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

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

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

Volunteer Standards of Conduct

VITA/TCE Programs

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

All VITA/TCE volunteers (whether paid or unpaid workers) must complete the Volunteer Standards of Conduct 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.

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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 - Refundable 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. |
Form 13614-C, Intake/Interview and Quality Review Sheet

Form 13614-C (October 2021)

Intake/Interview & Quality Review Sheet

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

1. Your first name
M.I. Last name
Best contact number
Are you a U.S. citizen?
Yes No
2. Your spouse’s first name
M.I. Last name
Best contact 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
   b. Totally and permanently disabled
   c. Legally blind

7. Your spouse’s Date of Birth
8. Your spouse’s job title
9. Last year, was your spouse:
   a. Full-time student
   b. Totally and permanently disabled
   c. Legally blind

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
12. Provide an email address (optional) (this email address will not be used for contacts from the Internal Revenue Service)

Part II – Marital Status and Household Information

1. As of December 31, 2021, what was your marital status?
   □ Never Married
   □ Married
   (This includes registered domestic partnerships, civil unions, or other formal relationships under state law)
   □ Divorced
   □ Legally Separated
   □ Widowed
   a. If Yes, Did you get married in 2021?
   Yes No
   b. Did you live with your spouse during any part of the last six months of 2021?
   Yes No
   Date of final decree
   Date of separate maintenance decree
   Year of spouse’s death
   (This also includes registered domestic partnerships, civil unions, or other formal relationships under state law)

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

Name (first, last) Do not enter your name or spouse’s name below
Date of Birth (mm/dd/yy)
Relationship to you (for example: son, daughter, parent, none, etc)
Number of months lived in your home last year
US Citizen (yes/no)
Resident of US, Canada, or Mexico last year (yes/no)
Single or Married as of 12/31/21 (S/M)
Full-time Student last year (yes/no)
Totally and Permanently Disabled (yes/no)
Is this person a qualifying child/relative of any other person? (yes/no)
Did this person provide more than 50% of his/her own support? (yes/no)
Did this person have less than $4,300 of income? (yes/no)
Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)
Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)

The Five-Step Interview Process – 4
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**

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

| Were you a bona fide resident of Puerto Rico for at least part of the tax year? | Yes: Continue  
No: Consult Publication 4012 Tab A |
|---|---|
| Do you have any of the following income: | Yes: Go to Chart B: Who Must File-Worksheet for Bona Fide Residents of Puerto Rico with Exempt Income to determine if a U.S. return must be filed.  
No: Continue |
| • Income from sources outside of Puerto Rico? |
| • Income as a civilian or military employee of the U.S. government? |
| • Income from pensions as a civilian or military employee of the U.S. government? |
| • Taxable Social Security benefits? |
| Do you have any of the following income: | Yes: File Form 1040-PR, U.S. Self-employment Tax Return.  
No: You are not required to file a Federal Tax Return. However, Use Chart C to determine if you should file a tax return to claim a refund and/or any refundable credits. |
| • Net earnings from self-employment of at least $400? |
| • Wages of $108.28 or more from a church or qualified church-controlled organization that is exempt from employer Social Security and Medicare taxes? |
| • Tips you did not report to your employer or wages you received from an employer who did not withhold 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 $5.

**Residents of Puerto Rico**

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

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

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

1. Enter STANDARD DEDUCTION ............................................................. ________

   If your filing status is:
   
   Single .................................................................................................................................
   
   under 65 enter $12,550
   
   65 or older enter $14,250
   
   Married filing jointly ........................................................................................................
   
   both under 65 enter $25,100
   
   one 65 or older enter $26,450
   
   both 65 or older enter $27,800
   
   Head of household ...........................................................................................................
   
   under 65 enter $18,800
   
   65 or older enter $20,500
   
   Qualifying widow(er) with dependent child ........................................................................
   
   under 65 enter $25,100
   
   65 or older enter $26,450
   
   Married filing separately ...................................................................................................
   
   See note after line 2d below.

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

2. Allowable portion of STANDARD DEDUCTION

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

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

Chart C: Should you file a tax return?

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes: File form 1040 or 1040SR to claim a refund of taxes withheld.</th>
<th>No: Continue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did you have federal income tax withheld from any income, including unemployment benefits?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you qualify for the refundable child tax credit?</td>
<td>Yes: File form 1040-PR or Form 1040 SS to claim the credit.</td>
<td>No: You should not file a federal tax return.</td>
</tr>
</tbody>
</table>
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>Salaries and other compensation</td>
<td>Where the service is performed</td>
<td></td>
</tr>
<tr>
<td>U.S. Social Security Benefits</td>
<td>*U.S. Source income by definition (IRC Sec. 861)</td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>Contributions: Where services were performed that earned the pensions. Investment earnings: Where pension trust is located.</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>Residence of the payer</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>Location of the payer</td>
<td></td>
</tr>
<tr>
<td>Rents</td>
<td>Location of the property</td>
<td></td>
</tr>
<tr>
<td>Royalties:</td>
<td>Natural resources: Location of property. Patents, copyrights, etc.: Where the property is used.</td>
<td></td>
</tr>
<tr>
<td>Sale of stock or other nondepreciable personal property</td>
<td>** Seller’s tax home (but see Special Rules for Gains From Dispositions of Certain Property in Publication 570 for exceptions)</td>
<td></td>
</tr>
<tr>
<td>Sale of real property</td>
<td>Location of the property</td>
<td></td>
</tr>
<tr>
<td>Capital Gain Distribution paid by U.S. Regulated Investment Company (RIC)</td>
<td>Residence of shareholder</td>
<td></td>
</tr>
<tr>
<td>Unemployment Compensation.</td>
<td>For U.S. income tax purposes, generally the source of income is where the taxpayer performed the underlying services.</td>
<td></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 12a or line 12a of Form 1040-SR.

<table>
<thead>
<tr>
<th>Filing status</th>
<th>Standard deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$12,550</td>
</tr>
<tr>
<td>Married filing jointly, or Qualifying widow(er)</td>
<td>$25,100</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$12,550</td>
</tr>
<tr>
<td>Head of household</td>
<td>$18,800</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 $12,550.
   - Married filing jointly or Qualifying widow(er) enter $25,100
   - Head of Household enter ____________

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

Write the following above line 12a, Form 1040 or line 12a of Form 1040-SR: “Standard Deduction modified due to exempt income under section 933.”
Refundable Child Tax Credit

**NEW:** The American Rescue Plan Act of 2021 temporarily increased the maximum amount of credit per qualifying child from $2,000 to $3,000 ($3,600 for children ages 5 and under). The maximum age for a qualifying child increased from 16 to 17 years. (All other qualifying child requirements remain the same). The Act also made the credit fully refundable, even if the taxpayer has no earned income subject to U.S. tax. Because of these changes, bona fide residents of Puerto Rico will be able to claim the credit if they have at least one qualifying child. They are no longer required to have at least three qualifying children and pay social security taxes. Bona Fide residents of Puerto Rico are not eligible to receive advanced Child Tax Credit Payments. They must file a tax return (Form 1040 PR, Form 1040 SS or other Form 1040 series) in order to claim the credit.

**Requirements**

To qualify, the taxpayer must meet the following conditions:

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

**Income limits on this credit?**

To be eligible for the full increased amount of credit ($3,000 or $3,600), Modified Adjusted Gross Income (MAGI) cannot exceed:

- $150,000 for married filing a joint return and qualifying widow/widower
- $112,500 for Head of Household
- $75,000 for single or married filing a separate return

For taxpayers whose MAGI income exceeds these levels, but does not exceed:

- $400,000 for married filing a joint return
- $200,000 for all other filing statutes

The increased credit is reduced $50 for each $1,000 (or fraction thereof) of income above these levels, but not below $2,000 per child. For the purpose of this limitation you must consider all income received in Puerto Rico. If you exceed these income levels you must use the worksheet for the refundable child tax credit Publication 972, *Child Tax Credit*, to figure your credit.

**Modified Adjusted Gross Income**

(MAGI) Is determined under the U.S. Internal Revenue Code (and not under the income tax laws of Puerto Rico). MAGI is calculated by determining the taxpayer adjusted gross income modified (increased) by any amount the taxpayer excluded under IRC section 911, 931, or 933. Also, please verify the instructions of Form 1040 SS and Form 1040PR.

**How to claim the credit?**

- If the taxpayer pays self-employment tax use Form 1040-PR, *Planilla para la Declaración de la Contribución Federal sobre el Trabajo por Cuenta Propia (Incluyendo el Credito Tributario por Hijos Reembolsables para Residentes Bona Fide de Puerto Rico)* or Form 1040 (SS) U.S. Self Employment Tax Return (Including the Refundable Child Tax Credit for Bona Fide Residents of Puerto Rico). Bona fide residents of Puerto Rico who do not have income subject to federal income tax use Form 1040PR or Form 1040SS to claim the refundable child tax credit even if they are not required to pay self-employment tax and even if they have no income.

- Bona fide residents of Puerto Rico who have income subject to federal income tax complete Form 1040, or Form 1040SR, and Schedule 8812,Credits for Qualifying Children and Other Dependents.
Interview Tips for the Refundable Child Tax Credit

Qualifying Child

Step 1
Is this child your son, daughter, adopted child, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)?

If YES, go to Step 2.
If NO, you cannot claim the refundable child tax credit for this child. STOP if the taxpayer has no other children.

Step 2
Is this child 17 years old or younger at end of the tax year?

If YES, go to Step 3.
If NO, you cannot claim the refundable child tax credit for this child. STOP if the taxpayer has no other children.

Step 3
Did the child provide over half of his or her own support for

If NO, go to Step 4.
If YES, you cannot claim the refundable child tax credit for this child. STOP if the taxpayer has no other children.

Step 4
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.

If YES, go to Step 5.
If NO, you cannot claim the refundable child tax credit for this child. STOP if the taxpayer has no other children.

Step 5
Is this child a U.S. citizen, U.S. national, or resident of the United States?
Note: A national is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who become U.S. nationals instead of U.S. citizens.

If YES, go to Step 6.
If NO, you cannot claim the refundable child tax credit for this child. STOP if the taxpayer has no other children.

Step 6
Does the child have a valid Social Security number?

If NO, you cannot claim the refundable child tax credit for this child STOP if the taxpayer has no other children.
If YES, the child is a qualifying child. Go to step 7.

Step 7
Is the amount of modified adjusted gross income (MAGI) more than:
• $150,000 if you are married filing jointly, or qualifying widow/widower
• $112,500 for Head of Household
• $75,000 for single or married filing a separate return
Note: Answer NO if your MAGI is $0

If NO, You are entitled to claim the full amount of the refundable child tax credit.
If YES, you must use Publication 972 to figure the credit.
In order to be able to exclude the income sourced in Puerto Rico, the taxpayer must be a bona fide resident of Puerto Rico for the entire tax year.

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

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

**Presence Test**

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

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

**Tax Home**

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

**Closer Connection**

You will have met the closer connection test if, during any part of the tax year, you do not have a closer connection to the United States or a foreign country than to the relevant U.S. possession. You will be considered to have a closer connection to a possession than to the United States or to a foreign country if you have maintained more significant contacts with the possession(s) than with the United States or foreign country. In determining if you have maintained more significant contacts with the relevant possession, the facts and circumstances to be considered include, but are not limited to, the following:

- The location of your permanent home.
- The location of your family.
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.
Year of Move from Puerto Rico

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

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 several adjustments to income that mostly affect Puerto Rico residents:

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

What do I need?

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

Puerto Rico Exempt Income

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 Part II Line 15 because this deduction is related to excluded income, TaxSlayer does not support this adjustment, therefore the return cannot be electronically filed.

Student Loan Interest Deduction

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

Alimony Paid

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

Alimony paid pursuant to a divorce or separation instrument executed on or before December 31, 2018 is deductible. Under the Tax Cuts and Jobs Act, alimony payments are no longer deductible by the payer and are not included as income to the recipient if the divorce or separation agreement was executed after December 31, 2018.
IRAs
Puerto Rico residents may be able to contribute money to an IRA and take the IRA deduction on their U.S. income tax return. To take the deduction:

- The taxpayer must have earned income from U.S. sources. Income excluded under IRC Section 933 is not eligible for an IRA deduction.
- All other rules for IRA contributions are met.
- The IRA trust account must be in the U.S.
Itemized deductions 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 Rico filers who itemize, the itemized deductions must be allocated based on total gross income from all sources (including Puerto Rico source income). This allocation decreases each itemized deduction. Refer to Publication 1321, Special Instructions For Bona Fide Residents Of Puerto Rico Who Must File A U.S. Individual Income Tax Return, for more information.

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

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

Note: Round all fractions to four places.

The numerator of the fraction is the gross income 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

\[
= \frac{$40,000 \times $25,100}{55,000} = 0.7273 \times $25,100 = $18,255
\]

Puerto Rico Exempt Income

Deductions that apply to exempt Puerto Rico income are not deductible on a federal tax return.
Itemized Deductions (continued)

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

Elias and Delani are filing a joint return. They are bona fide residents of Puerto Rico and both are under 65 years of age. Elias works for the federal government and Delani for a bank in Puerto Rico. During 2021, Elias earned $40,000 as a federal employee and Delani earned $10,000 from her job. They have itemized deductions of $27,000 that do not apply to any specific type of income (medical and dental $4,000, real estate taxes $5,000, mortgage interest on their home of $12,000 and charitable contributions $6,000 (cash contributions). Each deduction is 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>*$200</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$5,000</td>
<td>(40,000 ÷ 50,000) x 5,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>Mortgage Interest</td>
<td>$12,000</td>
<td>(40,000 ÷ 50,000) x 12,000</td>
<td>$9,600</td>
</tr>
<tr>
<td>Charitable Contributions</td>
<td>$6,000</td>
<td>(40,000 ÷ 50,000) x 6,000</td>
<td>$4,800</td>
</tr>
<tr>
<td>Total</td>
<td>$27,000</td>
<td>(40,000 ÷ 50,000) x 6,000</td>
<td>$18,600</td>
</tr>
</tbody>
</table>

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

To figure the standard deduction amount for Elias and Delani use the “Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions” in Publication 1321. The allowable portion of the standard deduction for Elias & Delani is $20,080. The allowable amount of the Itemized deductions from Schedule A is $18,600. In most cases, your federal income tax will be less if you take the larger of your itemized deductions or the standard deduction.

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), up to 85% of the social security benefit may be taxable.

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

Calculating the Taxable Portion

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 if any portion of the social security benefits is taxable, compare taxpayer’s:

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

If the total income is more than the base amount for the taxpayer’s filing status, part of the social security benefits may be taxable. In general, the higher 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 form 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.

**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)

<table>
<thead>
<tr>
<th>Standard Deduction for –</th>
<th>6a Social security benefits</th>
<th>6a</th>
<th>b Taxable amount</th>
<th>6b</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Capital gain or (loss). Attach Schedule D if required. If not required, check here</td>
<td></td>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>
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>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Did you receive income from Puerto Rico or foreign sources? Note: Refer to Table 1, Determining Source of Income in Tab B</td>
<td>If YES, go to Step 2 If NO, STOP. You cannot claim FTC</td>
</tr>
<tr>
<td>2</td>
<td>Was this income taxable to the United States?</td>
<td>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.</td>
</tr>
<tr>
<td>3</td>
<td>Did you pay income taxes to Puerto Rico or foreign country?</td>
<td>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*</td>
</tr>
</tbody>
</table>

* 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.
Compensation for Services or Retirement Income Performed Within and Outside the United States

If you cannot 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:

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

Formula for retirement income (Distributions attributable to contributions):

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

**Taxable Income from Foreign Sources**
In order to arrive at the taxable income from foreign sources you must determine the deduction and losses from the foreign or possession income reported in Part 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, 5 a and 5 b of Schedule A.

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

**Standard Deduction**

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

**Other deductions (line 3b of Part 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”.

---

Foreign Tax Credit – 29
Deductions and Losses (continued)

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

<table>
<thead>
<tr>
<th>Worksheet for Home Mortgage Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Line 4a</strong></td>
</tr>
<tr>
<td><strong>Note:</strong> Before you complete this worksheet, read the instructions for line 4a, earlier.</td>
</tr>
</tbody>
</table>

1. Enter gross foreign source income* of the type shown on Form 1116. Do not enter income excluded on Form 2555 or Form 2555-EZ ................................. 1. ________

2. Enter gross income from all sources. Do not enter income excluded on Form 2555 or Form 2555-EZ .................................................. 2. ________

3. Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places) ......................... 3. ________

4. Enter deductible home mortgage interest (from lines 10 through 13 of Schedule A (Form 1040)) .......................... 4. ________

5. Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a ............................... 5. ________

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

Other interest expense (line 4b of Part I, Form 1116) Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. See Publication 514 for more information.

Losses from foreign sources (line 5 of Part I, Form 1116) If you have capital losses from foreign sources, see Publication 514 for more information.
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.

All Puerto Rico taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116 when computing 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 Rico sources under IRC Section 933, less deductible expenses allocable to that income. The denominator is the total amount of income subject to Puerto Rico tax less deductible expenses allocable to that income. This fraction is multiplied by the tax paid or accrued to Puerto Rico.

Formula for reduction in foreign taxes:

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

### Earnings Subject to Self Employment Tax

<table>
<thead>
<tr>
<th>Includes</th>
<th>Does Not Include</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Net earnings from self-employment (SE) from other than a church employee of $400 or more.</td>
<td>• Salaries, fees, etc subject to Social Security and Medicare withholding received for performing services as an employee.</td>
</tr>
<tr>
<td>• Partnership income and guaranteed payments.</td>
<td>• Fees received for services performed as a notary public.</td>
</tr>
<tr>
<td>• Wages of employees of churches and other religious organizations (not ministers), if you earned at least $108.28.</td>
<td>• Income from real estate rental not in the course of a trade or business as a real estate broker.</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>
<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>• Income from farm rental if you materially participated in the production or management of farm products on such land.</td>
<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>• Cash or a payment in kind from the Dept of Agriculture for participating in a land diversion program.</td>
<td>• Net operating losses from previous years.</td>
</tr>
<tr>
<td>• Fees and other payments received for services as a director of a corporation.</td>
<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>• Income from the retail sale of newspapers if you were age 18 or older and kept the profits.</td>
<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>
<tr>
<td>• Income received as a direct seller.</td>
<td></td>
</tr>
<tr>
<td>• Income of certain crew members of fishing vessels with crews of normally fewer than 10 people.</td>
<td></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>
<td></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>
<td></td>
</tr>
</tbody>
</table>
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 2021, the maximum amount of self-employment income subject to social security is $142,800.

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 2021, you may need to make estimated tax payments. Use Form 1040-ES, to figure your required payments.
**Starting - New Return Flow Chart**

- **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.
- **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
- **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

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 refundable 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 RCTC.
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 RCTC. His wages for this year were $25,000. They have two qualifying children. (see Form 1040-SS for Edward and Angelina on Page 44).

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

Tab 2 – TaxSlayer: Refundable Child Tax Credit

Select the Filing Status and Complete the Personal Information Section.

Determine the residency status and check Yes if the taxpayer is a Bona fide resident of Puerto Rico.

Remember: In general, Section 933 of the Internal Revenue Code states that if you are a resident of Puerto Rico for the entire tax year, you are considered a bona fide resident.

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

Taxpayers with self-employment income can claim the refundable child tax credit on Form 1040-PR or Form 1040-SS.
NEW This refundable child tax credit is available even if the taxpayers received no income. Also, retirees receiving a pension or annuity income, including other passive income could qualify for the new refundable child tax credit if all the other requirements are met.
Refundable Child Tax Credit (RCTC) (continued)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.</td>
<td>Income Derived from sources within Puerto Rico</td>
</tr>
</tbody>
</table>

TIP: In order for Form 1040 PR/SS to calculate the Refundable 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.

Line 18. Check line 18 to input income derived from sources within Puerto Rico from Form W-2PR.
Refundable Child Tax Credit (RCTC) (continued)

Answer the Due Diligence Questions

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

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

Credit Eligibility Certification

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

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

☐ Yes
☐ No
Hint: Verify the listing of forms for the return, go to “Client Form Listing Summary”

<table>
<thead>
<tr>
<th>FORM 1040(PR)</th>
<th>FORM W-2PR</th>
<th>FORM 8812 (ADDITIONAL CHILD TAX CREDIT)</th>
<th>FORM 8879 (E-FILE SIGNATURE AUTHORIZATION)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>* QUICK SUMMARY *</td>
<td></td>
</tr>
<tr>
<td>PILING STATUS</td>
<td>FEDERAL</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>TOTAL INCOME</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>TOTAL ADJUSTMENTS</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ADJUSTED GROSS INCOME</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>DEDUCTIONS</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>EXEMPTIONS</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>TAXABLE INCOME</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>TAX</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>CREDITS</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>PAYMENTS</td>
<td>6,600</td>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>REFUND</td>
<td>6,600</td>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>AMOUNT DUE</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Refundable Child Tax Credit – Form 1040 – SS (English version)

Example: Edward Rico and Angelina Alta have two qualifying children (ages 3 and 9 years old) that entitled them to claim the refundable child tax credit. Edward works for a private company in Puerto Rico and file a joint return only to claim the RCTC. His wages for this year were $25,000. They have two qualifying children (Juan and Linda).

Form 1040-SS

(U.S. Self-Employment Tax Return
Including the Refundable Child Tax Credit for Bona Fide Residents of Puerto Rico)

For the year Jan. 1-Dec. 31, 2021, or other tax year beginning 2021, and ending

10

Your first and initial
EDWARD
Last name
RICO
First social security number
123-XX-XXXX
If a joint return, spouse’s first name and initial
ANGELINA
Last name
ALTA
Spouse’s social security number
124-XX-XXXX
Present your address below, and add 3 or 9 if necessary
123 TABONUCO ST
City, town or post office, Roman numeral, or territory, and code
GUAYNABO PR 00968
Foreign country name
Foreign province/state/country
Foreign postal code

Part I

Total Tax and Credits
1 Filing status: □ Single □ Married filing jointly □ Married filing separately (MFS) □ Head of household □ Qualifying Widow(er)
If you checked the MFS box, enter spouse’s social security no. 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 refundable child tax credit. See instructions. If more than four qualifying children, see instructions and check here.
   (a) First name
   Last name
   (b) Child’s social security no.
   (c) Child’s relationship to you

3 Self-employment tax from Part V, line 12

4 Household employment taxes (see instructions). Attach Schedule H (Form 1040)

5a Additional Medicare Tax, Attach Form 8959

5b Deduction of advance child tax credit (see instructions)

6 Total tax. Add lines 3 through 5b. See instructions

7 2021 estimated tax payments (see instructions)

8 Excess social security tax withheld (see instructions)

9 Refundable child tax credit from Part II, line 3

10 Health coverage tax credit. Attach Form 8882

11a Credit for qualified sick and family leave wages for leave taken before April 1, 2021

11b Credit for qualified sick and family leave wages for leave taken after March 31, 2021

12 Total payments and credits (see instructions)

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

14a Amount of line 13 you want refunded to you. If Form 8882 is attached, check here

b Routing number

c Type □ Checking □ Savings

d Account number

15 Amount of line 13 you want applied to 2022 estimated tax

16 Amount you owe. If line 6 is more than line 12, subtract line 12 from line 6. See instructions

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions. □ Yes □ No

Sign Here

Under penalties of perjury, I declare that I have prepared this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Form 1040-SS (2021)

Part II

Bona Fide Residents of Puerto Rico Claiming Refundable Child Tax Credit – See instructions

Tip: Bona fide residents of Puerto Rico may claim the refundable child tax credit for one or more qualifying children.

1 Modified adjusted gross income

2 Reserved for future use

3 Refundable child tax credit. Use the Refundable Child Tax Credit Worksheet in the instructions. Enter the amount from line 20 of the worksheet here and on Part I, line 9

Part III

Profit or Loss From Farming – See the Instructions for Schedule F (Form 1040).

Name of proprietor

Social security number

Refundable Child Tax Credit TaxSlayer® – 44
Refundable Child Tax Credit (RCTC) (continued)

B. Taxpayers with U.S. Taxable Earned Income

Example: Francis Geneva and Dulce Carrizo have two children 4 and 11 years old. The children qualify for claiming the RCTC. Francis is a federal employee who receives a Form W-2 showing $40,000 on box 1. The Puerto Rico tax liability for this year is $1,100.

Schedule 8812

<table>
<thead>
<tr>
<th>Credits for Qualifying Children and Other Dependents</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Form 1040]</td>
</tr>
<tr>
<td>[1040-SR]</td>
</tr>
<tr>
<td>[1040-NR]</td>
</tr>
<tr>
<td>[OMB No. 1545-0074]</td>
</tr>
<tr>
<td>Your social security number XXX-XX-XXXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part I-A Child Tax Credit and Credit for Other Dependents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name(s) shown on return FRANCIS GENEVA AND DULCE CARRIZO</td>
</tr>
<tr>
<td>1 Enter the amount from line 11 of your Form 1040, 1040-SR, or 1040-NR</td>
</tr>
<tr>
<td>2a Enter income from Puerto Rico that you excluded</td>
</tr>
<tr>
<td>2b Enter the amounts from lines 4a and 50 of your Form 2555</td>
</tr>
<tr>
<td>2c Enter the amount from line 15 of your Form 4563</td>
</tr>
<tr>
<td>d Add lines 2a through 2c</td>
</tr>
<tr>
<td>3a Add lines 1 and 2d</td>
</tr>
<tr>
<td>4a Number of qualifying children under age 18 with the required social security number</td>
</tr>
<tr>
<td>4b Number of children included on line 4a who were under age 6 at the end of 2021</td>
</tr>
<tr>
<td>4c Subtract line 4b from line 4a</td>
</tr>
<tr>
<td>5 If line 4a is more than zero, enter the amount from the Line 5 Worksheet; otherwise, enter 0</td>
</tr>
<tr>
<td>6 Number of other dependents, including any qualifying children who are not under age 18 or who do not have the required social security number</td>
</tr>
<tr>
<td>Caution: Do not include yourself, your spouse, or anyone who is not a U.S. citizen, U.S. national, or U.S. resident alien. Also, do not include anyone you included on line 4a.</td>
</tr>
<tr>
<td>7 Multiply line 6 by $500</td>
</tr>
<tr>
<td>8 Add lines 5 and 7</td>
</tr>
<tr>
<td>9 Enter the amount shown below for your filing status.</td>
</tr>
<tr>
<td>• Married filing jointly—$400,000</td>
</tr>
<tr>
<td>• All other filing statuses—$200,000</td>
</tr>
<tr>
<td>10 Subtract line 9 from line 3.</td>
</tr>
<tr>
<td>• If zero or less, enter -0-.</td>
</tr>
<tr>
<td>• If more than zero and not a multiple of $1,000, enter the next multiple of $1,000. For example, if the result is $425, enter $1,000; if the result is $1,025, enter $2,000, etc.</td>
</tr>
<tr>
<td>11 Multiply line 10 by 5% (0.05)</td>
</tr>
<tr>
<td>12 Subtract line 11 from line 8. If zero or less, enter -0-.</td>
</tr>
<tr>
<td>13 Check all the boxes that apply to you (or your spouse if married filing jointly).</td>
</tr>
<tr>
<td>A Check here if you (or your spouse if married filing jointly) have a principal place of abode in the United States for more than half of 2021.</td>
</tr>
<tr>
<td>B Check here if you (or your spouse if married filing jointly) are a bona fide resident of Puerto Rico for 2021.</td>
</tr>
</tbody>
</table>

If the taxpayer has income subject to federal income tax, the credit must be claimed using Form 1040 along with Schedule 8812.
Can not take a deduction on line 15, 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 and Maria Granite are U.S. citizens and bona fide residents of Puerto Rico for the entire year. They file a joint return and both are under age 65. This year, Mike earned $22,500 from Puerto Rico sources. Maria earned $67,500 from the U.S. Government. They have $27,000 of itemized deductions that do not apply to any specific type of income (see the table below with the itemized deductions).

<table>
<thead>
<tr>
<th>Itemized Deductions</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><strong>Total</strong></td>
<td><strong>$27,000</strong></td>
<td></td>
<td><strong>$17,250</strong></td>
</tr>
</tbody>
</table>

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

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

**SCHEDULE A**

**Itemized Deductions**

**Caution:** Do not include expenses reimbursed or paid by others.

1. **Medical and dental expenses (see instructions)**

2. Enter amount from Form 1040 or 1040-SR, line 2

3. Multiply line 2 by 7.5% (0.075)

4. Subtract line 3 from line 1.

**Medical and Dental Expenses**

- **Mike Gallatin and Maria Granite**

  - **$3,000** (Only the allowable portion is transferred to line 1 ($4,000 x 0.75 = $3,000))

**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 $18,825 = ($67,500/$90,000) x 25,100.*

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

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

- **Line 12b.** The CARES Act extends through 2021 the charitable contribution deduction for non-itemizers. The limit of this deduction is $300 or $600 for Married filing jointly.

**For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.**

For instructions and the latest information, Go to www.irs.gov/ScheduleA or see Form 1040 or 1040-SR.
## Deductions (continued)

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

<table>
<thead>
<tr>
<th>Taxes You Paid</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 State and local taxes.</td>
<td></td>
</tr>
<tr>
<td>a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box.</td>
<td></td>
</tr>
<tr>
<td>b State and local real estate taxes (see instructions).</td>
<td></td>
</tr>
<tr>
<td>c State and local personal property taxes</td>
<td></td>
</tr>
<tr>
<td>d Add lines 5a through 5c</td>
<td>3,750</td>
</tr>
<tr>
<td>e Enter the smaller of line 5d or $10,000 ($5,000 if married filing separately)</td>
<td></td>
</tr>
<tr>
<td>f Other taxes. List type and amount</td>
<td></td>
</tr>
<tr>
<td>6 Add lines 5e and 6</td>
<td>7</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Interest You Paid</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box</td>
<td></td>
</tr>
<tr>
<td>a Home mortgage interest and points reported to you on Form 1098. See instructions if limited</td>
<td>9,000</td>
</tr>
<tr>
<td>b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address</td>
<td></td>
</tr>
<tr>
<td>c Points not reported to you on Form 1098. See instructions for special rules</td>
<td>9,000</td>
</tr>
<tr>
<td>d Mortgage insurance premiums (see instructions)</td>
<td></td>
</tr>
<tr>
<td>e Add lines 8a through 8d</td>
<td></td>
</tr>
<tr>
<td>9 Investment interest. Attach Form 4952 if required. See instructions</td>
<td>9,000</td>
</tr>
<tr>
<td>10 Add lines 8e and 9</td>
<td>10</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Gifts to Charity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Gifts by cash or check. If you made any gift of $250 or more, see instructions</td>
<td>4,500</td>
</tr>
<tr>
<td>12 Other than by cash or check. If you made any gift of $250 or more, see instructions. You must attach Form 8283 if over $500.</td>
<td></td>
</tr>
<tr>
<td>13 Carryover from prior year</td>
<td></td>
</tr>
<tr>
<td>14 Add lines 11 through 13</td>
<td>14</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>Amount</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-SR, line 12a</td>
<td>17</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>
Foreign Tax Credit – Form 1116

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

<table>
<thead>
<tr>
<th>Enter the name of the foreign country or U.S. possession</th>
<th>Foreign Country or U.S. Possession</th>
<th>Total (Add cols. A, B, and C.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a Gross income from sources within country shown above and of the type checked above (see instructions):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b Check if line 1a is compensation for personal services as an employee, your total compensation from all sources is $250,000 or more, and you used an alternative basis to determine its source (see instructions):</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Deductions and losses

- Expenses definitely related to the income on line 1a (attach statement)
- Pro rata share of other deductions not definitely related:
  - a Certain itemized deductions or standard deduction (see instructions)
  - b Other deductions (attach statement)
  - c Add lines 3a and 3b
  - d Gross foreign source income (see instructions)

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.

---

**Foreign Tax Credit TaxSlayer® – 51**
**Foreign Tax Credit – Form 1116 (continued)**

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

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

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

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

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

TaxSlayer enters certain itemized deductions such as real estate taxes, charitable contributions and medical expenses on line 3a.
Foreign Tax Credit – Form 1116 (continued)

Foreign Taxes Paid or Accrued

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

Check the appropriate box to indicate whether the foreign tax was actually paid during 2021 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 2021.

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

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

All Puerto Rico taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116.
Taxpayer without exempt income

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

Figuring the Credit

Part III – Form 1116

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula</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>
<td>9 = 3,900</td>
</tr>
<tr>
<td>10</td>
<td>Carryback or carryover (attach detailed computation). (If your income was section 951A category income (box a above Part I), leave line 10 blank.)</td>
<td>10</td>
</tr>
<tr>
<td>11</td>
<td>Add lines 9 and 10.</td>
<td>11 = 9 + 10</td>
</tr>
<tr>
<td>12</td>
<td>Reduction in foreign taxes (see instructions).</td>
<td>12</td>
</tr>
<tr>
<td>13</td>
<td>Taxes recategorized under high tax kickout (see instructions).</td>
<td>13</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>
<td>14 = 9 + 10</td>
</tr>
<tr>
<td>15</td>
<td>Enter the amount from line 14, 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>
<td>15 = 14</td>
</tr>
<tr>
<td>16</td>
<td>Adjustments to line 15 (see instructions).</td>
<td>16</td>
</tr>
<tr>
<td>17</td>
<td>Combine the amounts on line 15 and 16. This is your net foreign source taxable income. If the result is zero or less, you have no foreign tax credit for the category of income you checked above Part I. Skip lines 18 through 24. However, if you are filing more than one Form 1116, you must complete line 20.</td>
<td>17 = 14 + 15</td>
</tr>
<tr>
<td>18</td>
<td>Individuals: Enter the amount from line 15 of your Form 1040, 1040-SR, or 1040-NR. Estates and trusts: Enter your taxable income without the deduction for your exemption.</td>
<td>18 = 17</td>
</tr>
<tr>
<td></td>
<td>Caution: If you figured your tax using the lower rates on qualified dividends or capital gains, see instructions.</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Divide line 17 by line 18. If line 17 is more than line 18, enter &quot;1&quot;.</td>
<td>19 = 17 / 18</td>
</tr>
<tr>
<td>20</td>
<td>Individuals: Enter the total of Form 1040 or 1040-SR, line 16, and Schedule 3 (Form 1040), line 2. If you are a nonresident alien, enter the total of Form 1040-NR, line 16 and Schedule 2 (Form 1040), line 2. Estates and trusts: Enter the amount from Form 1041, Schedule C, line 1a; or the total of Form 990-T, Part II, lines 2, 3, 4, and 6. Foreign estates and trusts should enter the amount from Form 1040-NR, line 16.</td>
<td>20 = 17</td>
</tr>
<tr>
<td></td>
<td>Caution: If you are completing line 20 for separate category g (lump-sum distributions), see instructions.</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Multiply line 20 by line 19 (maximum amount of credit).</td>
<td>21 = 20 x 19</td>
</tr>
<tr>
<td>22</td>
<td>Increase in limitation (section 860(c)).</td>
<td>22</td>
</tr>
<tr>
<td>23</td>
<td>Add lines 21 and 22.</td>
<td>23 = 21 + 22</td>
</tr>
<tr>
<td>24</td>
<td>Enter the smaller of line 14 or line 23. If this is the only Form 1116 you are filing, skip lines 25 through 32 and enter this amount on line 33. Otherwise, complete the appropriate line in Part IV (see instructions).</td>
<td>24 = min(14, 23)</td>
</tr>
</tbody>
</table>

Part IV Summary of Credits From Separate Parts III (see instructions)

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>Credit for taxes on section 951A category income</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>Credit for taxes on foreign branch category income</td>
<td>26</td>
</tr>
<tr>
<td>27</td>
<td>Credit for taxes on passive category income</td>
<td>27</td>
</tr>
<tr>
<td>28</td>
<td>Credit for taxes on general category income</td>
<td>28</td>
</tr>
<tr>
<td>29</td>
<td>Credit for taxes on section 901(j) income</td>
<td>29</td>
</tr>
<tr>
<td>30</td>
<td>Credit for taxes on certain income re-sourced by treaty</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Credit for taxes on lump-sum distributions</td>
<td>31</td>
</tr>
<tr>
<td>32</td>
<td>Add lines 25 through 31.</td>
<td>32 = 25 + 26 + 27 + 28 + 29 + 30 + 31</td>
</tr>
<tr>
<td>33</td>
<td>Enter the smaller of line 20 or line 32.</td>
<td>33 = min(20, 32)</td>
</tr>
<tr>
<td>34</td>
<td>Reduction in credit for international boycott operations. See instructions for line 12.</td>
<td>34</td>
</tr>
<tr>
<td>35</td>
<td>Subtract line 34 from line 33. This is your foreign tax credit. Enter here and on Schedule 3 (Form 1040), line 1; Form 1041, Schedule G, line 2a; or Form 990-T, Part III, line 1a.</td>
<td>35 = 33 - 34</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 Taxes Paid or Accrued

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

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

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

\[
\frac{\text{Income from PR sources not subject to Federal tax under IRC Section 933 less deductible Expenses allocable to that income}}{\text{Total income subject to Puerto Rico tax, less Deductible expenses allocable to that income}} \times \text{Tax paid or accrued to Puerto Rico} = \text{Reduction in foreign taxes}
\]
**Link & Learn Taxes**

*Link & Learn Taxes* is web-based training designed specifically for VITA/TCE volunteers. Each volunteer's ability to prepare complete and accurate returns is vital to the credibility and integrity of the program. *Link & Learn Taxes*, as part of the complete volunteer training kit, provides the path to achieving this high level of quality service.


### Link & Learn Taxes for 2021 includes:

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

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

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

**Virtual VITA/TCE** model includes any site where face-to-face activities are not used during the tax preparation process. That is, the intake specialist, IRS-tax law certified preparer (who prepares the return) and/or the quality reviewer are not face-to-face with the taxpayer. By incorporating this flexibility partners can provide taxpayers with more convenient locations to file their taxes.

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

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

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

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

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

Interactive Tax Assistant (ITA)
https://www.irs.gov/help/ita

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

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

Tools
  • View Your Tax Account
  • Get Your Transcript
  • Where’s My Refund?

Identity Theft Protections

Get Help Now

eBooks
Want to view our training products on your mobile or tablet devices? Click here to access our eBooks: 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/newsroom/irs2goapp,

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