



THE INCOME TAX SCHOOL

Review Package

Terms for Receiving This College Review Package

Tax practitioners, colleges and career schools that receive review packages and staff members who review these materials must not copy any of the materials or use them to develop their own courses.

TABLE OF CONTENTS

SCHOOL CREDENTIALS

- The Income Tax School Corporate & Executive Biographies
- The Income Tax School Advisory Board
- Summary of School Credentials and Approvals

DESCRIPTIONS & PRICING

- Purpose & Benefits of The Income Tax School
- Legislation
- Descriptions of Courses Offered
- Table of Contents for Courses Offered
- Chartered Tax Professional Program (CTP®)
- Special Pricing Policies
- Money Back Guarantee
- Order Forms

TAX SCHOOL OPERATIONS PROCEDURES

- Tax School Operations Manual Table of Contents

COMPREHENSIVE INCOME TAX COURSE

- Partial sample of chapter from the Comprehensive Tax Course
- Comprehensive Instructor Manual – Chapter 5
- Comprehensive Student Manual – Chapter 5 (Pages 1-5)

APPENDIX

- Sample – Certificate of Completion

CORPORATE AND EXECUTIVE BIOGRAPHIES

Charles E. McCabe, President and CEO, is the founder of the Richmond, Virginia-based Peoples Income Tax, an innovative, multi-office tax preparation firm established in 1987. He has over 40 years of experience in the mass-market tax preparation industry. Previously, he was Director of the H & R Block Mid-Atlantic and New York City Regions overseeing in each region 200+ offices through 21 district managers. Honored in 1993, 1994, 1995 and 1996 as one of the fastest growing private companies in the metropolitan Richmond area, Peoples Income Tax, Inc. was also named a 1994 Blue Chip Enterprise by the U.S. Chamber of Commerce. Peoples was a recipient of the 1999 Torch Award for Marketplace Integrity from the Better Business Bureau, and in December 1999, at a ceremony in Washington, D.C., Robert Barr, then IRS Assistant Commissioner for Electronic Tax Administration (ETA), recognized Peoples as a "Special Friend of ETA." In October 2000 McCabe was appointed to the IRS Electronic Administration Advisory Committee (ETAAC), which reports annually to Congress. Chuck was awarded the Samuel H. Dilbert Community Service Award for 2004 by Commonwealth Catholic Charities. He was founding Chairman of the Virginia Council of CEOs and served as Chairman of the Better Business Bureau of Central Virginia. He is also owner and manager of the popular LinkedIn Group Tax Business Owners of America.

Chuck graduated *Summa Cum Laude*, with a B.S degree in Management & Social Sciences from Adelphi University on Long Island. He earned an Executive M.B.A. degree from Pace University in New York City, where he also completed all course requirements except dissertation toward a Doctorate in Management. He has written numerous articles on taxes, management and adult education and is co-author of two nationally distributed books published by Peterson's of Princeton, NJ: *Back to School: The College Guide for Adults* and *New Horizons: The Education and Career Planning Guide* for He has also written tax practice management manuals and presented seminars for national tax trade associations, such as NATP, NSTP and NSA. *Adults* He is founder of The Income Tax School, a division of Peoples Income Tax, which licenses tax school systems to accounting and tax firms nationwide. In 2006, Chuck was elected to the Executive Committee of the Career College Advisory Board for the State Council of Higher Education for Virginia. Chuck has also been an adjunct faculty member at several colleges and universities, where he has taught taxes and business management.

Catherine A. Mueller, EA, Advanced Curriculum Developer and Editor, graduated from Virginia Commonwealth University with a B.S. Degree in Accounting (including Advanced Corporate Taxation) and a minor in Business Administration. She has been licensed as an Enrolled Agent to practice before all administrative levels of the IRS and also completed a graduate course in Taxpayer Representation.

Cathy worked for 15 years for U-Tote'M of Virginia, Inc., where she advanced from Accounting Clerk to General Manager and President, until the company was sold in 1992. Previously she had held various accounting jobs, and she was also self-employed providing Accounting, Tax and Business Consulting services for small businesses. Cathy retired from Peoples Income Tax on a full-time basis but has recently returned as Director of Operations for Peoples Income Tax.

Sheila A. Clark, VP, Director of The Income Tax School, joined Peoples Income Tax, Inc., in 1993 as a seasonal tax associate. In 1994 Sheila began working with Peoples year-round and in 1997 joined Peoples corporate staff full-time as Assistant Director of Operations. In 2002, Sheila was appointed Vice President and Director of Operations.

Sheila's responsibilities include assisting in the management of the daily operation The Income Tax School, Inc. Sheila manages a team of curriculum developers, who are responsible for updating, writing and developing income tax school manuals and seminars. She is also involved

with the continuous development of The Income Tax School's online tax course, tax return preparation, tax associate training, hiring new associates, as well as instructing training classes for new and prior associates.

Sheila began her tax preparation career with H&R Block in 1986. During her employment with H&R Block, Sheila managed two tax offices, prepared tax returns, and instructed tax classes. She was also responsible for maintaining and operating the tax offices during the off-season.

THE INCOME TAX SCHOOL ADVISORY BOARD

Roger K. Burgess spent almost 35 years in the field of taxation after graduating with a BS in Business Administration from State University of New York at Buffalo. This experience includes 28 years with the Internal Revenue Service and 6+ years with Teradata, a division of NCR. Mr. Burgess began his career at IRS as Tax Auditor in the Examination (Audit) activity and rose through the ranks becoming a Senior Executive in 1988. As an IRS Executive, positions held included serving three years on the immediate staff of the IRS Commissioner; two years as a Deputy Assistant Commissioner with responsibility for agency wide Strategic Planning, Organizational Assessment, and Compliance Research; and four years as District Director with full responsibility for IRS operations in the states of Virginia and West Virginia. Since joining Teradata he has worked as a Senior Consultant for state tax projects in Texas, Iowa, Arizona, Missouri, and New Jersey blending his tax expertise with the capability of Data warehousing to develop innovative approaches resulting in improved compliance, increased tax revenues (\$700 Million), and outstanding customer service. During his IRS career, Roger was recipient of many awards, including the Exceptional Senior Executive Service Performance Award received annually from 1990 until retirement, the Chief Financial Officer Award in 1992, and the Commissioners Award (the Highest Award Bestowed by an IRS Commissioner) April 18, 1996 (Margaret M Richardson) and June, 2000 (Charles O Rossotti).

Thomas B. Cooke, JD, LL.M., MLT (Master of Laws in Taxation), is Distinguished Teaching Professor at the McDonough School of Business of Georgetown University where he teaches courses in Federal Income Taxation, the Legal Environment of Business and Global Business Experience in Vietnam. He received his B.A. from Villanova University and his J.D., LL.M. and M.L.T. from Georgetown University Law School. Professor Cooke has been recognized by the Internal Revenue Service for his service to the tax professional community. For several years, Professor Cooke lectured at each of six annual IRS's Nationwide Tax Forums held in major cities throughout the US. The Nationwide Tax Forums are offered to CPAs, Enrolled Agents, Attorneys and tax return preparers. During the 2005 program, Professor Cooke's presentations focused on the subjects of Ethics-Professional Responsibility and the Tax Code Provisions Affecting Higher Education. The 2005 attendees (12,000 +) awarded Professor Cooke with an overall rating of 94.9%. Professor Cooke is former Executive Director of the National Society of Tax Professionals (NSTP) www.nstp.org, Editor of The Federal Tax Alert distributed to some 7,000 NSTP members and Lecturer in the NSTP Annual Fall Tax Update Seminars held in some 25 cities.

Steven R. Isaac, M.S., is CEO of educationdynamics.com, which is comprised of the following four industry leaders: eLearners.com (www.elearners.com), Educational Directories Unlimited (www.edudirectories.com), GoalQuest (www.goalquest.com) and WorldClass Strategy (www.worldclassstrategy.com); Managing Director of The Interactive Marketing Institute of Virginia Commonwealth University; Prior experience includes: EVP DIMAC Marketing Partners and CEO of DMW Worldwide, DIMAC's direct marketing agency and also directed the activities of the agency's offices in Boston, New York, Philadelphia and St. Louis; EVP, Cadmus Communications Corporation of Richmond, VA where he was responsible for ten business units forming the Marketing and Communications Sector and generating \$212 million in annual sales; EVP & COO, The Martin Agency, a unit of the Interpublic Group, was then \$350 million in billings and employed 499 people, Simultaneously, Steve served as COO of Martin Direct, formerly the Stenrich Group of New York City, of which Steve was founder and CEO.

Catherine A. Mueller, EA, Advanced Curriculum Developer and Editor, graduated from Virginia Commonwealth University with a B.S. Degree in Accounting (including Advanced Corporate Taxation) and a minor in Business Administration. She has been licensed as an Enrolled Agent to practice before all administrative levels of the IRS and also completed a graduate course in Taxpayer Representation.

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James L. Narduzzi, M.A., Ph.D., is currently Dean and Professor in the School of Continuing Studies at the University of Richmond. From 1988 until 1994, he was Associate Academic Dean and Assistant Vice President at the University of Hartford and, prior to that, Director of the Washington Semester Program at The American University. Dr. Narduzzi currently serves on the editorial advisory committee of the Continuing Higher Education Review and as a Commissioner in the University Continuing Education Association (UCEA). He previously served on the UCEA Board of Directors, was chair of the 1999 UCEA Annual Conference and the 2002 UCEA Executive Assembly, and is the recipient of the 1998 Adelle F. Robertson Professional Continuing Educator Award. Locally, he serves as past-chair and board member of the Arts Council of Richmond, is a board member of the Greater Richmond Arts Fund, is a member of the leadership council of Success by Six, and is a past chair of the Metropolitan Richmond Heart Walk for the American Heart Association. He has written extensively about continuing education and international education and is the author of *Mental Health Among Elderly Native Americans*, written in 1994. Dr. Narduzzi holds a bachelor's degree in political science from Miami University in Ohio and an M.A. and Ph.D. in political science from The American University in Washington, D.C.

James J. L. Stegmaier, M.P.A., is Chesterfield County Administrator. Prior to being selected by the Chesterfield County Board of Supervisors in July 2007, he had served as Deputy County Administrator for Management Services since 1997, and was previously director of the county's Budget and Management Department from 1986 until that time. He earned his baccalaureate degree from the Catholic University of America in 1976 with scholarships in Engineering and Psychology. He holds a master's degree in Public Administration from the University of Virginia with a Public Service Education Program fellowship. He also attended the Government Finance Officers Association Executive Finance Institute at Georgetown University; Leadership Metro Richmond; and the Senior Executive Institute at the University of Virginia. Stegmaier is a Credentialed Manager with the International City/County Management Association and is a member of the American Society for Public Administration, among other professional affiliations. Mr. Stegmaier also serves on the St. Francis Medical Center Advisory Board and on the advisory board of the Consolidated Bank and Trust, the historic bank founded by Maggie Walker, and on the boards of the Metro Richmond Convention and Visitors Bureau, the Riverside Regional Jail Authority and the Virginia Local Government Managers Association.

Lisa Zajur is Director and owner of the Spanish Academy & Cultural Institute and has been in the education field for 30 years holding a degree in education specializing in communications and curriculum design. Lisa developed the Awaken the Spanish Within® Language and Cultural Training programs and Voice Tonality™ technology system of learning (patent pending) Giraffe Leadership for Girls (ages 11-15). Clients include Bank of America, SuperValu Foods, Philip Morris, Owens & Minor, Better Business Bureau, Capital One, Bon Secours Hospitals, Law Enforcement, State Departments of Health, Juvenile Justice, Emergency Management and School Systems. Lisa was recipient of the Rising Star Award in 2002 from the American Business Women's Association and the Community Legend Award from the EEOC Urban League in 2007. She serves on numerous boards including Bon Secours St. Francis Hospital, University of Richmond School of Continuing Studies Dean's Advisory Board, Urban League, Boys and Girls Clubs, World Wide Marriage Encounter, ChildHelp USA and Children's Museum of Richmond. Lisa is married to Michel Zajur, President and CEO of the Virginia Hispanic Chamber of Commerce and they have three children; Lisa and Michel are co-authors of the children's book, *Pinata Story*.

CREDENTIALS

Experience

The Income Tax School, Inc. was originally developed in 1989 to meet the tax training needs of Peoples Income Tax, Inc. Charles McCabe, President and CEO of Peoples Income Tax, knew from past experience that it's difficult to find qualified tax preparers. After working as Regional Director for a leading national firm for nearly 20 years, he knew training tax preparers in-house or "growing your own tax preparers" was the best solution.

Over the years the tax school materials have been refined and have been available for individuals and businesses since 1993 as a way to learn taxes and train qualified tax preparers. Why send your employees and prospects to the competition when you can train them?

In 2001, The Income Tax School launched its online tax school and now teaches tax education to students all over the country and beyond. Many of our students are beginners who are just learning taxes for the first time. However, we also have EAs, CPAs and CFPs that take our courses for Continuing Professional Education.

Widely Acclaimed by Users

The Income Tax School is operated by progressive independent tax preparation firms throughout the United States, Canada and elsewhere. The Income Tax School system was first released in 1993 and has been used annually since then by thousands of tax and accounting firms, numerous colleges, and many individual students wanting to learn income tax preparation.

Adopted by Colleges and Universities

A number of colleges and universities in several states have adopted The Income Tax School materials for their tax preparation continuing education or college credit courses.

Registered with the National Association of State Boards of Accountancy (NASBA) for CPE Credit for CPAs

The Income Tax School is registered with the National Association of State Boards of Accountancy as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses.

- **ID Number:** 103388
- **This approval does not extend to licensees of The Income Tax School**

Certified to Operate in Virginia by the State Council of Higher Education for Virginia (SCHEV)

The Income Tax is certified to operate a proprietary career school in Virginia by the State Council of Higher Education for Virginia (SCHEV). *Certificate to operate a proprietary school does not extend to other companies who use the The Income Tax School system; each firm must apply for its own license, if required by its state and/or local jurisdiction.*

Approved by the California Tax Education Council (CTEC)

The Income Tax School is approved to offer qualifying and continuing tax education for online learning methods by CTEC for California licensed tax preparers. The Income Tax School licensees can apply for CTEC approval using our CTEC Approval Letter.

Approved by the Oregon State Board of Tax Practitioners (OTPB)

The Income Tax School is approved to offer qualifying and continuing tax education for online learning methods by the Oregon Board of Tax Practitioners.

Approved by the IRS

The Income Tax School is approved by the Office of Professional Responsibility at the Internal Revenue Service as provider of qualifying continuing education for IRS Enrolled Agents (EAs). This approval does not extend to licensees of The Income Tax School.

College Credit Available through the University of Phoenix

As a degree candidate at the University of Phoenix, you can earn credit for courses completed through The Income Tax School.

Purpose of The Income Tax School

Success in the income tax preparation industry, as in any professional service business, is largely dependent on the availability of qualified personnel with the skills required to provide the level of service necessary to remain competitive. Once the needed professionals are recruited and hired, they must continue their education annually to grow professionally and keep abreast of the ever-changing tax laws. New people must also be hired each year to accommodate growth and attrition, the latter of which may be a particularly acute problem due to the seasonal nature of the tax business. If an adequate supply of such professionals is not readily available, the business cannot prosper, and expansion would be impossible. This problem was successfully addressed years ago by industry pioneer and undisputed leader, H & R Block, through its income tax school. H & R Block's nearest national competitor, Jackson Hewitt, also recognized the importance of a tax school, which is an integral element of its franchise package. A tax school is, without question, a key element of the formula to build and expand a successful high volume tax business. The article on the following pages provides additional insight into the purpose and operation of an income tax school.

Benefits of a Tax School

- Build a pool of prospective entry-level tax preparers for growth.
- Get job prospects to pay *you* for their training.
- Observe prospects work habits before hiring them.
- Reduce or eliminate recruiting cost.
- Enhance the tax knowledge of the instructor (you or your key employee(s)).
- Provide prior employees with continuing education (through advanced courses).
- Provide Continuing Professional Education (CPE) credit for CPAs and EAs.

Note: Your firm must register with NASBA (CPAs) and IRS (EAs) to provide such CPE, and if you are located in California, your school must be approved by the California Tax Education Council (CTEC). Or if located in Oregon, your school must be approved by the Oregon State Board of Tax Practitioners (OTPB).

- Provide off-season employment for your key employees.
- Enhance your company's image among clients, prospects, employees and the community.
- Upgrade and maintain your firm's base of tax knowledge.

Legislation

Currently only two states, California and Oregon, license tax preparers. The Income Tax School is an approved publisher of instructional materials that meet the requirements for licensing in California and Oregon.

Everyone who prepares a tax return for a fee is now governed by the Registered Tax Return Prepare legislation. All preparers who do not already have a professional designation, such as CPA, EA or tax attorney, must register with the Internal Revenue Service.

Preparers will be required to:

- Register for a Preparer Tax Identification Number (PTIN) and pay a fee of \$64.25
- Take and pass a competency exam (cost of the exam between \$100 - \$125)
- Complete a compliance and background check which includes the submission of fingerprints (cost of fingerprinting through an approved vendor (\$60 - \$90)
- Complete 15-hours of continuing education annually, beginning in 2012 (10-hours of federal tax law, 3-hours of tax law updates and 2-hours of ethics)

Registered Tax Return Preparers (RTRPs) are now subject to the rules of Circular 230. It is important for all pending RTRPs to familiarize themselves with Circular 230 to avoid preparer penalties and sanctions.

GUIDE TO RECRUIT & TRAIN TAX PREPARERS



Charles E. McCabe
President & CEO

RECRUITING AND TRAINING TAX PREPARERS

When I began my career in the tax business over 40 years ago, getting good tax preparers was not very difficult. My employer, H & R Block, Inc., had developed their income tax school a few years earlier as an ingenious method of recruiting and training tax preparers to support their rapid expansion. As a district manager and later a regional director, I was able to find plenty of good people who were willing to pay to take the Basic Income Tax Course with no guarantee of employment. We could observe the students in class for several months and determine which graduates we would hire based on grades, participation, attitude, attendance, punctuality and other qualities demonstrated in the classroom. We rarely had trouble staffing our seasonal offices with intelligent, competent, friendly people whom we had taught to prepare tax returns. Today, virtually all national tax firms and many regional and local tax firms offer income tax classes to recruit and train tax preparers. Obviously, operating an income tax school has become recognized as a “best practice” for growing mass market tax preparation firms. Although the income tax school may still be the best way to recruit and train seasonal tax preparers, the environment is much different today.

Today's Personnel Challenge

In recent years, finding and keeping good employees has been a major challenge for most businesses, and tax preparation firms were no exception. Low unemployment rates created stiff competition for employees and drove wages higher. Fundamental demographic and economic trends reduced the available pool of prospective employees, especially for tax firms. Stay-at-home parents and early retirees had always been prime candidates for employment during tax season. But increases in two-wage-earner households and full-time post-retirement careers have caused these pools to shrink. Employees are working longer hours and being paid more. With less spare time and more money, part-time jobs are not as appealing to many workers. At the same time, more tax firms have been operating income tax schools and competing for fewer prospective students. Fortunately for tax firms and many other employers, the recent economic downturn is resulting in lay-offs that will free-up workers. Without an adequate staff of qualified trained tax preparers, a tax firm cannot grow.

Even with more people looking for jobs, it is not likely that many experienced tax preparers with availability for the three month tax season will be answering help wanted ads. Many people who respond to help wanted ads believe they know taxes because they've prepared their own returns and, perhaps, those of some friends and relatives. But unless they've recently prepared a volume of tax returns for the general public, their tax knowledge may be dated and limited. Temporary employment agencies tend to provide the same level of inadequacy. Good tax preparers are loyal to their clients and, due to employment contract non-compete provisions, they usually can't bring their clients with them. Hiring an experienced local tax preparer that has left his clientele behind often results in acquiring someone else's problem. At the very least, the employee may have to unlearn some bad habits. Occasionally we've been lucky and picked up a good experienced tax preparer, usually someone who has just moved into town. Finding good people who are interested in tax preparation and teaching them taxes is still the best way we've found to staff our growing tax business.

Identifying the Best Tax Preparer Prospects

The best prospective tax preparers are not necessarily accountants. Accountants and other financially oriented professionals tend to be more numbers-oriented than people-oriented. Taxation is not accounting; it is law. Preparing tax returns is a very personal process that requires someone with strong people-skills to satisfy their clients. To the client, the interview *experience* can be just as important, if not more so, than the tax preparer's knowledge. That's why I named my company Peoples Income Tax. Amazingly, the trademark search firm I hired

when I founded the Company in 1987 could not find another income tax firm named Peoples anywhere in the United States! We look for individuals with strong people-skills and we teach them taxes.

Clients don't like to see new faces every year. Most clients want to establish a relationship with a tax preparer that will be available year-after-year. Ideally, the tax preparer will also be available to handle any tax problems and questions during the off-season. Continuity of tax preparer may be less important to low-income clients who seek fast refunds and are primarily concerned with convenience, cost and speed. However, relationships are important to everyone. Also keep in mind the high cost of training and developing a new tax preparer. High employee retention is difficult to attain when you can offer only seasonal employment.

The best long-term tax preparer prospects are people whose personal needs can be met through seasonal careers, such as:

- Homemakers with young children in school
- Early retirees who like to travel or spend time with their grandchildren during the summer
- Financial services professionals who can make their own hours and benefit by meeting prospective clients
- People with complementary seasonal occupations
- Moonlighting professionals who want to earn extra money
- College seniors and graduate students who need business experience
- Blue-collar workers who want to break into a new white-collar profession

Look for people who see tax preparation as a rewarding career because they like to help others, and avoid hiring someone whose primary motivation is money. You want people who are likely to stay with you for years. Hiring someone who is "between jobs" may provide a quick fix to a personnel shortage. However, unless you can reasonably expect the person to return next tax season as a part-time tax preparer (after finding a year-round job) this will usually prove to be a poor hiring decision. Such dilemmas can be prevented through proper planning and preparation during the off-season. The best strategy is to find good people with the desired qualities and interest and teach them to be tax preparers. This can be accomplished by operating your own income tax school, or by arranging for your candidates to complete an income tax course offered elsewhere (either in-class or by correspondence).

Sources of Good Tax Preparer Prospects

Help wanted advertising usually comes to mind first. Classified help wanted ads are inexpensive and can be effective. The major local newspaper, as well as local printed employment guides and Internet job listing sites should be considered. If your city has a daily newspaper, advertise only on Sunday (or Saturday if the newspaper is published only six days a week). Remember that your candidates don't know they want to be tax preparers or students. You are offering a rewarding seasonal career, with flexible hours and pleasant working conditions, using computers and interacting with people. You are not seeking accountants, although some accountants may be interested and, if they have good people skills, qualified. Remember that many people who read help wanted ads are looking for a job now (especially students), and may not have the patience to take a tax course in the fall to qualify for a job starting in January.

Temporary Employment Agencies may seem like viable a solution to the need for temporary help, but the reality is they usually can't meet the needs of tax preparation firms. Most accounting and finance professionals registered with temporary employment agencies are not experienced in preparing individual tax returns for the general public and would need to complete a tax course to become qualified. Occasionally temp agencies have former employees of Block or other mass-

market tax preparations firms. However, as previously noted, unless the tax preparer recently moved into town, you may be picking up someone else's problem, for a higher hourly rate! In a competitive market, you might find a temp agency that is willing to recruit and screen prospects to attend your tax school without compensation as a requisite for being placed with you after graduation. But you should be able to find tax school candidates without their help. Also remember that employing a temp is like hiring someone who is "between jobs" and your clients don't like to see different faces each year. Although the higher hourly rate of a temp includes payroll taxes and benefits, and the agency handles the screening and hiring, you are still paying the extra cost of the agency's profit. Using a temp agency could be more effective for fast refund offices. As a source of professional tax preparers, I think an agency should be your last resort.

Employee Outplacement Services provide assistance to employees who have lost their jobs due to restructuring and downsizing. Some services are private businesses to which employers refer their displaced employees, and often pay the fee to ease the transition. Some larger employers provide in-house outplacement services. In addition, many communities have outplacement services provided by nonprofit organizations. Your state unemployment agency might also make their clients aware of job opportunities you offer. Often displaced employees are nearing retirement and could make good long-term seasonal tax preparers. All such services should be contacted and made aware of your seasonal employment opportunities.

Women and Senior Support Groups often provide career services for their members. Listings for such groups might be found in your local Yellow Pages directory under headings such as "Associations," "Senior Citizens Service Organizations" and "Women's Services & Organizations." Your local Chamber of Commerce might also be able to provide a directory of social service organizations for you to contact.

The Military is a source of prime candidates for second careers in tax preparation. If there is a military base in or near your community, you should contact the career services officer. Some of our best long-term office managers are retired military officers.

Colleges and Career Schools should also be contacted. Establish relationships with business school faculty members who are in a position to refer their best students to you to obtain practical career experience. Make the school career services office aware of your job opportunities. Most private career schools need to demonstrate a high level of career placement to maintain their state license requirements and provide statistics for their literature.

Your Clients may be one of the best sources of prospective tax preparers. We've always promoted our income tax school to our clients by displaying posters and tax school brochures in our tax office reception areas. We ask our tax associates to make clients who they feel would be good as tax preparers aware of opportunities and encourage them to take our tax course. During the height of the personnel shortage, we sent letters to all prior clients making them aware of our income tax school and offering tuition scholarships for any client who wished to take the course. We required only that they pay for the cost of their books and materials. This letter produced more students and employees than all of our paid advertising. Who would be a more positive employee than a satisfied client of your tax firm?

Employee Referrals are always an excellent source of good new employees. Your employees should be encouraged to refer prospective employees to you. Many companies offer substantial financial rewards for referrals that result in new hires. One suggestion is to offer a finders fee equal to \$10 times the average hours worked per week during tax season by a referred employee who successfully completes the tax season. Our employees are also authorized to award full-tuition scholarships to people who they know would be qualified and willing to become employees upon successful completion of our Comprehensive Income Tax Course. Again, the scholarship

student is required to pay the cost of the books and materials. As long as there is room in the class for another student, this costs the company nothing.

Training Tax Preparers

Your tax preparers will be much more productive and less frustrated when the pressure is on if they receive proper training. Tax preparer training should include four elements:

- Income tax school, where they learn how to correctly prepare Federal and local state income tax returns and interview clients (We incorporate interview training into our tax school).
- Pre-work training in your firm's policies and procedures, including customer service
- Computer tax software workshop training, with computers available to students (1-3 students per computer)
- On-the-job training under the supervision of you, your office manager or a veteran tax preparer. Schedule on-the-job training early in the season before the office gets busy. Have new tax preparers prepare practice tax returns, by computer, using tax school problems, your tax software firm's tutorial and/or actual prior year file copies of tax returns.

How to Set Up a Tax School

To operate your own tax school, you will need the following:

- A qualified instructor
- A course curriculum
- Instructional materials
- A classroom
- A plan to recruit students

The instructor should be you or a veteran tax preparer of your firm who has good communication skills. Adults are much easier to teach than children. If you are a good manager and have solid tax knowledge and experience, you should be a good tax schoolteacher. If you charge tuition, your firm may need to be licensed as a private career school (check the laws in your state). Many tax school operators offer their courses tuition-free to avoid licensing, and they charge a fee for books and materials to cover their costs. If you are operating a licensed tax school, your instructors may have to meet education and/or experience requirements of the licensing agency. Be sure to research the laws governing private career schools in your state.

The Course Curriculum is a critical element. The Income Tax School Comprehensive Income Tax Course is comparable to the basic income tax preparation courses offered by H & R Block and Jackson Hewitt. The course consists of twenty 3-hour lessons, ideally taught over ten weeks (two morning or evening classes per week). The curriculum covers Form 1040 and all related schedules and statements. Corresponding local state and locality income tax preparation should be taught along with the Federal. The Income Tax School curriculum also includes taxpayer interviewing techniques. Subjects should be presented in a logical sequence, beginning with the basics and gradually progressing to more complex tax return situations. The course curriculum should also include in-class exercises and quizzes, homework problems and reading assignments, plus final exams. Students should not be permitted to use computer tax preparation software to do their tax course problems. Graduates can be taught how to use your tax preparation software before they are scheduled to prepare tax returns. Tax preparers should be encouraged or required to complete advanced continuing professional education (CPE) annually after completing the basic course and working as tax preparers. The Income Tax School offers advanced courses for in-house instruction.

Instructional materials can be developed in-house or purchased. Students should have access to reference books. A comprehensive reference such as the Commerce Clearing House (CCH) *U.S. Master Tax Guide* can be used as a text. However, for a basic tax course, IRS Publication 17, *Your Federal Income Tax* is the best reference book. The student course text should include a syllabus (course outline), student survey and evaluation forms, a lesson-by-lesson summary of the subjects emphasizing key points, special advice and interview tips for tax preparers, examples, illustrations, tables and charts, in-class quizzes, homework problems, reading assignments, and a glossary of tax terms. Students will also need an ample supply of blank tax forms to work out all of the problems in the course. Another critical element is the Instructor's Manual, which should include lesson plans with examples to use in class, key points to emphasize, role playing exercises (to teach interview techniques), and student attendance and achievement forms. The Instructor's Manual should also have answers to all student text quizzes, problems, homework assignments and mid-term & final exams, plus grading criteria. It is highly recommended that before each lesson the instructor read the reading assignments and do the problems assigned to the students to properly prepare to teach the lesson. The instructor should also be provided with a chalk or white board with supplies, plus an overhead projector and transparencies of all tax forms to be covered in the course. As an alternative to the overhead projector and transparencies, an LCD projector can be used to show completed tax returns and forms prepared by computer. A white wall or a large window shade can be used as a projection surface. The Income Tax School materials include a tax school Operator's Manual, Instructor's Manual, Student Manuals, tax forms, and reference text CDs. Transparencies and marketing materials are optional.

The Classroom does not have to be fancy, but it should be functional, comfortable and clean. A large open room is ideal. A conference room can also be used. Folding tables should be provided for students to open their books in front of them. Three students can fit at a 30" x 72" table and two can fit at a 24" x 48" table. If you have a large group, the 24" x 48" tables take up less space and are easier to arrange. Tables can be configured in rows, a U-shape, or like a conference table. Folding tables are inexpensive and can be purchased from suppliers such as OfficeMax, Staples, Home Depot, Costco and Sam's Club. Most tax offices have enough chairs, but additional inexpensive stacking chairs can be purchased if needed. Furniture can also be rented or borrowed. If your office is not large enough, you will need to find an outside classroom. A hotel meeting room is an option, but, unless you can work out a special deal for multiple 3-hour sessions, a hotel may be cost-prohibitive. A better alternative may be to reserve a room, for minimum or no cost, in your local community center, chamber of commerce, YMCA, Knights of Columbus, library, school or church. If this fails, you might be able to use the conference room of another business, or a vacant office or store.

Your plan to recruit students would include the suggestions made earlier in this article. The Income Tax School package includes optional marketing materials (prospective student brochures, window banners, posters, sample ads, and inquiry & follow-up forms). A successful student recruitment campaign involves a multitude of activities. The key strategy is to think about organizations and places where you will find the ideal type of people you want as long-term employees. Then you should determine how to reach them with information about your opportunity, and how to entice them to consider enrolling in your tax course.

Alternatives to Operating Your Own Income Tax School

If you lack the resources or time to operate your own income tax school, or if you need only one or two employees, there are other options. Many tax firms send their employees to tax courses operated by national or local competitors. Students sponsored by competing tax firms often enroll in our basic and advanced tax classes. We don't mind as long as they pay full tuition and don't try to recruit our other students. Some colleges offer practical courses in income tax preparation, but most college tax courses focus more on theory than application, and they rarely cover state income tax preparation. Yet the foundation provided by a college tax course can reduce the amount of additional training needed. We have seen two or more local tax firms pool their resources to jointly offer a tax course. One firm might provide the teacher, while the other provides the classroom. Both firms can share in the cost of advertising, promotion and instructional materials. This strategy will work best if the firms are not competing head-to-head for clients in the same local market.

Distance learning is another option. Employees can complete a home-study tax course, although independent learning requires greater self-discipline and many home-study students do not finish. However, with encouragement and support from you as the employer, the success rate should be much greater. Each year, The Income Tax School enrolls a number of online students nationwide through its Comprehensive and other tax courses that are available via the Internet. Visit The Income Tax School website at www.theincometaxschool.com for more information.

Apprenticeships represent another option. You and/or another veteran tax preparer could work with a college student or receptionist to teach the understudy taxes on the job. This may be a slow process, and it requires patience; but the result could be a highly qualified, loyal tax preparer that has learned tax preparation the right way!

Guerilla Tactics

Suppose tax season is just around the corner and you realize that you will not have enough tax preparers to staff your office. Maybe a key tax preparer decided not to return; or worse, you've learned that he is going into competition with you and will likely solicit your clients whom she served last year. If you'd properly planned and prepared, you wouldn't be in this situation. You should have had your tax preparers sign employment agreements including a legally enforceable non-solicitation provision. But if you are in such a predicament, what can you do?

It's time to use guerilla tactics. Fortunately, some qualified tax preparers seem to "come out of the woodwork" during December and January. You should run prominent help wanted ads for *experienced* tax preparers (refer to the previous section on help wanted advertising). If ads are grouped by job title, run separate ads under both "Accountants" and "Tax Preparers." Advertise continuously through mid-January. Obtain a mailing list from a list broker or tax industry supplier of tax practitioners within commuting distance of your office(s) and send out a job opening notice on your letterhead, assuring complete confidentiality for respondents. Contact reputable temp agencies that place accounting and financial professionals for experienced tax preparers. Be very specific as to the tax preparation experience you require. Screen prospects by phone and schedule qualified candidates to take a tax test in your office (our tax school Operations Manual includes a test of basic tax knowledge). Most applicants who come to us from help wanted advertisements fail our tax test and realize that they need to take an income tax course to become qualified. If you need several tax preparers, consider conducting a free accelerated income tax course for job applicants, including daily lessons over a two or three week period. Schedule the successful graduates for additional training in your computer software and company policies and procedures.

You should also take measures to maximize the productivity of your existing tax preparers by providing them with adequate tools to do the job, including tax office assistants to greet clients, schedule appointments, answer telephones, pull files, conduct pre-interviews and process and transmit tax returns. Ask experienced tax preparers to work extra hours. If you have part-timers who are employed full-time elsewhere, they may be willing to take vacation time from their regular jobs during peak periods. If you serve walk-ins, call your prior clients to schedule appointments and spread out your work load. Ask your priors to come in during slower days and times. Take drop-off returns and complete them after hours. Extend your office hours. In short, do whatever it takes to serve your clients and keep from losing business. After you get through the tax season, begin planning early so you will not be in this situation again next year!

Conclusion

Finding and keeping good tax preparers is essential to building and growing a quality tax service. Qualified seasonal tax preparers are scarce and competition for experienced tax preparers is stiff. Experienced tax professionals command a high price and may not become your best long-term employees. Retention of tax preparers is essential to maintain client relationships and contain recruiting and training costs. A proven “best practice” is to operate an income tax school to recruit and train entry-level tax preparers and provide continuing professional education for experienced tax preparers. There are alternatives to operating your own income tax school, but “growing your own” tax preparers is the best way to ensure an adequate staff of competent, people-oriented tax preparers who will continue year-after-year to serve your valued clients. Support is available from The Income Tax School and other sources.

HIRING SEASONAL TAX PREPARERS

In the tax business, as with any other service business, people represent the greatest expense and the greatest source of frustration, as well as the greatest opportunity for business success. Our employees deliver the services for which we are paid and they represent our business. Making bad hiring decisions can be very costly. The following are key considerations that are unique to or especially important in the income tax preparation business when hiring tax preparers:

People Skills

Years ago when I relocated from Baltimore to become director for the New York City region of a national tax firm, I was faced with a major problem. The client retention rate for the New York City Region was 65%, compared to 80% for the mid-Atlantic region I had just left, and 75% average for the U.S. This meant that 35% of last year's clients would have to be replaced with new clients before the region could show any growth. To determine the root of this problem, I instructed my district managers to calculate the client retention rate for each individual tax preparer who worked in the 200+ offices of the region. The results were alarming! Many of the tax preparers who looked like superstars on paper had client retention rates of 65% or lower. I refer to these preparers as "tax technicians." They took pride in preparing accurate tax returns. They were reliable, they did their daily reports and their share of checking, and they got the money in the bank. Everything looked great, except they were not pleasing their clients. Why? Their primary motivation was to make as much as possible in commissions, and they lacked people skills. I've observed such tax technicians while visiting tax offices and sitting in the "waiting area" (which we prefer to call the reception area). They were oblivious to my presence, or to the clients entering the office, or any who walked out due to the frustration of not being acknowledged and having to wait too long. They didn't care, as long as there were still enough clients to keep them busy making money. They were often arrogant, aloof, or even bigoted. Even though many of the clients were not highly educated, they were not stupid. They knew when they were not being treated with respect. Why would they want to come back next year?

So, the first lesson in hiring tax preparers is to hire individuals with good people skills. I would argue that people skills are more important than tax knowledge, because you can teach tax knowledge. What happens when one of your clients gets a letter from the IRS resulting from an error made by your seasonal tax preparer? If the preparer was a tax technician, your client will probably never return. But if the preparer made the client feel good about the interview experience and demonstrated genuine care and concern for the client's welfare, the client will most likely be back, as long as you resolve the problem.

Tax Knowledge

Obviously your seasonal tax preparers need tax knowledge, both Federal and, at least, local state. They don't need to know everything about all the tax laws; nobody does. However, they do need an awareness of all of the tax laws pertaining to the types of returns they will prepare. And they must know how to research the tax laws to be able to reach the correct conclusions to tax situations they encounter in areas of the tax law in which they are not well versed. In addition, tax preparers need strong interviewing skills.

Many people who respond to help wanted ads for experienced tax preparers believe they know taxes because they've prepared their own returns and, perhaps, those of some friends and relatives. But unless they've recently prepared a volume of tax returns for the general public, their tax knowledge may be limited or dated. The solution my company has developed for this problem is to require each new tax preparer job applicant to take our "Test of Basic Tax Knowledge".

Availability

Another important consideration is the availability of part-time employees. Tax preparers will be needed to work evenings and weekends, as well as extra hours during peak periods, to accommodate as many clients as possible during the short tax filing season. Part-time (evening and weekend) preparers should be willing to work at least 16 hours per week over at least three non-consecutive days, plus extra hours during peak times. Generally you will need at least two part-timers for every full-time tax preparer. Be sure to hire more people than you will need. Invariably, someone will come down with the flu, have a personal conflict, or quit, right when you need their help the most.

Conflicts of Interest

Always ask tax preparer job applicants if they personally prepare tax returns for pay. A tax preparer, who works for you, while also preparing returns on the side, constitutes a potentially serious conflict of interest. We require all tax preparers (including full-time, year-round employees) to sign an employment agreement which includes non-compete, confidentiality and non-solicitation provisions. Contrary to popular belief, non-compete provisions can be enforced in most states, provided that they are deemed by the court to be "reasonable." To meet the test of reasonableness, the provision must not:

- Unreasonably restrict the employee from pursuing his or her livelihood as a tax professional
- Impose restrictions within an unreasonably large geographic area
- Impose restrictions for an unreasonably long period of time

In drafting a non-compete provision, you should consult with a local attorney with expertise in the labor laws and courts in your state and locality. Confidentiality and non-solicitation provisions can be even more important than non-compete provisions, because they are usually more enforceable and are just as effective in preventing former employees from stealing your customers. Remember that even taking a list of clients and their contact information out of your office is a violation of a confidentiality agreement (as well as IRS Section 7216 privacy regulations). If we want to hire someone who prepares tax returns for a relatively few long-term loyal clients, we will ask the person to provide a list of those clients' names and social security numbers and prepare an addendum to the employment agreement excluding them from the restrictive provisions. Finally, be sure that each new-hire is both legally and morally obligated to not take your clients if he or she decides to leave or is fired. Most people have good intentions when entering into an employment agreement, but employees sometimes become disgruntled and leave. Employees who sign employment agreements without understanding fully the provisions, by which they are legally bound, may feel morally justified to not honor their contracts. Avoid being in the position of having to take legal action by explaining, in detail, all employment contract provisions and confirming that every tax preparer you hire understands and agrees to your terms and conditions.

Taking On Your Competitors' Problems

Good tax preparers are loyal to their clients and, due to restrictive employment contract provisions; they usually can't bring their clients with them. Starting over with a new employer usually means taking a cut in pay as well. Hiring an experienced local tax preparer who has left his or her clients behind often results in acquiring someone else's problem. At the very least, the employee may have to unlearn some bad habits. Occasionally we've been lucky and picked up a good experienced tax preparer, usually someone who has just moved into town.

Finding Good Tax Preparers

Sources of good tax preparer prospects include organizations that serve the kind of people who you are seeking, such as women and senior support groups, the military, employee outplacement services, colleges, universities and career schools. Help wanted advertising might produce a few experienced tax preparers who tend to “come out of the woodwork” in late December and early January each year. Most of the applicants from help wanted advertising will fail the Test of Basic Tax Knowledge. However, they usually have some knowledge, as well as the aptitude and interest in becoming tax professionals; and they can often be trained. Temporary employment agencies will produce about the same results as your own help wanted ads, except that the hourly rate will include the extra cost of the agency’s profit. Using a temp agency could be more effective for fast refund offices. Referrals by employees are an excellent source of good new employees. Encourage your employees to refer qualified prospective employees to you.

Your clients may be one of the best sources of prospective tax preparers. You’ve probably had clients come in from time-to-time with their taxes already correctly prepared. They may come to you simply to gain the peace-of-mind of knowing that you have checked and verified their calculations and that you will be available to help should they get a letter from the IRS. Who would be a better ambassador for your tax firm than a satisfied client who chose to come to you over all of your competitors?

Other Considerations

Many good sources of general advice in screening, interviewing, psychological testing and hiring employees to avoid costly mistakes can be obtained, often at little or no cost. Search the Internet, visit your local library, and ask for advice from organizations such as your local Chamber of Commerce, Retail Merchants Association, Small Business Development Center, or Human Resources Professional Association.

Conclusion

You should hire only employees who are people-oriented and want to prepare tax returns not only to earn money, but because they like the challenge of tax preparation and want to help people. You can often teach taxes to someone with good people skills, but it is unlikely that you will succeed in teaching people skills to someone who doesn’t care about others or who cannot relate to and have empathy for people from all socioeconomic backgrounds. Make sure the people that you hire have adequate tax knowledge to prepare tax returns for the general public. Avoid hiring tax preparers who have been rejected by your competitors. Let your rejects go to work for them instead! Also avoid potential conflicts of interest and be sure that every tax preparer understands, agrees to and signs an employment agreement including non-compete, non-solicitation and confidentiality provisions. Screen all applicants carefully to ensure that they have the skills, availability and qualities necessary to deliver quality client service and create real client value and satisfaction. This will help you to generate more referral business and attain a higher client retention rate. Focus on building a staff of tax preparers who are satisfied with a seasonal career, are not only motivated by money, and who will stay with you year after year.

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DESCRIPTIONS OF COURSES OFFERED

Basic Tax Course (Comprehensive Modules I and II)

The Basic Course covers simple individual tax forms including 1040EZ, 1040A and very basic 1040 returns limited to Itemized Deductions, Interest & Dividends, Child Care and Earned Income Credit, plus E-filing, RALs, ERCs, Form 8453, bank product applications, IRS Due Diligence requirements, Employee Business Expenses, Capital Gains and Losses, Kiddie Tax, AMT, Penalties, other credits and Ethics. The Basic Course consists of 15 3 hour classes (45 hours of instruction), and is approximately equivalent to the first half of the Comprehensive Course. This course will be discontinued in 2012.

Comprehensive Tax Course

The Comprehensive Course includes the contents of the Basic Tax Course in addition to Depreciation, Schedule C, Schedule E and Schedule F. The program consists of twenty 3 hour class sessions (60 hours of instruction). The course is usually offered to the general public as a ten-week program (two classes per week), ideally beginning in the fall and/or winter (classes can be started from September through November). The Course can be accelerated by scheduling three or more sessions per week to be completed in 5-7 weeks or less.

- **California Comprehensive Tax Course (qualifying education):** Includes 15 hours CA state material
- **Oregon Basic Tax Course (qualifying education):** Includes 20 hours OR state material

Advanced I Tax Course

The Advanced I Tax Course is designed to provide continuing education for tax preparers who have completed the Comprehensive Tax Course (or have acquired equivalent knowledge) and have prepared tax returns for at least one tax season. The course covers many of the subjects in the Comprehensive Course in much greater depth. (See the course outlines on the following pages). The Advanced Course consists of ten 3 hour classes (30 hours of instruction).

- **California Advanced I Tax Course:** Includes CA state material.

Advanced II Tax Course

The Advanced II Tax Course is designed to enhance the knowledge and experience of tax practitioners. The course will enable a tax preparer to prepare more complex individual tax returns. The Advanced II Course consists of ten 3 hour classes (30 hours of instruction).

Small Business I Tax Course

The Small Business I Tax Course is designed to introduce experienced tax preparers to the basics of corporation and partnership tax return preparation, and to provide more in-depth knowledge of sole proprietor-Schedule C-tax return preparation. (See the course outlines on the following pages). The Small Business I Course consists of ten 3 hour classes (30 hours of instruction).

- **California Small Business I Income Tax Course:** Includes CA state material.

Small Business II Tax Course

The Small Business II Tax Course is designed to enhance the knowledge and experience of tax practitioners. The course covers many of the subjects in the Small Business I Tax Course in much greater depth. The Small Business II course consists of ten 3 hour classes (30 hours of instruction).

California Business Tax Liabilities (CA continuing education)

This course is geared toward tax professionals who reside in California and are in need of a continuing professional education course in order to maintain their CTEC license. The California Small Business & Ethics course focuses on the organization, start-up, recordkeeping, and tax reporting requirements for small businesses. This course includes a chapter on California regulations for the start-up, operation, and reporting requirements for businesses in California. As an added bonus we have included a chapter on Ethics that covers the guidelines set by the Internal Revenue Service in regard to tax preparer behaviors and practices. This course is 20 hours (15 hours federal and 5 hours state) in length and can be taught at the discretion of the instructor.

New Tax Law Updates

Since the tax courses are based on the previous years tax laws, new tax law updates are published and distributed in the late Fall to all licensees and students of The Income Tax School at no additional charge.

CPE Seminars

Selected Income Tax topics including:

- Amended Returns
- At-Risk Rules and Passive Activities
- Business Income, Expenses and Basis
- Business Organization
- C-Corporations
- Clergy
- EIC
- Employee Business Expenses
- Ethics
- Partnerships - Advanced
- Rental Property
- Schedule C
- Corporation Issues
- Understanding the Balance Sheet
- Tax Practitioner Regulations and Penalties, Taxes and Tax Research
- Tax Issues for High Income Taxpayers
- Tax Issued for Divorced and Separated Taxpayers
- Special Needs and Concerns for Seniors
- S-Corps - Advanced
- S-Corps
- Schedule D - Special Issues
- Retirement Plans
- PY Resident and Nonresident State Tax Preparation Principles
- Partnerships
- Partnership Issues
- Net Operating Losses
- Fringe Benefits, Business Tax Credits and Amended Returns
- Farm Income – Part I

- Farm Income – Part II
- Employment Taxes
- Dispositions
- Responding to the IRS
- Nonresident Alien Returns
- Tax Planning, Savings Strategy and Updates

Each CPE seminar is designed to be presented as a single 3 hour class session. CPE seminars are ideal to provide continuing professional education for veteran tax preparers who have completed the Comprehensive and Advanced Tax Courses (or equivalent).

Continuing Professional Education (CPE)

Independent tax firms that have applied for and obtained approval of the National Association of State Boards of Accountants (NASBA) may be authorized to provide CPE credits for CPAs. The Income Tax School could be offered by NASBA approved firms to provide CPE as a source of revenue. The Income Tax School is approved by NASBA, but licensees cannot provide CPE under The Income Tax School's approval.

Note Regarding Online Courses: If you are teaching an online course, you will need to determine the frequency for when students will have assignments due and whether or not you will have any live meetings in conjunction with the online course.

Have Your Employees Become A Chartered Tax Professional — CTP® and Take Their Tax Career and Your Business to the Next Level!



To become a CTP®, students must successfully complete The Income Tax School series of five Tax Courses, a total of 180-hours of education (four additional courses beyond the 60-hour Comprehensive Tax Course). Students must attain an average grade of at least 80% (our adult students average 90%+). After students must also meet the experience requirement of working at least two tax seasons (at least 500 hours total) as a tax preparer, they will be awarded a certificate and the designation of Chartered Tax Professional — CTP®. Acceptable experience completed prior to enrolling in the CTP® program by tax preparers who have tested out of at least the first two courses will satisfy the experience requirement. The Income Tax School is certified to operate as a private career school by the State Council of Higher Education for Virginia (SCHEV). By officially enrolling in the CTP® program, students will be eligible for a 10% discount on each additional course after completing their first course! A discounted package price is also available.

After completing this comprehensive certificate program, students will be well prepared to complete almost any individual and small business income tax situation they encounter. Students will also be ready to take the next step in their career as a tax professional by preparing for and taking the IRS Enrolled Agent (EA) exam. The EA designation is the most significant credential in the income tax preparation industry.

Beginning with the year after students qualify as a Chartered Tax Professional, they must complete 16 hours of Continuing Professional Education (CPE) each year to maintain their CTP® status. The CPE requirement for a CTP® is exactly the same as the CPE required for an IRS Enrolled Agent (EA). The CPE requirement is described on the IRS website.

All courses are offered online via the Internet and can be completed anywhere, anytime-24/7. The affordable tuition includes instructor support plus a hard copy of each tax course student text with all necessary tax forms at no additional cost. Each module consists of ten 3-hour lessons and can be completed in 5-10 weeks (one or two lessons per week). The entire program could be completed in less than eight months, but many students will take 18-24 months, during which time they will also gain experience and earn money as tax professionals.

How Will Becoming A CTP® Help Your Career and Your Business?

- Image is enhanced by becoming a Chartered Tax Professional
- Increased tax knowledge enables the preparation of more complex tax returns
- Increased revenue due to more complex tax returns
- Knowledge necessary to prepare for the EA exam is acquired
- CTP® graduates receive an attractive diploma to display in your tax office
- You gain a competitive advantage in your market by having Chartered Tax Professionals on staff

Start your employees and prospects on a professional career path now! They can start earning their Chartered Tax Professional credential by registering for their first class today!

Note: Experienced Tax Preparers may “test out” of the Comprehensive course only. Call (800) 984.1040 for more information.

The CTP® designation may only be awarded by The Income Tax School.

Courses Required to Earn the Chartered Tax Professional Certificate and CTP® Designation:

- Comprehensive Tax Course (60 hours)
- Advanced Level I Tax Course (30 hours)
- Small Business I Tax Course (30 hours)
- Advanced Level II Tax Course (30 hours)
- Small Business Level II Tax Course (30 hours)

California Students: All courses are CTEC Approved

Oregon Students: All courses are OTPB

After completion, students may wish to prepare for the IRS EA exam by taking an exam review course through The Income Tax School at our special CTP® discount rate.

COMPREHENSIVE TAX COURSE

Table of Contents

Module 1	
Chapter 1	General Material
	<i>Review Questions & Learning Activity</i>
Chapter 2	Standard Deduction and Exemptions
	<i>Review Questions, Learning Activity & Quiz</i>
Quiz 1	
Chapter 3	Income
	<i>Review Questions & Learning Activity</i>
Chapter 4	Interest & Dividend Income
	<i>Review Questions, Learning Activity & Quiz</i>
Quiz 2	
Chapter 5	Earned Income Credit
	<i>Review Questions & Learning Activity</i>
Final Exam	
Module 2	
Chapter 6	Child Care and Other Tax Credits
	<i>Review Questions, Learning Activity & Quiz</i>
Chapter 7	Retirement Income & Other Income Types
	<i>Review Questions & Learning Activity</i>
Quiz 3	
Chapter 8	Adjustments to Income
	<i>Review Questions, Learning Activity & Quiz</i>
Chapter 9	Itemized Deductions
	<i>Review Questions & Learning Activity</i>
Quiz 4	
Chapter 10	Electronic Filing
	<i>Review Questions, Learning Activity & Quiz</i>
Final Exam	

Module 3	
Chapter 11	Employee Business Expense & Miscellaneous Deductions
	Review Questions & Learning Activity
Chapter 12	Education Tax Benefits
	Review Questions, Learning Activity & Quiz
Quiz 5	
Chapter 13	Capital Gains and Losses
	Review Questions & Learning Activity
Chapter 14	Depreciation and Disposition of Property
	Review Questions, Learning Activity & Quiz
Quiz 6	
Chapter 15	Self Employment Income
	Review Questions & Learning Activity
Final Exam	
Module 4	
Chapter 16	Rental Property
	Review Questions, Learning Activity & Quiz
Chapter 17	Farm Income
	Review Questions & Learning Activity
Quiz 7	
Chapter 18	Alternative Minimum Tax, Injured & Innocent Spouse, and Less Common Credits
	Review Questions, Learning Activity & Quiz
Chapter 19	Payments, Extensions and Amended Returns
	Review Questions & Learning Activity
Quiz 8	
Chapter 20	Ethics and Responsibilities of Tax Professionals
	Review Questions, Learning Activity & Quiz
Final Exam	
Glossary	
Appendix 1	Tax Tables
Appendix 2	Earned Income Credit Tables
Appendix 3	Chart 3.1 (Where to Report Items from Forms W-2, 1098, and 1099)
Appendix 4	1099-R, Box 7 Distribution Codes
Appendix 5	Sales Tax Tables
Publication 17	
Form 1040 Instructions	
Index	

ADVANCED I TAX COURSE

Table of Contents

Chapter 1	Earned Income Tax Credit <i>Review Questions & Learning Activity</i>
Chapter 2	Employee Business Expenses <i>Review Questions & Learning Activity</i>
Chapter 3	Clergy <i>Review Questions & Learning Activity</i>
Chapter 4	Investments <i>Review Questions & Learning Activity</i>
Chapter 5	Schedule C (Part I) <i>Review Questions & Learning Activity</i>
Chapter 6	Schedule C (Part II) <i>Review Questions & Learning Activity</i>
Chapter 7	At-Risk Rules and Passive Activity <i>Review Questions & Learning Activity</i>
Chapter 8	Rental Property (Part I) <i>Review Questions & Learning Activity</i>
Chapter 9	Rental Property (Part II) <i>Review Questions & Learning Activity</i>
Chapter 10	Alternative Minimum Tax, Injured & Innocent Spouse, and Less Common Credits <i>Review Questions & Learning Activity</i>
Final Exam	
Glossary	
Appendix 1	Tax Tables
Appendix 2	Earned Income Credit Tables
Appendix 3	Instruction for Form W-2 and W-3
Appendix 4	1099-R, Box 7 Distribution Codes
Appendix 5	Sales Tax Tables
Publication 17	
Form 1040 Instructions	
Index	

ADVANCED II TAX COURSE

Table of Contents

Chapter 1	Amended Tax Returns for Individuals <i>Review Questions & Learning Activity</i>
Chapter 2	Special Needs and Concerns for Seniors <i>Review Questions & Learning Activity</i>
Chapter 3	Tax Issues for High Income Taxpayers <i>Review Questions & Learning Activity</i>
Chapter 4	Net Operating Losses <i>Review Questions & Learning Activity</i>
Chapter 5	Schedule D – Special Issues <i>Review Questions & Learning Activity</i>
Chapter 6	Tax Issues for Divorced Taxpayers <i>Review Questions & Learning Activity</i>
Chapter 7	Tax Planning Tips and Strategies <i>Review Questions & Learning Activity</i>
Chapter 8	Responding to the IRS <i>Review Questions & Learning Activity</i>
Chapter 9	Part-year, Nonresident and Resident State Tax Preparation Principles <i>Review Questions & Learning Activity</i>
Chapter 10	Nonresident Alien Returns – Form 1040NR <i>Review Questions & Learning Activity</i>
Final Exam	
Glossary	
Appendix 1	Form 1040 Instructions
Appendix 2	Instruction for Form W-2 and W-3
Appendix 3	1099-R, Box 7 Distribution Codes
Publication 17	
Index	

SMALL BUSINESS I TAX COURSE

Table of Contents

Chapter 1	Business Organization <i>Review Questions & Learning Activity</i>
Chapter 2	Income, Expenses and Basis <i>Review Questions & Learning Activity</i>
Chapter 3	Dispositions <i>Review Questions & Learning Activity</i>
Chapter 4	Sole Proprietorships <i>Review Questions & Learning Activity</i>
Chapter 5	Partnerships <i>Review Questions & Learning Activity</i>
Chapter 6	C-Corporations <i>Review Questions & Learning Activity</i>
Chapter 7	S-Corporations <i>Review Questions & Learning Activity</i>
Chapter 8	Employment Taxes <i>Review Questions & Learning Activity</i>
Chapter 9	Retirement Plans <i>Review Questions & Learning Activity</i>
Chapter 10	At-Risk and Passive Activities <i>Review Questions & Learning Activity</i>
Final Exam	
Glossary	
Publication 463	
Publication 946	
Index	

SMALL BUSINESS II TAX COURSE

Table of Contents

Chapter 1	Understanding the Balance Sheet <i>Review Questions & Learning Activity</i>
Chapter 2	Partnership Issues <i>Review Questions & Learning Activity</i>
Chapter 3	Partnerships <i>Review Questions & Learning Activity</i>
Chapter 4	Corporate Issues (Part I) <i>Review Questions & Learning Activity</i>
Chapter 5	Corporate Issues (Part II) <i>Review Questions & Learning Activity</i>
Chapter 6	S Corporations <i>Review Questions & Learning Activity</i>
Chapter 7	Fringe Benefits, Business Tax Credits, Amended Returns <i>Review Questions & Learning Activity</i>
Chapter 8	Farm Income (Part I) <i>Review Questions & Learning Activity</i>
Chapter 9	Farm Income (Part II) <i>Review Questions & Learning Activity</i>
Chapter 10	Part I: Tax Practitioner Regulations and Penalties Part II: Taxes and Tax Research <i>Review Questions & Learning Activity</i>
Final Exam	
Glossary	
Index	

CALIFORNIA BUSINESS TAX LIABILITIES

Table of Contents

Chapter 1	Business Organization
	<i>Review Questions</i>
Chapter 2	Income, Expenses and Basis
	<i>Review Questions</i>
Chapter 3	Employment Taxes
	<i>Review Questions</i>
Chapter 4	California Business Tax & Payroll Requirements
	<i>Review Questions</i>
Chapter 5	Dispositions
	<i>Review Questions</i>
Chapter 6	Ethics
	<i>Review Questions</i>
Chapter 7	Tax Law Updates
	<i>Review Questions</i>
Final Exam	
Glossary	
Appendix 1	California 540 & 540A Personal Income Tax Booklet
Publication 583	
Publication 334	
Publication 535	
Publication 551	
Publication 15	
FTB Publication 1001	
DE 44	
Publication 470	
Circular 230	
Index	

SPECIAL COLLEGE & CAREER SCHOOL PRICING POLICY

Qualification Requirements

Colleges that are accredited by a recognized college accrediting agency and private vocational or career schools **that are not also in the income tax preparation or electronic filing business**, and are licensed to operate as schools legally in their states will qualify for the following pricing:

- **No Operator's License or Fee**
- Qualified schools are not required to buy the Operations Kit or sign the license agreement.
- **Special Shipping Policy**
- Books may be shipped Freight Collect (COD) to qualified schools or college book stores.
- **Special Return Policy**
- Qualified schools will have 15 days from the start date of the course in which to return any unopened books for a full refund (excluding any freight charges).
- **Volume Discounts**
- The following discounts apply to school books and online courses (not including the Operations Manual, license fee, student kits, marketing materials, other additional materials or shipping & handling) purchased with a single order form. Discount pricing is available on individual books or individual online course orders, not on student kits.
 - 100 - 199 students 25% discount
 - 200 - 399 students 30% discount
 - 400 - 599 students 35% discount
 - 600 or more students 40% discount

Money Back Guarantee

If, for any reason, you are not completely satisfied with The Income Tax School, you may return all materials for a full refund under these terms:

- Full refund (within 15 days) of the purchase price (plus any tax) for all materials returned in unused condition within fifteen (15) days from receipt of all course materials from The Income Tax School.
- Shipping charges (either way) will not be refunded.
- Returned materials must be unused and in re-sellable condition.
- Refunds for partial returns of school kit components will be based on the prices from the kit as they would be if they were priced individually, not from the individual prices listed separately on the price sheet.
- Materials may not be copied. The purchaser will still be bound by the confidentiality and non-complete provisions of The Income Tax School Program License Agreement.

Please call Chuck McCabe or Sheila Clark at (800) 984-1040 if you have any questions.

OPERATIONS MANUAL

Table of Contents

INTRODUCTION

License Agreement
Purpose and Benefits of The Income Tax School
Components of the Package
Description of The Income Tax School Courses
Chartered Tax Professional Program (CTP)
Tax Preparer Internships
School Credentials
Corporate Biographies
Legal Compliance
Operating Through a College or School & Other Possibilities

SUPPLIES

Establishing Goals
Ordering Supplies
Volume Discount Schedule
Supply Order Form
Tax School Catalogs

MARKETING

Marketing Overview
Media Advertising (Newspaper)
Targeted Advertising
Window Banners, Flyers & Posters
Public Relations
Quality of Leads
Sample Press Releases
Sample Tax School Ads / Window Banner & Poster
Sample Tax School Brochure

INQUIRY & FOLLOW-UP PROCEDURES

Overview
Telephone Answering
The Initial Inquiry
Telephone Techniques
Brochure & Cover Letter/Class Information
First Follow-up
Open House
Invitation to First Class Session
Final Follow-up Letter
Inquiry & Follow-up Card - Sample
Cover Letter/Class Info - Sample
Registration Form - Sample
First Follow-up Letter - Sample
Open House Invitation Cover Letter - Sample
Open House Invitation - Sample
Final Follow-up Letter - Sample

RECORDKEEPING

- Inquiry & Follow-up Card Procedure
- Student Academic Record Procedure
- Student Payments Procedure
- Student Survey Form Procedure
- Student Counseling Procedure
- Student Academic Record Form - Sample
- Student Survey Form - Sample
- Student Counseling Form - Sample

INSTRUCTORS

- Qualifications
- Compensation
- Employment Agreement Policy
- Assistant Instructor
- Student Evaluation of Instruction Procedure
- Student Evaluation of Instruction Form - Sample
- Instructor's Agreement Sample
- Instructor Training Outline - Live
- Instructor Training Outline - Online Course

CLASSROOM(S)

- Requirements
- Classroom Set-up
- Classroom Alternatives
- Classroom Layout
- Teaching Equipment & Aids
- Sample Classroom Layouts
- Suggestions for Teaching an Online Course

GRADUATION

- Determining Student Progression & Grading with Online School
- Determining Grading in a Classroom Environment
- Graduation Requirements
- Continuing Professional Education Regulations
- Requesting Certificates for Graduates
- Certificate of Achievement - Sample
- Request for Certificates of Completion

RECRUITING EMPLOYEES

- Recruiting Students for Employment
- Tax Associate Hours & Location Preferences Form - Sample
- Tax Associate Employment Inquiry Form - Sample
- Test of Basic Tax Knowledge
- Answer Key for Test of Basic Tax Knowledge
- Answer Sheet for Test of Basic Tax Knowledge

PLANNING

- Activity Timetable



THE INCOME TAX SCHOOL

**Sample Instructor
Guide – Chapter 5
Comprehensive
Tax Course**

Chapter 5: Earned Income Credit

Review Chapter 4 Learning Activity with students. Go over any questions students may have.

Credits

Review refundable and nonrefundable credits with students. The student should understand how refundable and nonrefundable credits may affect the taxpayer's income tax return.

Earned Income Tax Credit

The tax preparer will probably do many more tax returns with earned income credit than any other credit. It is very important that students have a clear understanding of the EIC because this is the area where fraud most often occurs. Income tax returns with the EIC also have the greatest potential for erroneous filing with regard to the filing status and dependency exemptions.

Earned Income

Stress that all income is **not** considered "earned income." One cannot merely transfer the figure from the Adjusted Gross Income to the Earned Income Credit form. Go over the chart in the student manual and discuss what constitutes earned income for EIC purposes.

Valid Social Security Number

The instructor should stress to the student the importance of seeing the taxpayer's (and spouse if MFJ) and his dependents' Social Security cards. The taxpayer will not be allowed to claim the EIC if his card is marked as ***not valid for employment***.

Eligibility Rules for EIC

The instructor should review the rules of eligibility for the EIC. Students need to be aware of the individual eligibility rules for taxpayers with and without children. The rules include up to a third child for tax year 2010.

Earned income credit has been targeted by the IRS for frequent fraud, so it is extremely important that the preparer determines that the taxpayer truly qualifies for this credit. Emphasize that all the requirements must be met before attempting to claim this credit.

Adjusted Gross Income

The instructor should stress the difference between AGI and earned income. Review the following example with students to help them better understand modified AGI.

Example: Rebecca Austin (age 52, SSN 245-78-9874) lives alone with her son, Dylan (age 17, SSN 245-99-4477). Rebecca works with Watson Enterprises and received a W-2 reporting \$21,010 in wages. Rebecca also received \$1,026 in interest. Rebecca had no other income and she did not have deferred compensation listed on her Form W-2. What is Rebecca's AGI and earned income?

Rebecca's AGI is her wages plus the interest, \$22,036. Her earned income is \$21,010.

Married Filing Separate

Remind students that a taxpayer filing Married Filing Separately is not eligible to claim EIC.

Qualifying Child

Review the qualifying child rules with the students. Students need a very clear understanding of the definition of a qualified child. There are 4 tests which must be met.

Qualifying Child of More Than One Person

Review the rules for a qualified child of more than one person. Examine the tie-breaker rules and review the examples in the student's text. Be certain to review the examples in the book with the students.

EIC for Taxpayers without Qualifying Children

Remind students that taxpayers who do not have qualifying children may also be eligible for the EIC.

Schedule EIC and Worksheets

Schedule EIC must be attached to Form 1040 or 1040A if the taxpayer is claiming the EIC using a qualifying child. All required information should be completed; otherwise, the taxpayer may experience a delay or denial of the EIC.

Earned Income Credit Limitations

Review the earned income credit limitations with the students. Stress the importance of preparing the earned income credit worksheets. Students will need to complete the EIC Eligibility Worksheets and EIC Worksheet A (or B) to determine the taxpayer's EIC.

Advance Earned Income

Students should be aware that advance earned income credit is no longer available after tax year 2010.

EIC Disallowed

Discuss the reasons taxpayers are denied or disallowed the EIC. Reviewing Social Security cards of everyone listed on the return could greatly reduce the number of returns denied the EIC.

Students should ask a taxpayer if he has received a letter or notice from the IRS regarding a denied EIC claim. If the client has received a letter, the student should be aware that the taxpayer will be required to attach Form 8862 to his return.

EIC Examination Procedures

Review EIC exam procedures. Most students will not be experienced enough to assist a taxpayer with an EIC exam letter; however, students need to be aware of the types of documentation that the taxpayer may be required to provide for the Internal Revenue Service.

Due Diligence

Discuss due diligence in-depth, with the class. Students should be aware of the penalties a preparer faces if he fails to practice due diligence. Review Form 8867 and go over the due diligence worksheets.

Classroom Review Questions

- Q: Define and give an example of a refundable credit.**
- Q: Define and give an example of a nonrefundable credit.**
- Q: What is the earned income credit (EIC)?**
- Q: Define and give examples of earned income.**
- Q: What types of income are included for purposes of earned income credit?**
- Q: What types of income are not included for purposes of earned income credit?**
- Q: What tests must be met for a child to be considered a qualified child?**
- Q: A child age 19, not in school and unemployed during the tax year may be considered a qualifying child. True or False?**
- Q: Who is entitled to use a child as a qualifying child if the child meets the rules for more than one person?**
- Q: What is advanced earned income credit?**
- Q: For what reason would a taxpayer be disallowed EIC?**
- Q: If a taxpayer is denied EIC, what form must he complete to become eligible to claim the EIC again?**
- Q: What penalties does a taxpayer face if he is found to be negligent in filing a claim for the EIC?**
- Q: What penalties does a taxpayer face if he is found to be fraudulent in filing a claim for the EIC?**
- Q: Describe due diligence.**
- Q: What penalties does a tax preparer face if it is determined that he has not practiced due diligence?**

Interviewing Clients

Zach (age 45, DOB: 7/2/65, SSN 258-25-3698) and Trish Pendleton (age 42, DOB: 10/31/68, SSN 147-25-8963)

9784 Midtown Derby Road
Your City, Your State – Your Zip

Children

Ashley, age 17, DOB: 9/22/93, SSN 258-14-7896

Kristin, age 18, DOB: 2/24/92, SSN 258-36-9874

Mark, age 19, DOB: 10/26/91, SSN 147-78-7412

W-2 wages \$58,011 with withholding of	\$8,201
Unemployment received	\$ 859
First Union Bank interest	\$ 187
Wachovia Bank interest	\$ 163
Dominion Resources dividends	\$ 69

Abigail Withers (age 81, DOB: 9/20/29, SSN 197-52-4109)

7418 Shelby Terrace
Your City, Your State – Your Zip

Widowed in 2009

No dependents.

Interest from:

First Market Bank	\$1,928
Wachovia Bank	\$4,101
First Union Bank	\$ 586
Crestar Bank	\$2,568

Dominion Resources dividends	\$412
AT&T dividends	\$103
Capital One dividends	\$274
Acme Corporation dividends	\$754

All dividends are ordinary dividends

James (age 20, DOB: 9/13/90, SSN 404-55-1212) and Jill Olsen (age 18, DOB: 4/1/92, SSN 404-22-2367)

1903 Country Club Dr.
Your City, Your State – Your Zip

W-2 income--James \$5,306 with withholding of \$103
Jill \$6,704 with withholding of \$224
Unemployment compensation for James was \$4,583

Elizabeth Garrett (age 45, DOB: 1/6/65, SSN 212-43-9090)
2120 S. Park Ave.
Your City, Your State – Your Zip

Child: Suzanne (age 17, DOB: 6/6/93, SSN 212-98-3658)

W-2 wages \$35,989 with withholding of \$7,835
Child Support \$12,000
Alimony received \$6,500

Chapter 5: Review Questions

1. Joe is confused about refundable versus nonrefundable credits. His preparer explains nonrefundable credits can reduce tax liability to zero but never add to his refund. Which of the following credits is a nonrefundable credit?
 - a) **Child and dependent care credit**
 - b) Additional child tax credit
 - c) Earned income credit
 - d) Excess Social Security withheld

a) **Correct. Child and dependent care credit is a nonrefundable credit as determined by the IRS. Page 5.1**

b) *This answer is incorrect. Additional child tax credit is a refundable credit as determined by the IRS.*

c) *This answer is incorrect. Earned income credit is a refundable credit as determined by the IRS.*

d) *This answer is incorrect. Excess Social Security withheld is a refundable credit as determined by the IRS.*
2. Tony tells Judith, his tax preparer, that a friend who has children told him about getting a bigger refund because of earned income credit. Tony, who has no children, wants to know if this is something he is eligible to claim. Which of the following is the most accurate statement in regard to who can claim the earned income credit?
 - a) Taxpayers who have earned income with children
 - b) Taxpayers who have earned income with no children
 - c) **Taxpayers who have earned income with or without children**
 - d) Taxpayers who have earned income only

a) *This answer is incorrect. Earned income credit is a refundable credit available to taxpayers with children but also is available to taxpayers without children.*

b) *This answer is incorrect. Earned income credit is a refundable credit available to taxpayers without children but also is available to taxpayers with children.*

c) **Correct. Earned income credit is a refundable credit available to taxpayers with and without children. Pages 5.1-5.2**

d) *This answer is incorrect. The earned income tax credit is available for taxpayers who worked and had earned income under a specific limit. The taxpayer can receive income from other sources such as interest from a savings account; however, investment income may negatively impact the taxpayer's eligibility for EIC.*

3. Judith also explains to Tony he must have earned income to be eligible and gives him some examples. Which of the following is listed **incorrectly** as earned income for purposes of the earned income credit?
- a) Wages, salaries, and tips
 - b) Net earnings from self-employment
 - c) Gross income received as a statutory employee
 - d) **Unemployment compensation**
- a) *This answer is incorrect. Wage, salaries, and tips are examples of earned income.*
b) *This answer is incorrect. Net earnings from self-employment would be an example of earned income.*
c) *This answer is incorrect. Gross income received as a statutory employee is an example of earned income.*
d) **Correct. Unemployment compensation is not considered earned income for purposes of earned income credit. Page 5.2**
4. Tony asks Judith about other types of income he has received. She explains the difference between earned and unearned income. Which of the following is an example of earned income for purposes of the earned income credit?
- a) Interest and dividends
 - b) Alimony
 - c) Pensions and annuities
 - d) **Union strike benefits**
- a) *This answer is incorrect. Interest and dividends are not earned income for purposes of the earned income credit.*
b) *This answer is incorrect. Alimony is not an example of earned income for purposes of the earned income credit.*
c) *This answer is incorrect. Pensions and annuities are not earned income for purposes of the earned income credit.*
d) **Correct. Union strike benefits are earned income for purposes of the earned income credit. Page 5.2.**

5. Allison lives in a community property state with her two children (ages 9 and 11). She has been separated from her husband for more than a year. The portion of her husband's earned income that is considered to be income to Allison (under community property laws) is \$15,292. Allison's earned income is \$12,000. Allison also received unemployment compensation of \$780. For earned income credit purposes, what is Allison's earned income?
- a) \$27,292
 - b) \$12,000**
 - c) \$12,780
 - d) \$28,072
- a) *This answer is incorrect. In determining earned income (for the purposes of earned income credit) in a community property state only the taxpayer's own earned income is used. Do not include income from the spouse that is considered income under community property rules.*
- b) Correct. In determining earned income (for the purposes of earned income credit) in a community property state only the taxpayer's own earned income is used. You do not include income from the spouse that is considered income under community property rules. Allison's earned income is \$12,000. Page 5.3**
- c) *This answer is incorrect. This answer adds Allison's earned income and the amount of unemployment compensation Allison received. The rules for calculating income for purposes of the earned income credit specifically exclude unemployment compensation.*
- d) *This answer is incorrect. In determining earned income (for the purposes of earned income credit) in a community property state only the taxpayer's own earned income is used.*
6. Emily, who has a 10 year old daughter, separated from her husband in November. In the past when she and her husband filed a joint return they received earned income credit. She is concerned whether or not she is still eligible for EIC. Her tax preparer explains there are many factors to determine this including her filing status. Which filing status would make Emily **ineligible** for EIC?
- a) Head of Household
 - b) Married Filing Separate**
 - c) Single
 - d) Qualifying Widow(er)
- a) *This answer is incorrect. Head of Household filing status is eligible for EIC.*
- b) Correct. A taxpayer using the filing status Married Filing Separate is not eligible for EIC. There are many credits that are either not eligible for or reduced by using the filing status of Married Filing Separate. Pages 5.5-5.6**
- c) *This answer is incorrect. Single filing status is eligible for EIC.*
- d) *This answer is incorrect. Qualifying Widow(er) filing status is eligible for EIC.*

7. Emily's tax preparer explains there are several tests involved in determining if a child is a *qualifying* child for purpose of EIC. Which of the following tests is **not** required to determine qualifying child eligibility?
- a) Relationship test
 - b) Age test
 - c) Residency test
 - d) **Support test**
- a) *This answer is incorrect. Relationship test is a test for a qualifying child for purposes of EIC.*
- b) *This answer is incorrect. Age test is a test for a qualifying child for purposes of EIC.*
- c) *This answer is incorrect. Residency test is a test for a qualifying child for purposes of EIC.*
- d) **Correct. For the purposes of EIC, a qualifying child is not required to meet a support test. Page 5.6**
8. Mrs. Miller loves children and has several living with her. She asks her preparer which if any of the children would be considered a qualifying child for purposes of earned income credit. Which of the following would be considered to be **invalid** as a qualifying child for purposes of EIC?
- a) **Your roommate's child**
 - b) Foster child
 - c) Stepchild
 - d) Grandchild
- a) **Correct. Your roommate's child does not meet the relationship test for purposes of earned income credit. Page 5.7**
- b) *This answer is incorrect. An eligible foster child meets the relationship test for the purposes of earned income credit.*
- c) *This answer is incorrect. A stepchild meets the relationship test for purposes of earned income credit.*
- d) *This answer is incorrect. A grandchild meets the relationship test for purpose of earned income credit.*

9. Edward has a foster child through an authorized placement agency and cares for him like his own. In order for Edward to be able to claim his foster child for purposes of EIC, the child must have lived with Edward for how long?
- a) At least some part of the year
 - b) More than the child lived with anyone else
 - c) The entire year
 - d) **More than six months**
- a) *This answer is incorrect. A foster child that lives with the taxpayer for some part of the year does not meet the IRS requirement for a foster child for purposes of earned income credit.*
- b) *This answer is incorrect. A foster child that lives with the taxpayer more than the child lived with anyone else does not meet the IRS requirement for a foster child for purposes of earned income credit.*
- c) *This answer is incorrect. A foster child that lives with the taxpayer all year meets the IRS requirement for a foster child for purposes of earned income credit, but this is not the minimum requirement.*
- d) **Correct. To meet the IRS requirement as a foster child (for purposes of earned income credit) must have lived with the taxpayer more than six months of the year. Pages 5.6 and 5.8**
10. A child meets all the rules to be a qualifying child for more than one person for purposes of EIC (one person is a parent, the other a grandparent). According to the tie-breaker rules, which person will be allowed to claim the child for purposes of EIC if the individuals do not mutually agree on who will claim the child as a qualifying child?
- a) The grandparent can claim the child for purposes of EIC
 - b) **The parent can claim the child for purposes of EIC**
 - c) The individual who has legal custody of the child
 - d) The person with the lower AGI will claim the child for purposes of EIC
- a) *This answer is incorrect. The grandparent would not be eligible to claim the exemption according to the tie-breaker rules.*
- b) **Correct. The tie-breaker rule states if the choice is between a parent and a non-parent, the parent will be allowed to claim the exemption. Pages 5.9-5.10**
- c) *This answer is incorrect. The individual who has legal custody of the child does not have the first right to claim the exemption according to the tie-breaker rules*
- d) *This answer is incorrect. The tie-breaker rule states if neither person is the child's parent, the person with the highest AGI will be allowed to claim the exemption.*

11. David, who has no children, asks his tax preparer about EIC. The preparer explains David must meet all of the following qualifications to be eligible for EIC in tax year 2010 **except**:
- a) Have an AGI of less than \$13,460 (\$18,470 if Married Filing Jointly)
 - b) Be at least age 25 but under age 65 at the end of 2010
 - c) The taxpayer may not be a dependent of another person
 - d) **The taxpayer must be married filing a joint return**
- a) *This answer is incorrect. Having an AGI of less than \$13,460 (\$18,470 if Married Filing Jointly) is a qualification to be eligible for EIC.*
- b) *This answer is incorrect. Being at least age 25 but under age 65 at the end of 2010 is a qualification to be eligible for EIC.*
- c) *This answer is incorrect. The taxpayer not being a dependent of another person is a qualification to be eligible for EIC.*
- d) **Correct. There is no requirement that a taxpayer must be married filing a joint return to be eligible for EIC. Page 5.5**
12. Lucinda is a single mom with two children, ages 5 and 9. Lucinda has AGI of \$19,174 which includes earned income of \$18,942 and interest income of \$232. She supports her family without any additional help from other sources. Based on the information above what is the amount of Lucinda's EIC?
- a) \$0
 - b) \$2,614
 - c) **\$4,462**
 - d) \$4,515
- a) *This answer is incorrect. Lucinda qualifies for the earned income credit.*
- b) *This answer is incorrect. \$2,654 is the amount if Lucinda had only one qualifying child.*
- c) **Correct. EIC is based on a comparison of AGI to earned income. In Lucinda's case the EIC based on her AGI is less than the EIC based on her earned income. She will receive the lesser amount of EIC. Page 5.5 and EIC tables from Pub. 596 or 1040 Instructions**
- d) *This answer is incorrect. \$4,515 is the amount Lucinda would have received if the EIC was based on her earned income.*
13. Lucinda completed Form W-5 and gave it to her employer so she could receive advance earned income credit during 2010 instead of waiting to receive it all at the time she gets her tax refund. What will she need to do to receive advance EIC payments for tax year 2011?
- a) Notify the IRS
 - b) Complete Form W-5 and give it to her employer
 - c) Advance EIC payments will no longer be available
 - d) Notify her employer
- a) *This answer is incorrect. Advance EIC payments are not available after December 31, 2010.*
- b) *This answer is incorrect. Advance EIC payments are not available after December 31, 2010.*
- c) **Correct. Advance EIC payments will not be available after December 31, 2010. Pages 5.26-5.27**
- d) *This answer is incorrect. Advance EIC payments are not available after December 31, 2010*

14. When Peter filed his tax return the IRS disallowed the EIC he was expecting. For which of the following reasons would the IRS disallow EIC?
- a) The taxpayer used filing status Married Filing Separate
 - b) The child did not live with the taxpayer for the required period
 - c) The child's age exceeds the statutory limit
 - d) **Any of the reasons listed in the other three answer choices would be grounds for the IRS to disallow EIC**
- a) *This answer is incorrect. If the taxpayer used an incorrect filing status and should have used Married Filing Separate the IRS would disallow EIC, but this is not the only correct answer.*
- b) *This answer is incorrect. If the child did not live with the taxpayer for the required period the IRS would disallow EIC, but this is not the only correct answer.*
- c) *This answer is incorrect. If the child's age exceeds the statutory limit the IRS would disallow EIC but may also disallow it for other reasons.*
- d) **Correct. The IRS would disallow EIC if the taxpayer used an incorrect filing status and should have used Married Filing Separate, if the child did not live with the taxpayer for required period, or if the child's age exceeds the statutory limit. Page 5.27**
15. All of the following taxpayers meet the income and residency tests for EIC. They do not have a qualifying child. Which taxpayer does **not** meet all of the tests to qualify for EIC?
- a) A 67 year old taxpayer and his 59 year old wife
 - b) A 32 year old single taxpayer
 - c) **A 24 year old taxpayer and his 24 year old wife**
 - d) A 25 year old single taxpayer
- a) *This answer is incorrect. The age requirement for a taxpayer without a qualifying child is be at least 25, but under 65 at the end of the year. A 67 year old taxpayer and his 59 year old wife would qualify. If a joint return both taxpayers do not have to meet the age requirement.*
- b) *This answer is incorrect. The age requirement for a taxpayer without a qualifying child is be at least 25, but under 65 at the end of the year. A 32 year old single taxpayer would qualify.*
- c) **Correct. The age requirement for a taxpayer without a qualifying child is be at least 25, but under 65 at the end of the year. A 24 year old taxpayer and his 24 year old wife would not qualify. Neither meets the age requirement of at least 25 years of age. At least one of the taxpayers on a joint return must meet this age requirement. Page 5.5**
- d) *This answer is incorrect. The age requirement for a taxpayer without a qualifying child is be at least 25, but under 65 at the end of the year. A 25 year old single taxpayer would meet the requirement.*

Chapter 5: Learning Activity

Scenario 1 – May Reynolds

Complete an EIC worksheet and Schedule EIC for May Reynolds.

May Reynolds is single, (age 51, DOB: 1/19/59, SSN 234-00-9089). She works as a customer service representative. Her children have lived with her, all year. Sally is (age 17, DOB: 11/21/93, 224-12-4497) and Thomas is (age 18, DOB: 5/8/92, 224-15-3465). She has paid all the cost of maintaining her home and all the costs for the support of her children. Both of her children are enrolled in high school and neither have jobs. Her Forms W-2 follow.

a Control Number				OMB No.1545-0008	
b Employer Identification Number 43-0334550			1 Wages, tips, other compensation 19493.46		2 Federal Income Tax Withheld 1032.01
c Employer's name, address, and zip code Jackson Management 9456 Hudson Highway Your City, Your State – Your Zip			3 Social Security wages 19743.46		4 Social Security tax withheld 1224.09
			5 Medicare wages and tips 19743.46		6 Medicare tax withheld 286.28
			7 Social Security tips		8 Allocated tips
d Employee's Social Security number 234-00-9089			9 Advance EIC payments		10 Dependent care benefits
e Employee's first name and initial May		Last name Reynolds		11 Nonqualified plans	
f Employee's address and ZIP code 1801 South Dr. Your City, Your State – Your Zip			13 Statutory Retirement Third-Party employee plans sick pay X		12 a See instructions for box 12 DOB D 250
			14 Other		12 b See instructions for box 12 DOB
					12 c See instructions for box 12 DOB
					12 d See instructions for box 12 DOB
15 State YS	Employer's state ID number 430334550	16 State wages, tips, etc. 19493.46	17 State income tax 953.00	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

a Control Number		OMB No.1545-0008					
b Employer Identification Number 54-0355135			1 Wages, tips, other compensation 2329.00		2 Federal Income Tax Withheld		
c Employer's name, address, and zip code Austin Services 1247 Galway Drive Your City, Your State – Your Zip			3 Social Security wages 2329.00		4 Social Security tax withheld 144.40		
			5 Medicare wages and tips 2329.00		6 Medicare tax withheld 33.77		
			7 Social Security tips		8 Allocated tips		
d Employee's Social Security number 234-00-9089			9 Advance EIC payments		10 Dependent care benefits		
e Employee's first name and initial May		Last name Reynolds		11 Nonqualified plans		12 a See instructions for box 12	
f Employee's address and ZIP code 1801 South Dr. Your City, Your State – Your Zip			13 Statutory employee Retirement plans Third-Party sick pay		12 b See instructions for box 12		
			14 Other		12 c See instructions for box 12		
					12 d See instructions for box 12		
15 State YS	Employer's state ID number 540355135	16 State wages, tips, etc. 2329.00	17 State income tax 353.95	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

Scenario 2 – Joe and Anna Baker

Complete Form 8867 for the Bakers.

Joe (age 43, DOB: 7/20/67, SSN 222-00-5556) and Anna Baker (age 39, DOB: 2/26/71, SSN 307-00-1234) are married and have lived together all year. They have a son, Mike (age 13, DOB: 4/9/97, 123-33-3345) and a daughter, Kathy (age 12, DOB: 3/20/98, SSN 123-34-4445). Joe is a mailroom clerk and Anna works part time as a cashier. Their Forms W-2 follow.

a Control Number		OMB No.1545-0008					
b Employer Identification Number 95-2515784			1 Wages, tips, other compensation 8452.25		2 Federal Income Tax Withheld 69.01		
c Employer's name, address, and zip code Millhouse, Inc. 62 Fox Tail Drive Your City, Your State – Your Zip			3 Social Security wages 8452.25		4 Social Security tax withheld 524.04		
			5 Medicare wages and tips 8452.25		6 Medicare tax withheld 122.56		
			7 Social Security tips		8 Allocated tips		
d Employee's Social Security number 307-00-1234			9 Advance EIC payments		10 Dependent care benefits		
e Employee's first name and initial Anna		Last name Baker		11 Nonqualified plans		12 a See instructions for box 12 code	
f Employee's address and ZIP code 424 Butter Dr. Your City, Your State – Your Zip			13 Statutory Retirement Third-Party employee plans sick pay		12 b See instructions for box 12 code		
			14 Other		12 c See instructions for box 12 code		
					12 d See instructions for box 12 code		
15 State YS	Employer's state ID number 95-2515784	16 State wages, tips, etc. 8452.25	17 State income tax 211.30	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

a Control Number		OMB No.1545-0008					
b Employer Identification Number 54-5303203			1 Wages, tips, other compensation 22505.40		2 Federal Income Tax Withheld 1445.11		
c Employer's name, address, and zip code Jingle Systems 4811 Justice Lane Your City, Your State – Your Zip			3 Social Security wages 22505.40		4 Social Security tax withheld 1395.33		
			5 Medicare wages and tips 22505.40		6 Medicare tax withheld 326.33		
			7 Social Security tips		8 Allocated tips		
d Employee's Social Security number 222-00-5556			9 Advance EIC payments		10 Dependent care benefits		
e Employee's first name and initial Joe		Last name Baker		11 Nonqualified plans		12 a See instructions for box 12	
f Employee's address and ZIP code 424 Butter Dr. Your City, Your State – Your Zip			13 Statutory employee Retirement plans Third-Party sick pay		12 b See instructions for box 12		
			14 Other		12 c See instructions for box 12		
					12 d See instructions for box 12		
15 State YS	Employer's state ID number 54-5303203	16 State wages, tips, etc. 22505.40	17 State income tax 919.38	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

Scenario 3 – Angel Martinez

Complete the Cost of Maintaining a Household worksheet for Angel Martinez.

Angel Martinez is 45 years old, DOB: 10/25/65, SSN 303-00-1234. Her husband, Max, (age 40 DOB: 11/1/70 a, SSN 344-00-7569) moved out of their home in February of tax year 2010. Max did not have job during the first two months of the year, and has had no contact with Angel since he left. Angel filed a petition for legal separation in April of 2010. Angel has two children, Angela (age 14, DOB: 8/7/96, SSN 344-54-7596) and Andrew (age 15, DOB: 6/18/95, SSN 344-54-7597). Angel paid the following expenses from her wages:

Food:	\$2,225
Electric:	\$1,430
Rent:	\$3,750

Angel's mother paid the following expenses for Angel.

Water:	\$600
Property Taxes:	\$175
Other expenses:	\$498

Angel paid all other expenses for the children's support with the funds from AFDC and her income.

Cost of Maintaining a Household			
Expenses Paid	Amount Taxpayer Paid	Amount Paid by Others	Total Cost
Property Taxes		175	175
Mortgage Interest Expense			
Rent	3,750		3,750
Utility Charges	1,430	600	2,030
Upkeep & Repairs			
Property Insurance			
Food Consumed on Premises	2,225		2,225
Other Household Expenses		498	
Totals	7,405	1,273	8,678
Minus totals amount paid by taxpayer			7,405
Amount paid by others			1,273
If the total amount paid by the taxpayer is more than the amount all others paid, the taxpayer meets the requirement of paying more than half the cost of keeping up the home.			

Scenario 4 – Amanda Luther

Complete a tax return for Amanda Luther.

Amanda Luther, single, (age 43, DOB: 8/4/67, 334-00-1113) has lived with her son, Adam (age 18, DOB: 11/13/92, SSN 213-23-9087) all year. They live at 3205 Merryweather Dr., Apt. B, Your City, Your State – Your Zip. Amanda is a receptionist and she does not wish to designate \$3 of her taxes for the Presidential Election Campaign Fund. She provided more than half the costs of maintaining her home and provided more than half of the support for her child.

a Control Number		OMB No.1545-0008					
b Employer Identification Number 54-1111111			1 Wages, tips, other compensation 8452.25			2 Federal Income Tax Withheld 431.75	
c Employer's name, address, and zip code Recycling Construction Corp. P O BOX 2 Your City, Your State – Your Zip			3 Social Security wages 8452.25			4 Social Security tax withheld 524.04	
			5 Medicare wages and tips 8452.25			6 Medicare tax withheld 122.56	
			7 Social Security tips			8 Allocated tips	
d Employee's Social Security number 334-00-1113			9 Advance EIC payments			10 Dependent care benefits	
e Employee's first name and initial Amanda		Last name Luther		11 Nonqualified plans			12 a See instructions for box 12 FEDERAL
f Employee's address and ZIP code 3205 Merry Weather Dr. APT B Your City, Your State – Your Zip				13 Statutory Retirement Third-Party employee plans sick pay			12 b See instructions for box 12 FEDERAL
				14 Other			12 c See instructions for box 12 FEDERAL
							12 d See instructions for box 12 FEDERAL
15 State YS	Employer's state ID number 0010725585	16 State wages, tips, etc. 8452.25	17 State income tax 101.42	18 Local wages, tips, etc.	19 Local income tax		20 Locality name

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

a Control Number 09007		OMB No.1545-0008					
b Employer Identification Number 54-2563589				1 Wages, tips, other compensation 13393.74		2 Federal Income Tax Withheld 1088.31	
c Employer's name, address, and zip code ARC RECYCLING CAPITAL PROJ PO BOX 21 Your City, Your State – Your Zip				3 Social Security wages 13393.74		4 Social Security tax withheld 830.41	
				5 Medicare wages and tips 13393.74		6 Medicare tax withheld 194.21	
				7 Social Security tips		8 Allocated tips	
d Employee's Social Security number 334-00-1113				9 Advance EIC payments		10 Dependent care benefits	
e Employee's first name and initial Amanda		Last name Luther		11 Nonqualified plans		12 a See instructions for box 12 c o d e	
f Employee's address and ZIP code 3205 Merry Weather Dr. APT B Your City, Your State – Your Zip				13 Statutory Retirement Third-Party employee plans sick pay		12 b See instructions for box 12 c o d e	
				14 Other		12 c See instructions for box 12 c o d e	
						12 d See instructions for box 12 c o d e	
15 State YS	Employer's state ID number 54-0355135	16 State wages, tips, etc. 13393.74	17 State income tax 287.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

Scenario 5 – Ronald Roberts

Complete a tax return for Ronald Roberts

Ronald Roberts (age 42, DOB: 7/16/68, SSN 434-00-1352) lived with his child, Robert (age 17, DOB: 12/2/93, SSN 434-56-0009) at 3316 Sunny Dale Drive, your City, Your State –Your Zip. Ronald is an insurance salesman and wishes to designate \$3 of his taxes for the Presidential Election Campaign Fund. Ronald has been divorced from Robert's mother, Maggie, for four years and has custody of Robert. Robert lived with his father all year. Ronald and Maggie have agreed that each would claim Robert as a dependent on his or her tax return in alternating years. Ronald is entitled to claim Robert as a dependent on his return; however, he has signed Form 8332, *Release of Claim to Exemption*, to allow Maggie to claim Robert as a dependent on her return. His Form W-2 follows. In addition to W-2 income, he received interest from a savings account; the 1099-INT also follows.

Hint: Please review the “Special rule for divorced or separated parents or parents who live apart” on page 5.12.

a Control Number		OMB No.1545-0008					
b Employer Identification Number 54-5303201				1 Wages, tips, other compensation 21022.00		2 Federal Income Tax Withheld 798.00	
c Employer's name, address, and zip code Safetech, Inc. 981 Jasper Drive Your City, Your State – Your Zip				3 Social security wages 21022.00		4 Social security tax withheld 1303.36	
				5 Medicare wages and tips 21022.00		6 Medicare tax withheld 304.82	
				7 Social security tips		8 Allocated tips	
d Employee's social security number 434-45-1352				9 Advance EIC payments		10 Dependent care benefits	
e Employee's first name and initial Ronald		Last name Roberts		11 Nonqualified plans		12 a See instructions for box 12	
f Employee's address and ZIP code 3316 Sunny Dale Drive Your City, Your State – Your Zip				13 Statutory employee Retirement plans Third-Party sick pay		12 b See instructions for box 12	
				14 Other		12 c See instructions for box 12	
						12 d See instructions for box 12	
15 State Employer's state ID number YS 54-5303201		16 State wages, tips, etc. 21022.00		17 State income tax 525.55		18 Local wages, tips, etc.	
						19 Local income tax	
						20 Locality name	

Form W-2 Wage and Tax Statement 2010 Copy B to Be Filed with Employee's FEDERAL Tax Return

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Franklin Commerce Bank P O Box 10135 Your City, Your State – Your ZIP		Payer's RTN (optional)	OMB No. 1545-0115	2010 Form 1099-INT	Interest Income
		1 Interest income \$ 83.31			
		2 Early withdrawal penalty \$			
PAYER'S federal identification number 54-0138602	RECIPIENT'S identification number 434-00-1352	3 Interest on U.S. Savings bonds and Treas. Obligations \$			Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Ronald Roberts Street address (including apt. no.) 3316 Sunny Dale Drive City, State, and ZIP code Your City, Your State – Your ZIP		4 Federal income tax withheld \$	5 Investment expenses \$		
		6 Foreign tax paid \$	7 Foreign country or U.S. possession		
		8 Tax-exempt interest \$	9 Specified private activity bond interest \$		
Account number (see instructions)					

Form **1099-INT**

(keep for your records)

Department of the Treasury – Internal Revenue Service

Review the learning activity for Ronald Roberts. Does Robert qualify for earned income credit?
Yes, his son who meets the age requirements lived with him all year, he worked and made less than \$35,535.

What would happen if his interest income was \$8,331.00? **He would be ineligible for Earned Income Credit because his investment income would be over the limit.**

(Solutions follow the Learning Activity Questions.)

Chapter 5: Learning Activity Questions

1. Answer the following question based on the worksheets and forms you prepared for May Reynolds:

Select the total Earned Income Credit for May Reynolds:

- ☐ A) **\$3,904**
- ☐ B) \$3,893
- ☐ C) \$2,181
- ☐ D) \$4,959

2. Answer the following question based on the cost of Maintaining a Household worksheet you prepared for Angel Martinez:

What is the total amount Angel Martinez paid to maintain her household?

- ☐ A) \$1,273
- ☐ B) \$8,678
- ☐ C) **\$7,405**
- ☐ D) \$5,180

3. Answer the following question based on the tax return you prepared for Amanda Luther:

Which form did you use to file the Luther return?

- ☐ A) 1040
- ☐ B) **1040A**
- ☐ C) 1040EZ

4. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the total wages:

- ☐ A) \$13,394
- ☐ B) \$13,349
- ☐ C) \$21,684
- ☐ D) **\$21,846**

5. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the total income:

- ☐ A) **\$21,846**
- ☐ B) \$21,486
- ☐ C) \$21,646
- ☐ D) \$21,864

6. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the Adjusted Gross Income (AGI):

- ☐ A) \$21,646
- ☒ B) **\$21,846**
- ☐ C) \$21,486
- ☐ D) \$21,864

7. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the standard deduction:

- ☐ A) \$ 5,700
- ☐ B) \$ 7,300
- ☒ C) **\$ 8,400**
- ☐ D) \$11,400

8. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the total taxable income:

- ☐ A) \$21,846
- ☒ B) **\$ 6,146**
- ☐ C) \$13,446
- ☐ D) \$ 8,846

9. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the tax from the Tax Tables:

- ☒ A) **\$ 613**
- ☐ B) \$1,506
- ☐ C) \$ 313
- ☐ D) \$ 905

10. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the total tax:

- ☐ A) \$1,506
- ☐ B) \$ 313
- ☐ C) \$ 905
- ☒ D) **\$ 613**

11. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the total payments:

- ☐ A) \$1,520
- ☐ B) \$1,920
- ☒ C) **\$4,111**
- ☐ D) \$3,711

12. Answer the following question based on the tax return you prepared for Amanda Luther:

Select the refund:

- ☒ A) **\$3,498**
- ☐ B) \$3,098
- ☐ C) \$1,307
- ☐ D) \$1,707

13. Answer the following question based on the tax return you prepared for Ronald Roberts:

Which form did you use to file the Roberts return?

- ☐ A) 1040
- ☒ B) **1040A**
- ☐ C) 1040EZ

14. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the total wages:

- ☐ A) \$21,222
- ☒ B) **\$21,022**
- ☐ C) \$21,105
- ☐ D) \$21,005

15. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the total income:

- ☒ A) **\$21,105**
- ☐ B) \$21,022
- ☐ C) \$21,222
- ☐ D) \$21,005

16. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the Adjusted Gross Income (AGI):

- ☒ A) **\$21,105**
- ☐ B) \$21,022
- ☐ C) \$21,222
- ☐ D) \$21,005

17. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the standard deduction:

- ☒ A) **\$ 8,400**
- ☐ B) \$ 5,700
- ☐ C) \$ 8,800
- ☐ D) \$11,400

18. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select total taxable income:

- ☐ A) \$ 5,405
- ☐ B) \$ 8,972
- ☒ C) **\$ 9,055**
- ☐ D) \$11,755

19. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the tax from the Tax Tables:

- ☐ A) \$943
- ☐ B) \$928
- ☒ C) **\$908**
- ☐ D) \$543

20. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the total tax:

- ☒ A) **\$908**
- ☐ B) \$943
- ☐ C) \$928
- ☐ D) \$543

21. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the total payments:

- ☐ A) \$3,101
- ☒ B) **\$3,501**
- ☐ C) \$1,198
- ☐ D) \$ 798

22. Answer the following question based on the tax return you prepared for Ronald Roberts:

Select the refund:

- ☐ A) \$ 290
- ☒ B) **\$2,593**
- ☐ C) \$2,193
- ☐ D) \$ 0

See the returns following this page for additional explanation.



THE INCOME TAX SCHOOL

**Sample Student
Guide (partial) –
Chapter 5
Comprehensive
Tax Course**

Chapter 5: Earned Income Credit

Learning Objectives:

- Examine the most common tax credit, the Earned Income Credit
- Know the definition of earned income for Earned Income Credit
- Identify the requirements for qualifying children for Earned Income Credit purposes
- Understand how taxpayers without children may qualify for Earned Income Credit
- Determine how to fill out Schedule EIC and where to put the information from that form on the 1040 or 1040A forms
- Examine IRS due diligence requirements

Credits

A tax credit reduces the taxpayer's current tax liability dollar for dollar. There are two categories of credits: refundable and nonrefundable.

1. **Nonrefundable credits** may reduce the taxpayer's tax liability to zero. If the credit is more than the tax liability, the excess is not refunded. Most credits are nonrefundable. A nonrefundable credit may reduce the tax due to zero, but will not produce payments to the taxpayer. The most common of the nonrefundable credits include the foreign tax credit, child and dependent care expenses credit, education credit, retirement savings contributions credit, child tax credit, and credit for the elderly and disabled.

Example:	Total tax	\$481
	Child care credit	- 500
	Tax due/refund	\$ 0

2. **Refundable credits** are treated as tax payments. The credit amount is added to federal income tax withheld. If the total of these credits is more than the tax liability, the excess will be refunded. There are a number of refundable credits including:
 - additional child tax credit (Form 8812)
 - earned income credit (Schedule EIC and worksheets)
 - excess Social Security withheld
 - credit for federal tax paid on fuels (Form 4136)
 - credit for taxes paid by regulated investment companies (Form 2439)
 - credit for prior year minimum tax (Form 8801)
 - health coverage tax credit (Form 8885)
 - American Opportunity credit for education (Form 8863)
 - first time homebuyers credit (Form 5405)
 - Making Work Pay credit (Schedule M)
 - Adoption Credit refundable for 2010

Example:	Total tax	\$481
	Earned Income Credit	- 500
	Refund	\$ 19

This chapter covers the Earned Income Credit. The other credits will be discussed in a later chapter.

Earned Income Credit

The Earned Income Credit (EIC, also known as EITC, Earned Income Tax Credit) is a refundable credit available to taxpayers with and without children. EIC is a tax benefit available for taxpayers who worked and had earned income under a specified amount adjusted annually.

In order for a taxpayer to receive EIC, he must qualify by meeting certain rules (discussed later in this chapter), and he must file a return even if he does not owe federal taxes, doesn't meet the filing requirements for his filing status, and does not have federal income taxes withheld from his pay.

Earned Income

The taxpayer must have earned income to be eligible for the "earned income credit." Earned income is income the taxpayer received for working, even if it is not taxable. If the taxpayer is filing a joint return, the taxpayer meets the requirement for earned income if at least one spouse worked and had earned income. Listed in the chart below are items of income that are considered earned income and items that are not considered earned income (for purposes of the EIC).

Examples of Earned and Unearned Income for Purposes of EIC

Includes *	Does Not Include *
Taxable Earned Income (Enter on line 1, EIC worksheet)	Interest and Dividends
Wages, salaries, tips	Social Security and Railroad Retirement Benefits
Union strike benefits	Welfare benefits (including Aid to Families with Dependent Children (AFDC) payments)
Long-term disability benefits received prior to minimum retirement age	Workfare payments
Net earnings from self-employment (Enter on step 5, Form 1040 EIC worksheet)	Pensions and annuities
Gross income received as a statutory employee	Veterans' benefits, including VA rehabilitation payments
	Nontaxable foster care benefits
	Alimony
	Earnings for work performed while an inmate at a penal institution including amounts received through work release programs or while in a halfway house
	Workers' compensation benefits
	Child support
	Unemployment compensation
	Nonqualified deferred compensation plan or a Section 457 plan, pension or annuity
	Community property
	Nontaxable military pay
*The taxpayer has the option of including nontaxable combat pay in earned income for purposes of the earned income credit calculation.	

Nontaxable Combat Pay Election

Nontaxable pay for members of the Armed Forces is not considered earned income for the EIC. The taxpayer may choose to include nontaxable military pay in earned income for purposes of the EIC. Electing to include nontaxable combat pay in earned income may increase or decrease the EIC. Figure the credit with and without the nontaxable combat pay before making the election. If the taxpayer makes the election he must include in earned income all nontaxable combat pay he received. If the taxpayer is filing a joint return and both he and his spouse received combat pay, each can make their own election. The taxpayer's nontaxable combat pay can be found on his W-2, box 12, code Q.

Native Americans

Native Americans who received amounts for services performed as an employee that are exempt from federal income tax under the Internal Revenue Code or because of a treaty, agreement, Act of Congress or other federal law, will treat these amounts as nontaxable earned income when figuring the EIC. Tax-exempt income received for performing services as a self-employed individual is not earned income when figuring the EIC.

Community Property

If the taxpayer is married, qualifies to file as Head of Household, and lives in a community property state, his earned income for purposes of EIC does not include any amount earned by his spouse that is treated as belonging to him under those laws. Even though the taxpayer must include it in his gross income on his federal tax return, the amount is not earned income for purposes of EIC. The taxpayer's earned income includes the entire amount he earned, even if part of it is treated as belonging to his spouse under the state's community property laws.

Valid Social Security Number

Taxpayer

Taxpayers can claim the EIC only if they have a Social Security number that allows them to work. A valid Social Security number is one that has been issued by the Social Security Administration (SSA). Social Security cards with the **not valid for employment** legend are issued to aliens who are not eligible to work in the United States, but who need a SSN so they can get a federally funded benefit such as food stamps and Supplemental Security Income (SSI).

If the taxpayer (or his spouse if Married Filing Jointly) has a Social Security card that contains a legend that says **not valid for employment**, he is not eligible for the EIC. If the taxpayer has a qualifying child whose Social Security card says **not valid for employment**, the taxpayer is not eligible for the EIC on the basis of that child. Preparers should remember that all Social Security cards look the same with the exception of the legend.

If the taxpayer's Social Security card reads "**valid for work only with INS authorization**" or "**valid for work only with DHS authorization**," he is deemed to have a valid SSN.

If the taxpayer has an identification number (such as an individual taxpayer identification number, ITIN) other than a SSN, he is not eligible to receive EIC.

Qualifying Child

The taxpayer's qualifying child must have a valid Social Security number (SSN), unless the child was born and died in 2010. If the child was born and died in the same tax year, then the taxpayer may attach to his return a copy of the child's birth certificate, death certificate, or hospital records showing a live birth. The taxpayer cannot claim the EIC on the basis of a qualifying child if:

1. His qualifying child's SSN is missing from his tax return or is incorrect,
2. His qualifying child's social security card says "Not valid for employment" and was issued for use in getting a federally funded benefit; or
3. Instead of an SSN, his qualifying child has:
 - An individual taxpayer identification number (ITIN), which is issued to a noncitizen who cannot get an SSN; or
 - An adoption taxpayer identification number (ATIN), which is issued to adopting parents who cannot get an SSN for the child being adopted until the adoption is final.

If the taxpayer has more than one qualifying child and only one has a valid SSN, he can claim the EIC only on the basis of that child.

Eligibility Rules for EIC

To be eligible to claim the EIC the taxpayer must meet all of the rules explained in the chart on the following page.

Earned Income Credit Rules

First, the taxpayer must meet all the rules in this column.		Second, the taxpayer must meet all the rules in <i>one</i> of these columns, whichever applies.		Third, the taxpayer must meet the rule in this column.
Part A. Rules for Everyone		Part B. Rules If the Taxpayer Has a Qualifying Child	Part C. Rules If the Taxpayer Does Not Have a Qualifying Child	Part D. Figuring and Claiming the EIC
1. The taxpayer's adjusted gross income (AGI) must be less than:	2. The taxpayer must have a valid social security number	8. The taxpayer's child must meet the relationship, age, residency, and joint tests.	11. The taxpayer must be at least age 25 but under age 65.	15. The taxpayer's earned income must be less than:
<ul style="list-style-type: none"> • \$43,352 (\$48,362 for married filing jointly) if the taxpayer has three or more qualifying children, • \$40,363 (\$45,373 for married filing jointly) if the taxpayer has two qualifying children, • \$35,535 (\$40,545 for married filing jointly) if the taxpayer has one qualifying child, or • \$13,460 (\$18,470 for married filing jointly) if the taxpayer does not have a qualifying child. 	3. The taxpayer's filing status cannot be "Married Filing Separately." 4. The taxpayer must be a U.S. citizen or resident alien all year. 5. The taxpayer cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income). 6. The taxpayer's investment must be \$3,100 or less 7. The taxpayer must have earned income.	9. The taxpayer's qualifying child cannot be used by more than one person to claim the EIC. 10. The taxpayer cannot be a qualifying child of another person.	12. The taxpayer cannot be a dependent of another person. 13. The taxpayer cannot be a qualifying child of another person. 14. The taxpayer must have lived in the United States more than half of the year.	<ul style="list-style-type: none"> • \$43,352 (\$48,362 for married filing jointly) if the taxpayer has three or more qualifying children, • \$40,363 (\$45,373 for married filing jointly) if the taxpayer has two qualifying children, • \$35,535 (\$40,545 for married filing jointly) if the taxpayer has one qualifying child, or • \$13,460 (\$18,470 for married filing jointly) if the taxpayer does not have a qualifying child

Adjusted Gross Income

EIC is based on a comparison of adjusted gross income (AGI) to earned income. Adjusted gross income is found on line 37 of Form 1040, line 21 of Form 1040A or line 4 of Form 1040EZ. Completing the EIC worksheets is essential in determining the amount of credit a taxpayer may claim on his return. Part 1 of EIC Worksheet A is the section where this comparison is made. Examples of the EIC worksheets can be found later in this chapter.

Example: Julia is a single parent with two children, ages 3 and 5. Julia has AGI of \$16,581 which includes earned income of \$16,449 and interest income of \$132. She meets the requirements for filing Head of Household and has no additional support.

The EIC based on Julia's earned income (\$16,449) would be \$5,036 for tax year 2010. The EIC based on Julia's AGI (\$16,581) would be \$5,010 for tax year 2010.

Julia's amount of EIC is \$5,010 – the lower of the two amounts. If she did not have the interest income then her EIC would have been \$5,036.



10121 W. Broad St., Suite A
Glen Allen, Virginia 23060

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