guaranteed payments.</td>
</tr>
<tr>
<td>• Wages of employees of churches and other religious organizations (not ministers), if you earned at least $108.28.</td>
</tr>
<tr>
<td>• Services performed as a minister, member of religious order who has not taken a vow of poverty, or a Christian Science practitioner (unless IRS approval for exemption has been obtained).</td>
</tr>
<tr>
<td>• Income from farm rental if you materially participated in the production or management of farm products on such land.</td>
</tr>
<tr>
<td>• Cash or a payment in kind from the Dept of Agriculture for participating in a land diversion program.</td>
</tr>
<tr>
<td>• Fees and other payments received for services as a director of a corporation.</td>
</tr>
<tr>
<td>• Income from the retail sale of newspapers if you were age 18 or older and kept the profits.</td>
</tr>
<tr>
<td>• Income received as a direct seller.</td>
</tr>
<tr>
<td>• Income of certain crew members of fishing vessels with crews of normally fewer than 10 people.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Does Not Include</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Salaries, fees, etc subject to Social Security and Medicare withholding received for performing services as an employee.</td>
</tr>
<tr>
<td>• Fees received for services performed as a notary public.</td>
</tr>
<tr>
<td>• Income from real estate rental not in the course of a trade or business as a real estate broker.</td>
</tr>
<tr>
<td>• Income from farm rental if you did not materially participate in the production or management of farm products on such land.</td>
</tr>
<tr>
<td>• Dividend and interest income earned not in the course of a trade or business as a dealer in stocks and securities.</td>
</tr>
<tr>
<td>• Net operating losses from previous years.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• 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-PR.</td>
</tr>
</tbody>
</table>

**Caution:**
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 nonfarm 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 your 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 2019, the maximum amount of self-employment income subject to social security is $132,900.

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 2019, you may need to make estimated tax payments. Use Form 1040-ES, to figure your required payments.
Starting - New Return Flow Chart

1. Start New Tax Return
   - Input SSN
   - Select Filing Status

   Enter personal information for the taxpayer and spouse (if applicable). Caution: TaxSlayer automatically completes the spouse’s last name based on the information you typed for the taxpayer’s last name. You can change this box if the spouse has a different last name.

   Enter Dependent Information (if applicable). Caution: TaxSlayer completes the Last Name box based on the taxpayer’s last name. You can change this information if the dependent has a different last name.

2. Enter IRS “IP PIN” Individual Personal Identity Protection Numbers for Taxpayer/Spouse and/or Dependents (if applicable).
   - Complete the Income section.
   - Complete the Adjustments section.
   - Enter the Standard or Itemized Deductions

3. Enter the Basic Credits Other Taxes, Payments, Tax Estimates and Other required Schedules and Forms.
   - Quality Review
   - Run the e-file validation and Create the e-file.
   - Print tax return
   - Taxpayer signs required forms such as Form 8879
   - Collate copies

Starting a New Return

Create a NEW Return – Select Start New Tax Return

Start/Edit 1040 Tax Return
<Esc> to Abort or Just <Enter> for List of Clients

Select the Correct Filing Status

Select the Correct Filing Status
1. Single
2. Married Filing Joint
3. Married Filing Separate
4. Head of Household
5. Qualifying Widow(er)
6. Form 1040NR Program
0. Exit
Enter the Taxpayer’s and Spouse’s Information

Use Publication 4696(PR), VITA/TCEPuerto Rico Resource Guide (Tab A) to determine Residency Status for U.S. Tax Purposes.
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.)
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.
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 three qualifying children.

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

---

**Tab 2 – TaxSlayer: Additional Child Tax Credit**

Select the Correct Filing Status

1. Single
2. Married Filing Joint
3. Married Filing Separate
4. Head of Household
5. Qualifying Widow(er)
6. Form 1040NR Program
0. Exit

**Select the Filing Status and Complete the Personal Information Section.**

Note: Head of Household filing status is not available if you are completing a Form 1040-PR.

---

**Form 8840 Closer Connection Exception Statement for Aliens**

Are you a bona fide resident of Puerto Rico?

- Yes
- No

---

**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 1040PR or Form 1040SS.

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.
Click “BEGIN” to input Form W-2PR.

Hints: Input the amounts of Wages, Social Security Wages and Medicare Wages.
Line 18. Check line 18 to input income derived from sources within Puerto Rico from Form W-2PR.

TIP: In order for Form 1040 PR/SS 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.
Answer the Due Diligence Questions

- Have you determined that the taxpayer has not released 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?

Credit Eligibility Certification

Do you certify that all answers on this Form 8867 are, to the best of your knowledge, true, correct and complete?
Hint: Verify if the taxpayer paid Dependent Care Expenses; if not check 0 or Enter.

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

LISTING OF FORMS FOR THIS RETURN
FORM 1040PR
FORM W-2PR
FORM 8812 (ADDITIONAL CHILD TAX CREDIT)
FORM 8867 (EIC CHECKLIST)
Additional Child Tax Credit – Form 1040 – SS (English version)

Example: Edward Rico and Angelina Alta have three qualifying children that entitled them to claim the additional child tax credit.

```
Form 1040-SS U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for bona Fide Residents of Puerto Rico)

2019

Part I Total Tax and Credits

1. Filing status. Check the box for your filing status (see instructions).
   - Single
   - Married filing jointly
   - Married filing separately. Enter spouse's social security number above and full name here

2. Qualifying children. Complete only if you are a bona fide resident of Puerto Rico and you are claiming the additional child tax credit (see instructions).

   - First name
   - Last name
   - Social security number
   - Relationship to you

3. Self-employment tax from Part V, line 12
   4. Household employment taxes (see instructions). Attach Schedule H (Form 1040)
   5. Additional Medicare Tax. Attach Form 8959.
   6. Total tax. Add lines 3 through 5 (be sure to include estimated payments).

7. 2019 estimated tax payments (see instructions).

8. Excess social security tax withheld (see instructions).

9. Additional child tax credit from Part II, line 3.

10. Health coverage tax credit. Attach Form 6969.

11. Total payments and credits (see instructions).

12. If line 11 is more than line 6, subtract line 6 from line 11. This is the amount you overpaid.

13a. Amount of line 12 you want refunded to you. If Form 8857 is attached, check here.

b. Routing Number

d. Account Number


15. Amount you owe. If line 6 is more than line 11, subtract line 11 from line 6. For details on how to pay, see instructions.

Part II Bona Fide Residents of Puerto Rico claiming Additional Child Tax Credit – See instructions.

Caution: You must have three or more qualifying children to claim the additional child tax credit.

- Income derived from sources within Puerto Rico
- Social security, Medicare, and Additional Medicare taxes from Puerto Rico (Form 1040/ W-2P). Attach copy of form.
- Additional child tax credit. Use the worksheet in the instructions to figure the amount to enter here and in Part I, line 9.

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. Use a voided check as proof of account.

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

Include all income under IRC Section 933.

Additional Child Tax Credit TaxSlayer® – 44
B. Taxpayers with U.S. Taxable Earned Income

Example: Henry Montana and Anaconda Toledo have two children under 16 years old. The children qualify for claiming the ACTC. Henry receives 40,000 from wages (U.S. taxable earned income). The Puerto Rico tax liability for this year is $1,100.

Schedule 8812

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

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Educator expenses</td>
</tr>
<tr>
<td>24</td>
<td>Certain business expenses of reservists, qualified performing artists, and fee-based government officials. Form 2106 or 2106-EZ</td>
</tr>
<tr>
<td>25</td>
<td>Health savings account deduction. Form 8889</td>
</tr>
<tr>
<td>26</td>
<td>Moving expense. Form 3903</td>
</tr>
<tr>
<td>27</td>
<td>One-half of self-employment tax</td>
</tr>
<tr>
<td>28</td>
<td>Self-employed SEP, SIMPLE, and qualified plans</td>
</tr>
<tr>
<td>29</td>
<td>Self-employed health insurance deduction</td>
</tr>
<tr>
<td>30</td>
<td>Penalty on early withdrawal of savings</td>
</tr>
<tr>
<td>31</td>
<td>Alimony paid. Recipient’s SSN: [ ] and amount: [ ]</td>
</tr>
<tr>
<td>32</td>
<td>IRA deduction</td>
</tr>
<tr>
<td>33</td>
<td>Student loan interest deduction</td>
</tr>
<tr>
<td>34</td>
<td>Tuition and fees deduction</td>
</tr>
<tr>
<td>35</td>
<td>Domestic production activities deduction. Form 8903</td>
</tr>
<tr>
<td></td>
<td>Other: Reforestation. Sub-pay (Trade Act)</td>
</tr>
<tr>
<td></td>
<td>Jury duty pay you gave to your employer</td>
</tr>
<tr>
<td></td>
<td>501(c)18 pension plan</td>
</tr>
<tr>
<td></td>
<td>PPR</td>
</tr>
<tr>
<td></td>
<td>Form 2555, line 50</td>
</tr>
<tr>
<td></td>
<td>Archer MSA deduction. Form 8853</td>
</tr>
<tr>
<td></td>
<td>Deduction for whistleblower fees</td>
</tr>
<tr>
<td>36</td>
<td>Total adjustments: [ ]</td>
</tr>
</tbody>
</table>
| 37   | Adjusted gross income: [ ]

- Can not take a deduction on line 14, if the deduction is related to excluded income for U.S. income tax purposes.
- IRA trust account must be in the U.S.
Example: Mike Gallatin y 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).

Only the allowable portion of 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

\[
\$18,300 = \left( \frac{67,500}{90,000} \right) \times \$24,400.
\]

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

<table>
<thead>
<tr>
<th>Itemized Deduction</th>
<th>Expense Amount</th>
<th>Formula: Allowable Portion</th>
<th>Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Dental</td>
<td>$4,000</td>
<td>(67,500 + 90,000) x 4,000</td>
<td>$0*</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$5,000</td>
<td>(67,500 + 90,000) x 5,000</td>
<td>$3,750</td>
</tr>
<tr>
<td>Mortgage Interest</td>
<td>$12,000</td>
<td>(67,500 + 90,000) x 12,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>$6,000</td>
<td>(67,600 + 90,000) x 6,000</td>
<td>$4,500</td>
</tr>
<tr>
<td>Total</td>
<td>$27,000</td>
<td></td>
<td>$17,250</td>
</tr>
</tbody>
</table>

*Medical expenses must exceed 10% of the taxpayer’s Adjusted Gross Income.

Exhibit Allocation of Itemized Deduction for Mike and Maria – Medical Expenses
### Deductions (continued)

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

<table>
<thead>
<tr>
<th>Taxes You Paid</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5 State and local taxes.</td>
<td></td>
</tr>
<tr>
<td>6a State and local income taxes or general sales taxes. You may include other 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.</td>
<td>3,750.00</td>
</tr>
<tr>
<td>6c State and local real estate taxes (see instructions)</td>
<td></td>
</tr>
<tr>
<td>6d Add lines 5a through 5c</td>
<td>3,750.00</td>
</tr>
<tr>
<td>6e Enter the lesser of line 5d or $10,000 ($5,000 if married filing separately)</td>
<td></td>
</tr>
<tr>
<td>6 Other taxes. List type and amount</td>
<td></td>
</tr>
<tr>
<td>7 Add lines 5e and 6</td>
<td>3,750.00</td>
</tr>
</tbody>
</table>

#### Exhibit Allocation of itemized deduction for Mike and Maria – Home Mortgage

<table>
<thead>
<tr>
<th>Interest You Paid</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Home mortgage interest and points. If you didn’t use all of your home mortgage to buy, build, or improve your home, see instructions and check this box.</td>
<td></td>
</tr>
<tr>
<td>8a Home mortgage interest and points reported to you on Form 1098. See instructions if limited.</td>
<td>9,000.00</td>
</tr>
<tr>
<td>8b Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address.</td>
<td></td>
</tr>
<tr>
<td>8c Points not reported to you on Form 1098. See instructions for special rules.</td>
<td></td>
</tr>
<tr>
<td>8d Reserved</td>
<td></td>
</tr>
<tr>
<td>8e Add lines 8a through 8c</td>
<td>9,000.00</td>
</tr>
<tr>
<td>8 Add lines 8e and 9</td>
<td>9,000.00</td>
</tr>
</tbody>
</table>

#### Exhibit Allocation of itemized deduction for Mike and Maria – Charitable

<table>
<thead>
<tr>
<th>Gifts to Charity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Gifts by cash or check. If you made any gift of $200 or more, see instructions.</td>
<td>4,000.00</td>
</tr>
<tr>
<td>12 Other than by cash or check. If you made any gift of $250 or more, see instructions.</td>
<td></td>
</tr>
<tr>
<td>13 Carryingover from prior year</td>
<td></td>
</tr>
<tr>
<td>14 Add lines 11 through 13</td>
<td>4,500.00</td>
</tr>
</tbody>
</table>

#### Exhibit Allocation of itemized deduction for Mike and Maria – Total Allowable Itemized Deductions

<table>
<thead>
<tr>
<th>Total Itemized Deductions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-S, line 9.</td>
<td>17,250.00</td>
</tr>
<tr>
<td>18 If you elect to itemize deductions even though they are less than your standard deduction, check this box.</td>
<td></td>
</tr>
</tbody>
</table>
### Form 1116

**Foreign Tax Credit**

**Form** 1116

**Department of the Treasury**

**Internal Revenue Service** (99)

**Foreign Tax Credit**

**(Individual, Estate, or Trust)**

- Attach to Form 1040, 1040-SR, 1040-NR, 1041, or 990-T.
- Go to www.irs.gov/Form1116 for instructions and the latest information.

#### Part I: Taxable Income or Loss From Sources Outside the United States

<table>
<thead>
<tr>
<th>Foreign Country or U.S. Possession</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1a</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross income from sources within country shown above and of the type checked above (see instructions):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>b</strong> 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):</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Deductions and losses (Caution: See instructions):**

<table>
<thead>
<tr>
<th>2</th>
<th>Expenses definitely related to the income on line 1a (attach statement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Pro rata share of other deductions not definitely related:</td>
</tr>
<tr>
<td>a</td>
<td>Certain itemized deductions or standard deduction</td>
</tr>
</tbody>
</table>

**Taxable Income or Loss from Sources Outside United States**

**Part I: Taxable Income or Loss From Sources Outside the United States**

<table>
<thead>
<tr>
<th>Foreign Country or U.S. Possession</th>
<th>Total (Add cols. A, B, and C)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1a</strong></td>
<td></td>
</tr>
<tr>
<td>Gross income from sources within country shown above and of the type checked above (see instructions):</td>
<td></td>
</tr>
<tr>
<td><strong>b</strong> 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):</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** 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.

**Caution:** 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.

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 Tab I: Formula for allocation of income for services or retirement.
### FORM 1116 — “Standard Deduction - Example Continue - Mike and Maria”

#### Part I Taxable Income or Loss From Sources Outside the United States

<table>
<thead>
<tr>
<th>Country</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Cols A, B, and C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Puerto Rico</td>
<td>67,100</td>
<td></td>
<td></td>
<td>67,500</td>
</tr>
</tbody>
</table>

#### Part II Deductions and losses

1. **Expenses definitely related to the income on line 1a (attach statement)**
   - a. Certain itemized deductions or standard deduction (see instructions)
   - b. Other deductions
   - c. Add lines 3a and 3b
   - d. Gross foreign source income (see instructions)
   - e. Gross income from all sources (see instructions)
   - f. Divide line 3d by line 3e (see instructions)
   - g. Multiply line 3c by line 3f

2. **Pro rata share of other deductions not definitely related**:
   - a. Certain itemized deductions or standard deduction (see instructions)
   - b. Other deductions
   - c. Add lines 3a and 3b
   - d. Gross foreign source income (see instructions)
   - e. Gross income from all sources (see instructions)
   - f. Divide line 3d by line 3e (see instructions)
   - g. Multiply line 3c by line 3f

3. **Pro rata share of interest expense (see instructions)**
   - a. Home mortgage interest (use the Worksheet for Home Mortgage Interest in the instructions)
   - b. Other interest expense
   - c. Add lines 6a and 6b
   - d. Gross income from all sources (see instructions)
   - e. Subtract line 6d from line 6c

4. **Pro rata share of foreign taxes paid or accrued**
   - a. Home mortgage interest (use the Worksheet for Home Mortgage Interest in the instructions)
   - b. Other interest expense
   - c. Add lines 6a and 6b
   - d. Gross income from all sources (see instructions)
   - e. Subtract line 6d from line 6c

#### Notes:
- 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 (green entry). 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, charitable contributions and medical expenses on line 3a.
**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.

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Paid/Accrued</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Are Taxes Paid or Accrued?</td>
<td>PAID</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Date paid or accrued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Taxes Withheld at Source on Dividends (for. currency)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Taxes Withheld at Source on Rent/Roy (foreign currency)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Taxes Withheld at Source on Interest (foreign currency)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Other Foreign Taxes Paid/Accrued (foreign currency)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Taxes Withheld at Source on Dividends (U.S. Dollars)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Taxes Withheld at Source on Rent/Royalty (U.S. Dollar)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>9</td>
<td>Taxes Withheld at Source on Interest (U.S. Dollars)</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>Other Foreign Taxes Paid/Accrued (U.S. Dollars)</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

Check the appropriate box to indicate whether the foreign tax was actually paid during 2019 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 2019.

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

<table>
<thead>
<tr>
<th>Line</th>
<th>Formula/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I.</td>
</tr>
<tr>
<td>10</td>
<td>Cumulative carryback or carryover (attach detailed computation).</td>
</tr>
<tr>
<td>11</td>
<td>Add lines 9 and 10.</td>
</tr>
<tr>
<td>12</td>
<td>Reduction in foreign taxes (see instructions).</td>
</tr>
<tr>
<td>13</td>
<td>Taxes reallocated under high tax kickout (see instructions).</td>
</tr>
<tr>
<td>14</td>
<td>Combine lines 11, 12, and 13. This is the total amount of foreign taxes available for credit.</td>
</tr>
<tr>
<td>15</td>
<td>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).</td>
</tr>
<tr>
<td>16</td>
<td>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 22. However, if you are filing more than one Form 1116, you must complete line 20.</td>
</tr>
<tr>
<td>17</td>
<td>Entrant your foreign tax paid (after adjustments for the category of income checked above Part I), leave line 19 blank.</td>
</tr>
<tr>
<td>18</td>
<td>Caution: If you figured your tax using the lower rates on qualified dividends or capital gains, see instructions.</td>
</tr>
<tr>
<td>19</td>
<td>Divide line 17 by line 18. If line 17 is more than line 18, enter “1”.</td>
</tr>
<tr>
<td>20</td>
<td>Multiply line 20 by line 19 (maximum amount of credit).</td>
</tr>
<tr>
<td>21</td>
<td>Subtract line 21 from line 20. If this is the only Form 1116 you are filing, skip lines 23 through 30 and enter this amount on line 31. Otherwise, complete the appropriate line in Part IV (see instructions).</td>
</tr>
<tr>
<td>22</td>
<td>Enter here and on Schedule 3 (Form 1040 or 1040-SR), line 11b; Form 1040-NR, line 1a; Form 1041, Schedule G, line 2a; or Form 990-T, line 46a.</td>
</tr>
</tbody>
</table>

### Part IV – Summary of Credits From Separate Parts III (See instructions)

<table>
<thead>
<tr>
<th>Line</th>
<th>Formula/Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Credit for taxes on section 951A category income.</td>
</tr>
<tr>
<td>24</td>
<td>Credit for taxes on foreign branch category income.</td>
</tr>
<tr>
<td>25</td>
<td>Credit for taxes on passive category income.</td>
</tr>
<tr>
<td>26</td>
<td>Credit for taxes on general category income.</td>
</tr>
<tr>
<td>27</td>
<td>Credit for taxes on section 901(g) income.</td>
</tr>
<tr>
<td>28</td>
<td>Credit for taxes on certain income re-sourced by treaty.</td>
</tr>
<tr>
<td>29</td>
<td>Credit for taxes on lump-sum distributions.</td>
</tr>
<tr>
<td>30</td>
<td>Add lines 23 through 29.</td>
</tr>
<tr>
<td>31</td>
<td>Enter the smaller of line 20 or line 30.</td>
</tr>
<tr>
<td>32</td>
<td>Reduction of credit for international boycott operations.</td>
</tr>
<tr>
<td>33</td>
<td>Subtract line 32 from line 31. This is your foreign tax credit. Enter here and on Schedule 3 (Form 1040 or 1040-SR), line 1; Form 1040-NR, line 46; Form 1041, Schedule G, line 2a; or Form 990-T, line 46a.</td>
</tr>
</tbody>
</table>

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.
Foreign Tax Credit – Form 1116 (continued)

Foreign Taxes Paid or Accrued

Taxpayer with exempt income. Assume that the taxpayer is single 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.

<table>
<thead>
<tr>
<th>Form 1116 (2019)</th>
<th>Page 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part III</strong> Figuring the Credit</td>
<td></td>
</tr>
<tr>
<td><strong>9</strong></td>
<td>Enter the amount from line 8. These are your total foreign taxes paid or accrued for the category of income checked above Part I</td>
</tr>
<tr>
<td><strong>10</strong></td>
<td>Carryback or carryover (attach detailed computation)</td>
</tr>
<tr>
<td><strong>11</strong></td>
<td>Add lines 9 and 10</td>
</tr>
<tr>
<td><strong>12</strong></td>
<td>Reduction in foreign taxes (see instructions)</td>
</tr>
<tr>
<td><strong>13</strong></td>
<td>Taxes reclassified under high tax kickout (see instructions)</td>
</tr>
<tr>
<td><strong>14</strong></td>
<td>Combine lines 11, 12, and 13. This is the total amount of foreign taxes available for credit</td>
</tr>
<tr>
<td><strong>15</strong></td>
<td>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)</td>
</tr>
<tr>
<td><strong>16</strong></td>
<td>Adjustments to line 15 (see instructions)</td>
</tr>
<tr>
<td><strong>17</strong></td>
<td>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 22. However, if you are filing more than one Form 1116, you must complete line 20.</td>
</tr>
<tr>
<td><strong>18</strong></td>
<td>Individuals: Enter the amount from Form 1040 or 1040-SR, line 11b; or Form 1040-NR, line 41. Estates and trusts: Enter your taxable income without the deduction for your exemption</td>
</tr>
<tr>
<td><strong>19</strong></td>
<td>Divide line 17 by line 18. If line 17 is more than line 18, enter “1”</td>
</tr>
<tr>
<td><strong>20</strong></td>
<td>Individuals: Enter the total of Form 1040 or 1040-SR, line 12b, and Schedule 2 (Form 1040 or 1040-SR), line 2. If you are a nonresident alien, enter the total of Form 1040-NR, lines 42 and 44. Estates and trusts: Enter the amount from Form 1041, Schedule G, line 1a; or the total of Form 990-T, lines 41, 42, and 44. Foreign estates and trusts should enter the amount from Form 1040-NR, line 42</td>
</tr>
<tr>
<td><strong>21</strong></td>
<td>Multiply line 20 by line 19 (maximum amount of credit)</td>
</tr>
<tr>
<td><strong>22</strong></td>
<td>Enter the smaller of line 14 or line 21. If this is the only Form 1116 you are filing, skip lines 23 through 30 and enter this amount on line 31. Otherwise, complete the appropriate line in Part IV (see instructions)</td>
</tr>
</tbody>
</table>

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 Rican 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.

\[ \text{Income from PR sources not subject to Federal tax under IRC Section 933 less deductible Expenses allocable to that income} \times \frac{\text{Tax paid or accrued to Puerto Rico}}{\text{Total income subject to Puerto Rico tax, less Deductible expenses allocable to that income}} = \text{Reduction in foreign taxes} \]
**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 the printed technical training kit, Publication 4480, work together to help volunteers learn and practice.

**Link & Learn Taxes for 2019 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 workbook problems from Publication 4491W
  - Lets volunteers prepare test scenario returns for the test/retest

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

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

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

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

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

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

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

IRS Outreach Connection

Tax Trails for Answers to Common Tax Questions

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

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

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

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

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

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

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

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