

THE INCOME TAX SCHOOL

College Review Package

***peoples*TAX**

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.

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SCHOOL CREDENTIALS

CORPORATE AND EXECUTIVE BIOGRAPHIES

Charles E. McCabe, President & CEO, is the founder of the Richmond, Virginia-based Peoples Income Tax, an innovative, multi-office tax preparation firm established in 1988. 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 some 20 district managers. He has also taught as an Adjunct Faculty Member of the Business Schools of Hofstra University and Virginia Commonwealth University.

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. He was recognized in January 2002 as Founding Chairman of the Virginia Council of CEOs. McCabe is also 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 Adults*, and founder of The Income Tax School, a division of Peoples Income Tax, which licenses tax school systems to accounting and tax firms nationwide and also provides e-learning courses and seminars directly to student.

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 (ABD). Chuck is author of numerous articles on taxes, management and adult education. He has also written tax practice management manuals and presented seminars for national tax trade associations, such as NATP, NSTP and NSA. Chuck has served on numerous boards and committees. He was founding Chairman of the Virginia Council of CEOs and is a past Chairman of the Better Business Bureau of Central Virginia. 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 is a graduate of Leadership Metro Richmond class of 1990 and was awarded the Samuel H. Dilbert Community Service Award for 2004 by Commonwealth Catholic Charities.

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. Cathy was former Chairman of the Education Committee with the Virginia Society of Enrolled Agents. 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 recently retired from her full-time position as Executive Vice President and COO of Peoples Income Tax, Inc. and she now works part-time as a Consultant for Peoples Income Tax and Senior Curriculum Developer for The Income Tax School.

Sheila A. Clark, VP, Director of Operations 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 of Peoples' tax offices and The Income Tax School, a division of Peoples Income Tax, 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 Peoples' 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

After graduation with a BS in Business Administration from State University of New York at Buffalo, Mr. Burgess spent almost 35 years in the field of taxation. 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).

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.goalquestcom 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, ATP, ATA,

is President of Peoples Financial Services, Inc. and former EVP and COO of Peoples Income Tax, Inc. Cathy holds a Bachelor of Science degree in Business Administration, from Virginia Commonwealth University with a major in Accounting, including Advanced Corporate Taxation. She also has held Series 7 and 66 Securities Licenses. Previously, Cathy worked for 15 years for U-Tote'M of Virginia, Inc., where she advanced from Accounting Clerk to General Manager and then President of the 17 C-store chains. She also has extensive experience in providing Accounting, Tax and Business Consulting services for small businesses. Cathy is a member of the National Association of Tax Professionals, National Society of Accountants, National Association of Enrolled Agents and the Virginia Society of Enrolled Agents, where she served as chair of the VSEA Education Committee. She holds the professional designations of IRS Enrolled Agent, as well as ACAT Accredited Tax Preparer and Accredited Tax Advisor; and she is a Fellow of the National Tax Practice Institute.

James L. Narduzzi, M.A., Ph.D.,

Dr. Narduzzi 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

Lisa 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, and 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 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 very difficult to find qualified tax preparers. After working as an executive for a leading national tax preparation 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, since 1993, have been available for individuals and businesses 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 yourself?

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

Widely Acclaimed by Users

The Income Tax School courses are taught by progressive independent tax preparation firms throughout the United States, Canada and elsewhere. The Income Tax School system--which includes student texts, instructor guides, instructional materials, supplemental references, operator's procedures and marketing materials--was first released in 1993 and has been used annually since then by hundreds of tax and accounting firms and many colleges to teach live classes in 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.

Certified to Operate as a Proprietary Career School by the State Council of Higher Education for Virginia (SCHEV)

The Income Tax School's approval 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.

Sponsor of Continuing Education for Certified Financial Planners (CFP)

The Income Tax School is recognized by the Certified Financial Planner Board of Standards as a qualified sponsor of continuing education. *This approval does not extend to licensees of The Income Tax School.*

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) and Licensed by the Oregon Department of Education

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 Virginia State Bar for CLE Credit for CLE Credit for Lawyers

The Income Tax School courses and seminars were approved by the Virginia State Bar for continuing legal education (CLE) credit required annually for all attorneys. This approval does not extend to licensees of The Income Tax School.

Approved by the IRS

The Income Tax School has been approved since 1990 by the Director of Practice of 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.

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.

High Quality Curriculum

The Income Tax School (ITS) course content is developed to meet the Quality Assurance Standards (QAS) required by the National Association of State Boards of Accountancy (NASBA) for Continuing Professional Education (CPE) for Certified Public Accountants (CPAs).

REFERENCES: COLLEGES & CAREER SCHOOLS

University of Richmond

School of Continuing Studies

Dr. James L. Narduzzi, Dean
(804) 289-8135
Stephanie A. Bowlin, Program Coordinator
Community and Professional Education
(804) 289-8133
Special Programs Building
University of Richmond
Virginia 23173

J. Sargeant Reynolds Community College

Gary L. Rhodes, Ph.D., President
(804) 371-3200
Charlie Peterson, Dean – Workforce
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P.O. Box 85622
Richmond, VA 23285

Bryant & Stratton College

John J. Mitchell (Jack), Vice President
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(716) 250-7500 ext. 282
2350 North Forest Rd., Suite 12A
Getzville, NY 14068-1296

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Sharon Hanke
(618) 545-3090
27210 College Road
Centralia, IL 62801

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51 Mannakee Street
Rockville, MD 20850

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Distribution Partners:

Gatlin Education Services
Cengage Learning
The ELearning Center
ProTrain
360training.com
CPATrainingCenter.com

DESCRIPTIONS & PRICING

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. In fact, Jackson Hewitt, and subsequently Liberty Tax Service, initially outsourced their tax school to The Income Tax School. 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 & 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 provider of courses that meet the requirements for licensing in California and Oregon. For the past several years legislation to regulate the tax preparation industry nationwide has been proposed to Congress and such legislation has also been introduced by several states.

During 2009 IRS Commissioner Doug Shulman conducted a 6-month study on Tax Preparer Standards. Input was obtained from all segments of tax industry participants to develop "uniform and high ethical standards of conduct for tax preparers" as a way to increase tax compliance and reduce the "tax gap." The result of that study was the announcement by Commissioner Shulman on January 4, 2010 of the IRS plan to require "unenrolled" tax preparers (those who are not CPAs, Attorneys or Enrolled Agents) to register with IRS and meet suitability standards prior to the 2011 tax season. Registered preparers will then have 3 years to pass a test of competency. New preparers will be required to pass the test before they may register. After the 3-year phase-in period, all registered preparers will be required to complete 15 hours of continuing professional education annually to continue to practice. The Income Tax School Comprehensive Individual and Small Business Courses cover all topics that will be on the IRS test. We will also develop a special IRS Preparer Test Review Course for experienced tax preparers to prepare for the test.

DESCRIPTIONS OF COURSES OFFERED

QuikStep 1040A Income Tax Course

The QuikStep 1040A Course covers how to correctly complete the 1040A Form, E-filing, and Bank Products. This is a great course for someone wanting to understand the very basic income tax returns. Companies wanting to generate extra revenue through tax preparation fees check cashing fees, and selling products to customers using Refund Anticipation Loans will find this course ideal for training employees. The QuikStep 1040A Course consists of five 3 hour classes (15 hours of instruction), and is approximately equivalent to the first half of the Basic Course. This course is only available late November through January.

Basic Income Tax Course (Comprehensive Part I)

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 and IRS Due Diligence requirements. The Basic Course consists of ten 3 hour classes (30 hours of instruction), and is approximately equivalent to the first half of the Comprehensive Course. It is ideal for RAL preparers. **Available in Spanish**

Intermediate Income Tax Course (Comprehensive Part II)

The Intermediate Course covers the more complex individual tax returns filed with the IRS. The course topics include Employee Business Expenses, Capital Gains and Losses, Depreciation, Schedule C Income, Rental Income, Ethics, Kiddie Tax, Amended Returns and much more! The program consists of ten 3 hour class sessions (30 hours of instruction). The course is usually offered to the general public as a five-week program (two classes per week), ideally beginning in the fall and/or winter (classes can be started in September or November). The Course can be accelerated by scheduling three or more sessions per week to be completed in 3-5 weeks or less. **Available in Spanish**

Comprehensive Income Tax Course (Basic Part I & Intermediate Part II)

The Comprehensive Course includes the contents of The Basic Income Tax Course and The Intermediate Income Tax Course. 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.

Available in Spanish

California Comprehensive Income Tax Course (Basic Part I & Intermediate Part II) (qualifying education): Includes 15 hours CA state material.

Oregon Basic Income Tax Course (Basic Part I & Intermediate Part II) (qualifying education): Includes 20 hours OR state material.

Advanced I Income Tax Course

The Advanced I Income Tax Course is designed to provide continuing education for tax preparers who have completed the Comprehensive Income 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 Income Tax Course: Includes CA state material.

Advanced II Income Tax Course

The Advanced II Income 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 Income Tax Course

The Small Business I Income 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 Income Tax Course

The Small Business II Income 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 Income Tax Course in much greater depth. The Small Business II course consists of ten 3 hour classes (30 hours of instruction).

California Small Business & Ethics (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.

Tax Guidelines for CA Small Businesses (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 Tax Guidelines for CA Small Businesses course focuses on providing the tax knowledge needed to start a California business or to assist in starting a California business. 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 Tax Returns for Individuals
- Ethics
- Clergy
- S-Corporations
- Partnerships
- Earned Income Tax Credit
- Employee Business Expenses
- Employment Taxes
- Net Operating Losses
- Non-resident Alien Returns
- Part-year and Non-resident State Tax Preparation Principles
- Rental Property
- Responding to the IRS
- Retirement Plans
- Schedule C / Sole Proprietorships
- Schedule D – Special Issues
- Special Needs and Concerns for Seniors
- Tax Issues for Divorced or Separated Taxpayers
- Tax Issues for High Income Taxpayers
- Tax Planning Tips and Strategies

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 six 30-hour Income Tax Courses (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 handle 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; even more relevant than the CPA designation.

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 Basic and Intermediate courses 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:

- Basic Individual Income Tax Preparation (30 hours)
- Intermediate Individual Income Tax Preparation (30 hours)
- Advanced Individual Income Tax Preparation(30 hours)
- Small Business Income Tax Preparation (30 hours)
- Advanced Level II Individual Income Tax Preparation (30 hours)
- Small Business Level II Income Tax Preparation (30 hours)

Basic & Intermediate may be taken together as the Comprehensive Course

California Students: All courses are CTEC Approved

Oregon Students: All courses are OTPB Approved

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.

QUIKSTEP 1040A INCOME TAX COURSE

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Available in Fall only

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BASIC INCOME TAX COURSE

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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:

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- 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.
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Authorized Signature _____ Date _____

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TAX SCHOOL OPERATIONS PROCEDURES

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COMPREHENSIVE INCOME TAX COURSE

Sample chapters from the Basic and Intermediate Income Tax Courses

BASIC INCOME TAX COURSE

Instructor
Answer Key

Chapter 1: General Material

The most important thing to do in the first class is set the tone for the course. Students need to feel relaxed and comfortable. To help accomplish this, it is recommended that the instructor have everyone introduce himself as is suggested in the introductory material. The instructor should break the ice by introducing himself first and give at least the information suggested in the introductory section. Sharing other informational material will help make the students feel more comfortable.

Instructors feel comfortable setting up their books in a variety of ways. Some of our instructors like to have two binders – one with the student manual and one with the instructor's manual. This way they can have both open during class and refer back and forth from one to the other. Others like to put the student and instructor manuals in one notebook with the instructor portion behind each student lesson. Instructors should experiment to see what they are comfortable with.

Transparencies sometimes will not accept ink due to treatment when they are manufactured. If this happens, clean with window cleaner and then they will accept the ink. They are easily cleaned from that point on with a wet paper towel.

Many instructors have asked how the exams are graded. While it is felt that this should be left to the discretion of the instructors, the following is suggested:

Establish a total of 100 points – 50 for the short answer questions and 50 for the tax return. Obviously, there are more lines than 50 on the tax return. Our grading policy on tax forms is to deduct 10 points off for the first mistake that causes the bottom line of the return to be incorrect. Subsequent incorrect answers caused by this mistake will not be deducted. For example, if the student used the wrong percentage to figure child care, 10 points would be deducted on line 8 of the Form 2441. No deduction would be taken for the wrong answer on line 9 or on the child care line of the 1040, or for errors resulting from this in the total tax or the total refund or amount due **if no addition/subtraction errors occurred in this section.**

It is also a good idea to check the Teachers Lounge frequently (before each chapter is presented). If we find there are corrections which need to be made after the book has been printed we will post a message in the Teachers Lounge indicating this along with a link to the corrected page or pages. If you have already joined the Teachers Lounge you may access it at <http://theincometaxschoolteacherslounge.ning.com>. If you haven't previously joined the Teachers Lounge please email us at schooladmin@peoplestax.com to request an invitation to join.

Chapter 1 should be discussed in detail. Many tax rules are more complicated than they appear.

The Evolution of Taxation

Review the brief history of taxation with students. Have students examine the copy of the first Form 1040, included in the student manual.

What is a Tax Preparer and What is His Role

Review the role of a tax preparer with students. Emphasis should be placed on the main goal of a tax preparer.

Who Should File a Return

Go over the filing requirements for each filing status. Remind students that the taxpayer may be required to file a return for reasons beyond the filing requirements.

Additional Reasons a Taxpayer Must File

Students should examine other reasons why a taxpayer may be required to file. Provide students with minimal explanations and assure them that this material will be covered in the student text at a later time.

Filing Requirements for Most Taxpayers

Discuss and illustrate for the students how to determine the filing status for a taxpayer. Review the examples in order to give the students some practice in quickly recognizing whether or not a taxpayer is required to file a return.

Remind the students to be cautious when deciding whether or not to file a return based on filing requirements. If the taxpayer has paid federal or state taxes it will be necessary to file a return to retrieve the refund of withheld taxes.

Dependent Filing Requirements

Review dependent filing requirements with students. Again, do not spend too much time on this topic as more information will be provided in later chapters.

Which Form should be used

This section should be reviewed in-depth with the students. Each form and the requirements for each should be examined. Students may feel overwhelmed by the information in this chapter. Remind them that they will soon begin to learn how to apply the information.

Review the examples to help illustrate how a very simple circumstance may change the type of form the client is allowed to use.

When Taxes must be filed

Most students are already familiar with tax return due dates. Review extensions with them along with installment agreements.

Where to File

Ask students to look up the list of IRS filing centers. A complete list of IRS Filing Centers is found in the 1040, 1040A, or 1040EZ booklets. (A copy of the 1040 instruction booklet is located on the CD with the Reading Assignments.) Some students may note that the filing center used for their area in the past has changed. Review the areas and filing center addresses with students. They should also be aware that the address for a return with a refund may not be the same address used for a balance due return.

How to File

Review the various methods of filing returns. Ask each student which method they used for their return.

How to Pay Amounts Due

Examine the various methods of IRS payment.

Accounting Periods

Most taxpayers use the calendar year accounting period for their individual income tax return. Review the accounting periods with them. Stress how an accounting period cannot exceed 12 months.

Accounting Methods

Review the accounting methods that taxpayers use to account for their income and expenses. Most individual taxpayer's are familiar with the cash method since it is the method most used. Remind them that once an accounting method is chosen, it cannot be changed without IRS permission.

Social Security Number (SSN)

Discuss the importance of accuracy involving taxpayer, spouse, and dependent Social Security numbers. Make students aware of the fact that a return cannot be filed without correct SSNs for all individuals listed on the return.

Filing Status

This section should be reviewed carefully. Choosing a filing status is one of the fundamental foundations in tax preparation. Students should be aware of the rules and requirements for each status. Special emphasis should be placed on the Married Filing Separate and Head of Household status. Alert students to the amount of fraud related to the Head of Household filing status.

Cost of Maintaining a Household

Examine the expenses related to maintaining a household, and review the worksheet provided. Point out the items not included when calculating the cost of maintaining a household.

Wages and Reading W-2 Forms

Using the sample W-2, explain the different boxes on the W-2s. Point out boxes 10, 11, 12, 13 and 14 and explain the information often found in these boxes. For example, box 12 contains the amount of deferred compensation, which should be entered on Form EIC worksheet if the taxpayer is using that form. Have students look at the information in Lesson 1 on W-2s; go over each box, the type of information reported, and the relationship of each item to the tax return. Often, returns are incorrectly prepared because the preparer ignores information appearing in these boxes.

After discussing the boxes, have students subtract the standard deduction with one exemption; then look up the amount of tax that would be due if that were the taxable income. You can have them assume the person is Married Filing Joint, Single, etc., so they become familiar with the setup of the tax tables.

Paid Preparer's Signature

Remind students that when they receive payment for returns they have prepared, their signature is required. Review the penalty for failing to sign a return.

Paid Preparer Identification Number

Penalties will also result if a paid preparer fails to include his preparer identification number. Many students have concerns about listing their SSN on a taxpayer's return. Advise them of the option to use a preparer tax identification number or PTIN. Students interested in obtaining a

PTIN should complete Form W-7P located in their manual and submit it to the IRS as soon as possible. They should receive their PTIN before tax season.

Third Party Designee

Review the third party designee rules with students.

Required Retention of Records

Students should be informed of the importance of maintaining taxpayer returns or lists as a paid preparer. Review the penalty for failure to do so.

Discuss other preparer violations and penalties listed in the chart.

Go over the Key Terms and answer any questions about them.

Using the overhead projector, show students the 1040EZ, 1040A, and 1040. Show them how to fill out the top portion of the forms. To emphasize the importance of having correct information, it is suggested that the instructor tell students (and also do it!) that he will be taking 10 points off for any information omitted from the names/address/Social Security number portion of the return. The same policy should be followed with regard to the paid preparer signature.

You may wish to put the following information on the blackboard and have students tell where it would go on the 1040EZ. Use the overhead projector so they can see the answers.

Sharon Miller, a laboratory technician
5555 N. Manchester St., Apt B
Your City, Your State – Your Zip

SSN 333-21-9999

Sharon wants to designate \$3 of her taxes for the Presidential Campaign Fund.

Her W-2 Form shows income of \$29,843 and withholding of \$3,582. Her state withholding was \$1,330.

Chapter 1: Review Questions

1. Jack Clark, a full-time student living with his parents, had a summer job as a waiter at a restaurant. Is he required to file a tax return?
 - a) Only if he expects to receive a refund
 - b) If he meets filing requirements**
 - c) If he is Married Filing Joint
 - d) If he is older than 18

a) *This answer is incorrect. Taxpayers whose gross income is above a limit set by the IRS are required to file. A taxpayer **not** required to file should file if he can file a return to get a refund of income tax withheld from his pay or if he qualifies for the Earned Income Credit.*

b) Correct. Filing requirements are determined by the IRS. The filing requirement is usually determined by adding the taxpayer's standard deduction, his exemption, and additional standard deduction. If the taxpayer meets those requirements he is required to file. Pages 1.7-1.10

c) *This answer is incorrect. Each filing status has a filing requirement. If the gross income for a Married Filing Joint couple under age 65 is less than \$18,700, the couple is **not** required to file.*

d) *This answer is incorrect. Age is **not** considered in the requirement to file. Filing requirements are dependent upon gross income.*

2. Mr. and Mrs. Ray plan to file a joint return this year. Neither is over 65 or blind, nor do they have any dependents. What is the amount of gross income required before they must file a federal return?
 - a) \$11,400
 - b) \$ 3,650
 - c) \$18,700**
 - d) \$20,900

a) *This answer is incorrect. \$11,400 is the standard deduction amount for Married Filing Joint.*

b) *This answer is incorrect. This is the 2009 per person exemption amount.*

c) Correct. The gross income filing requirement is the total of the standard deduction amount (\$11,400) + the exemption amount (\$3,650 x 2 for each taxpayer = \$7,300) = \$18,700. Page 1.9

d) *This answer is incorrect. This would be the filing requirement for a joint return with both taxpayers over 65.*

3. Walter Dodge's only income is from W-2s. Which one of the following would disqualify him from filing a 1040EZ?
- a) Single
 - b) No dependents
 - c) 64 years old
 - d) Taxable income of \$107,000**
- a) *This answer is incorrect. 1040EZ filing status can be Single or Married Filing Joint.*
 b) *This answer is incorrect. No dependents is a requirement for 1040EZ.*
 c) *This answer is incorrect. 1040EZ can be used up to age 64, age 65 or older requires a 1040A or 1040.*
d) Correct. Taxable income must be less than \$100,000. Page 1.11
4. Lee Goebel is a calendar year taxpayer who has waited far too long to organize documents for his tax return. What is the due date for filing the federal return?
- a) December 31st or the next business day if December 31st falls on a Saturday, Sunday or holiday
 - b) 4½ months after the end of the year
 - c) April 15th or the next business day if April 15th falls on a Saturday, Sunday or holiday**
 - d) The first Monday after April 15th
- a) *This answer is incorrect. Only April 15th has been determined by the IRS as the filing deadline for a calendar year taxpayer. December 31st is the tax year end for most individual income tax payers.*
 b) *This answer is incorrect. Only April 15th has been determined by the IRS as the filing deadline for a calendar year taxpayer. May 15th is 4½ months after the end of the calendar year.*
c) Correct. April 15th has been determined by the IRS as the filing deadline for a calendar year taxpayer. However, the taxpayer may file an extension. Page 1.14
 d) *This answer is incorrect. April 15th has been determined by the IRS as the filing deadline for a calendar year taxpayer, in a given year if April 15th falls on a weekend or Holiday the IRS may extend to the next business day.*
5. Mr. Goebel is certain he cannot complete his federal tax return by the due date. What must he do in order for him to receive an automatic 6-month extension?
- a) File Form 4868 on or before the due date of the return and pay any taxes due by the first due date (April 15th)**
 - b) Do nothing – the extension is automatic
 - c) File Form 9465 on or before the due date of the return
 - d) Pay all taxes due by April 15th and file his return within 6 months
- a) **Correct. Form 4868 will extend the due date of the return to October 15th. Page 1.14**
 b) *This answer is incorrect. Form 4868 must be filed on or before the due date of the return. If an extension is **not** filed, the due date of the return for a calendar year taxpayer is April 15th.*
 c) *This answer is incorrect. The correct form to file is Form 4868. Form 9465 is the IRS Installment Agreement Request Form for taxpayers who owe and cannot make the full payment.*
 d) *This answer is incorrect. Even if all taxes are paid by April 15th the IRS requires an income tax return or Form 4868 to be filed by the filing deadline.*

6. After graduating from college last year, Janice Brown started working. She will be filing a tax return for the first time this year but is uncertain how to send it. Which of the following is listed **incorrectly** as a permissible method for filing a tax return?
- a) Mailing the return to the IRS service center in the taxpayer's area.
 - b) Using an IRS-accepted online service.
 - c) Electronic filing through a tax preparer.
 - d) **Fax.**
- a) *This answer is incorrect. Mailing the return is a permissible method. However, the IRS prefers electronically filed returns.*
- b) *This answer is incorrect. Filing via an IRS accepted online service is a permissible method. However, taxpayers will probably be charged a fee to file online unless they qualify for the Free File program.*
- c) *This answer is incorrect. Electronic filing through a tax preparer is a permissible method. The error rate for e-filed returns is less than 1%.*
- d) **Correct. Fax is not a permissible method for filing a tax return. Faxes are not a secure method of transmitting information. Page 1.15**
7. Bill Marshall is low on funds but has a sizable balance due on his federal return. Which of the following is **disallowed** as a method by which payments can be made to the IRS?
- a) Debit from checking or savings account
 - b) **Post-dated checks**
 - c) Mail check, money order, or cashier's check to the IRS
 - d) Installment agreement
- a) *This answer is incorrect. A debit from a checking or savings account is an acceptable form of payment.*
- b) **Correct. A post-dated check is not an acceptable form of payment. The IRS allows payment by credit card. Page 1.15**
- c) *This answer is incorrect. The IRS accepts checks, money orders, and cashiers checks.*
- d) *This answer is incorrect. An installment agreement is an acceptable form of payment. The IRS Installment Agreement Request Form (Form 9465) may provide relief for those who owe and cannot make the full payment.*

8. Joseph Moneymaker wants to change his method of accounting. What IRS requirement must be met before changing an accounting method?
- a) Notify his bookkeeper
 - b) Notify the IRS
 - c) Try the new method of accounting for one year to decide if it is more beneficial for his business.
 - d) Obtain permission from the IRS**
- a) *This answer is incorrect. Although probably necessary, notifying his bookkeeper will not meet the IRS requirement. Taxpayers are allowed to use a different accounting method for each business operated.*
- b) *This answer is incorrect. Notifying the IRS will **not** meet the IRS requirement. You must obtain permission from the IRS.*
- c) *This answer is incorrect. An intriguing idea; however, this will **not** meet the IRS requirement. Once the accounting method is chosen (with the taxpayer's first return) taxpayers are **not** allowed to change accounting methods without IRS approval.*
- d) Correct. In order to change your accounting method you must obtain permission from the IRS. This is obtained by filing Form 3115, Application for Change in Accounting Method. Page 1.16**
9. John has graduated from college and plans to start his own business. Which of the following accounting periods is he allowed use?
- a) Half-month or full-month
 - b) Short-year
 - c) Fiduciary
 - d) Calendar or fiscal**
- a) *This answer is incorrect. Half-month and full-month are not valid accounting periods.*
- b) *This answer is incorrect. Short-year is not a valid accounting period.*
- c) *This answer is incorrect. A fiduciary year is not a valid accounting period.*
- d) Correct. Individuals can adopt either a calendar year or a fiscal year. Individuals that want to change their tax year must file Form 1128, Application to Adopt, Change, or Retain a Tax Year to get IRS approval. Page 1.15**

10. Larry, a new tax preparer, is urged to obtain a preparer tax identification number (PTIN) by his manager. Larry's manager explains how using the PTIN can assist in preventing several potential situations for Larry in his role as a preparer. Which of the following situations is listed **incorrectly** as one which can be avoided by using the PTIN?
- a) Theft of the paid preparer's Social Security number
 - b) Fraud involving the use of the paid preparer's Social Security number.
 - c) Invasion of preparer's privacy
 - d) **IRS understatement penalties**
- a) *This answer is incorrect. Use of (PTIN) does protect theft of paid preparer's Social Security number. Individuals who are planning to prepare returns professionally should complete Form W-7P, Application for Preparer Tax Identification Number, to apply for a PTIN.*
- b) *This answer is incorrect. Use of (PTIN) does protect against fraud involving the use of the paid preparer's Social Security number.*
- c) *This answer is incorrect. Use of (PTIN) does protect against invasion of preparer's privacy. Since paid preparers who fail to provide a preparer identification number may be fined \$50 per return up to \$25,000 per year, a PTIN is a great privacy option.*
- d) **Correct. Use of PTIN does not protect paid preparer against IRS understatement penalties. An understatement penalty will not apply if it can be shown that there was reasonable cause for the understatement and that the preparer acted in good faith. Page 1.26**
11. Phil has started his own tax preparation business. As a paid preparer he must maintain copies of returns prepared or a list of clients for what period of time?
- a) **For the duration of the statute of limitations for the return**
 - b) Until the taxpayer becomes deceased
 - c) Until the deadline of the return
 - d) For as long as the preparer is in business
- a) **Correct. The IRS requires retention of returns or list of clients for the duration of the statute of limitations for each return. Usually, the statute of limitations is the later of, three years from the date the return is due or the date the return is filed. Page 1.27**
- b) *This answer is incorrect. Even if the tax payer is deceased the IRS requires retention of tax return or list of clients for the duration of the statute of limitations for each return.*
- c) *This answer is incorrect. Even after the deadline of the return The IRS requires retention of returns or list of clients for the duration of the statute of limitations for each return. Paid preparers who fail to maintain copies of returns prepared or to maintain a list of clients face a fine of \$50 per return up to \$25,000 per year.*
- d) *This answer is incorrect. The IRS requires retention of returns or list of clients for the duration of the statute of limitations for each return, it is **not** necessary to maintain for as long as the preparer is in business.*

12. Integrity and attention to detail are paramount to tax professionals. The IRS can penalize a paid preparer for failing to prepare returns in an ethical manner. Which of the following situations is listed **incorrectly** as one that would constitute unethical behavior?
- a) Failure to sign a return
 - b) Failure to provide a preparer identification number
 - c) Willful understatement of taxpayer's liability due to an unrealistic position
 - d) Taxpayer failure to provide information regarding all earned income**
- a) *This answer is incorrect. Paid preparers can be fined \$50 per return, up to \$25,000 per year for failure to sign a return for which payment was received.*
- b) *This answer is incorrect. Paid preparers can be fined \$50 per return, up to \$25,000 per year for failure to provide a preparer identification number for a return which payment was received.*
- c) *This answer is incorrect. Paid preparers can be fined \$250 per return for understatement/disregard of taxpayer's tax liability due to unrealistic position on a return for which payment was received.*
- d) Correct. Paid preparers can not be penalized because the taxpayer did not provide information regarding all income. Pages 1.27-1.28**
13. The Smiths, married and living together for the entire tax year, may choose which of the following filing statuses?
- a) Single
 - b) Head of Household
 - c) Qualifying Widow(er)
 - d) Married Filing Joint**
- a) *This answer is incorrect. Because the Smiths are married and lived together the entire year, they are not able to file using the Single status. If they want to file separate returns they would need to file using the filing status Married Filing Separate.*
- b) *This answer is incorrect. Head of household can not be used for a married couple living together for the entire tax year. You must be either single or considered unmarried (living apart for last 6 months of tax year).*
- c) *This answer is incorrect. Even if one of them was a widow(er) from a previous marriage they are now married to each other and unable to use this filing status.*
- d) Correct. Most married couples use the filing status Married Filing Joint. They would also be able to file using the status Married Filing Separate; however this was not one of the answer choices. Page 1.17-1.19**

14. As a Married Filing Separate taxpayer, Gloria is able to claim which of the following credits if she meets all other requirements?
- a) Earned Income Credit
 - b) Child and Dependent Care Credit
 - c) Education Credits
 - d) Child Tax Credit**
- a) *This answer is incorrect. Taxpayers are **not** eligible for Earned Income Credit when using the filing status of Married Filing Separate.*
- b) *This answer is incorrect. Taxpayers are **not** eligible for Child and Dependent Care Credit when using the filing status of Married Filing Separate.*
- c) *This answer is incorrect. Taxpayers are **not** eligible for Education Credit when using the filing status of Married Filing Separate.*
- d) Correct. A Married Filing Separate taxpayer is able to claim the Child Tax Credit but subject to limitation at half the income level of a joint return. Page 1.17 and 1.18**
15. Brenda and her husband separated last year and Brenda moved out taking their son with her. Which of the following is listed **incorrectly** as a condition Brenda must meet in order to be considered unmarried and able to file as Head of Household?
- a) Filed separately from spouse
 - b) Spouse did not live in the home for some part of six months during the tax year**
 - c) Paid more than half the cost of maintaining a home
 - d) For more than 6 months the home was the principal residence of a qualifying person
- a) *This answer is incorrect. Filing separately from a spouse is a requirement for filing unmarried, Head of Household.*
- b) Correct. Spouse must not have lived in the home for any time in the last six months of the year. Page 1.18**
- c) *This answer is incorrect. Paid more than half the cost of maintaining a home is a requirement for filing unmarried, Head of Household.*
- d) *This answer is incorrect. A qualifying person living in the home for more than 6 months is a requirement for filing unmarried, Head of Household.*

Chapter 1: Learning Activity

Kimberly Whitaker (age 37, SSN 245-45-5778) and her daughter, Sierra (age 9, SSN 245-98-7412) lived with Kimberly's mother all year. Using the following information, determine if Kimberly paid more than half of the cost of maintaining a home.

Expenses paid by Kimberly

Electric	\$2,149
Water	480
Repairs	1,500
Food	2,600
Telephone	576

Expenses paid by Kimberly's mother

Mortgage Interest Expense	\$3,202
Property Taxes	798
Food	600
Property Insurance	280

Cost of Maintaining a Household			
Expenses Paid	Amount Taxpayer Paid	Amount Paid by Others	Total Cost
Property Taxes		798	798
Mortgage Interest Expense		3,202	3,202
Rent			
Utility Charges	3,205		3,205
Upkeep & Repairs	1,500		1,500
Property Insurance		280	280
Food Consumed on Premises	2,600	600	3,200
Other Household Expenses			
Totals	7,305	4,880	12,185
Minus totals amount paid by taxpayer			7,305
Amount paid by others			4,880
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.			

Chapter 1: Learning Activity Questions

1. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total amount paid by the Taxpayer?

- A) \$ 4,880
- B) \$ 5,805
- C) \$12,185
- D) \$ 7,305

2. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total amount paid by Others?

- A) \$12,185
- B) \$ 4,880
- C) \$ 0
- D) \$ 7,305

3. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total cost for the Taxpayer and Others?

- A) \$12,185
- B) \$ 7,305
- C) \$ 4,880
- D) \$ 5,805

See the following worksheet for additional explanation.

Student Manual

Chapter 1: General Material

Learning Objective: In this chapter the student will learn to determine who should file a return, what filing status the taxpayer should use, and what forms to use. The student will also learn when returns are due, how to apply for an extension of time to file, and what form to use when filing an application for extension. Accounting periods and methods will be studied.

The Evolution of Taxation

Many taxpayers wonder how taxation began. Most think that taxation began in the 20th century while others think that the idea of taxation is as old as the world. The truth is that taxation became a way of life in the United States after the Revolutionary War. The United States was faced with a tremendous war debt and a need to create economic stability and prosperity. As a means of funding these financial issues, Congress placed an excise tax on the sale of whiskey.

Farmers in western Pennsylvania felt that their livelihoods were threatened by the tax, and many refused to pay it. As a protest to the tax, the farmers took part in the 1794 Whiskey Rebellion. President George Washington sent militias into western Pennsylvania, and the rebellion was defeated.

The Whiskey Rebellion was the first test of the government's constitutional power to tax. Some criticized Washington for sending troops to face American citizens, yet his actions enforced the Federal Government's authority. Washington made the point that the Constitution is the law of the land and must be obeyed.

Over the years that followed the Whiskey Rebellion, tariffs and taxes were placed on various goods and services. The taxes were used primarily to promote revenue for wars or national crisis. In 1862, President Abraham Lincoln and Congress passed the first federal income tax law, *The Revenue Act of 1862*, to ease the burden of the Civil War debts. *The Revenue Act of 1862*, created the nation's first Commissioner of Internal Revenue and The Bureau of Internal Revenue.

This early tax was a progressive tax. It applied only to people who earned more than \$600 per year, ensuring that the tax was based on a citizens' ability to pay. The government relied on voluntary compliance with the income tax. Before its repeal, in 1872, this federal income tax provided nearly a quarter of the war revenue.

The federal income tax that resulted from *The Revenue Act of 1862* was repealed 10 years later. The Supreme Court declared *The Revenue Act of 1862* unconstitutional in 1895. The federal income tax was later reinstated in 1913 under the 16th Amendment, which gave Congress the authority to enact an income tax. That same year, the first Form 1040 (a copy appears on Page 1.2) appeared after Congress levied a 1% tax on personal net incomes above \$3,000 with a 6% surtax on incomes of more than \$500,000. As the nation sought greater revenue to finance World War I, the top rate of the income tax rose to 77% in 1918. It dropped sharply in the post-war years, down to 24% in 1929, and rose again during the Depression. During World War II, Congress introduced payroll withholding and quarterly tax payments.

In the 1950s, The Bureau of Internal Revenue was reorganized to replace the patronage system (private taxation enforcement) with career professional employees. The Commissioner of Internal Revenue was replaced with an Internal Revenue Service Commissioner, who is selected by the President and confirmed by the Senate. To emphasize service to the taxpayers, the Bureau's name was changed to the Internal Revenue Service.

Since the 1950s the Internal Revenue Service and our tax laws have undergone many changes in order to modernize the Service and to protect taxpayers. The tax law changes have been

necessary to keep up with our nation's ever changing policies and economy. Changes will continue to be made and tax preparers will continue to have a need for tax law education; thus the evolution of this course!

TO BE FILLED IN BY COLLECTOR.
Form 1040.
TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

List No.
INCOME TAX.
File No.

..... District of
THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN
THE HANDS OF THE COLLECTOR OF
INTERNAL REVENUE ON OR BEFORE
MARCH 1 IS \$20 TO \$1,000.
(SEE INSTRUCTIONS ON PAGE 4)
Assessment List

Date received
Page Line

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191
(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) of
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of State of
(Fill in pages 2 and 3 before making entries below.)

1. GROSS INCOME (see page 2, line 12)	\$							
2. GENERAL DEDUCTIONS (see page 3, line 7)	\$							
3. NET INCOME	\$							
Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.								
4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11)	\$							
5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)								
6. Specific exemption of \$3,000 or \$4,000, as the case may be. (See Instructions 3 and 19)								
Total deductions and exemptions. (Items 4, 5, and 6)	\$							
7. TAXABLE INCOME on which the normal tax of 1 per cent is to be calculated. (See Instruction 3)	\$							
8. When the net income shown above on line 3 exceeds \$20,000, the additional tax thereon must be calculated as per schedule below:								
	INCOME.				TAX.			
1 per cent on amount over \$20,000 and not exceeding \$50,000	\$				\$			
2 " " 50,000 " " 75,000								
3 " " 75,000 " " 100,000								
4 " " 100,000 " " 250,000								
5 " " 250,000 " " 500,000								
6 " " 500,000								
Total additional or super tax	\$				\$			
Total normal tax (1 per cent of amount entered on line 7)	\$				\$			
Total tax liability	\$				\$			

GROSS INCOME.

This statement must show in the proper spaces the entire amount of gains, profits, and income received by or accrued to the individual from all sources during the year specified on page 1.

DESCRIPTION OF INCOME.	A.				B.			
	Amount of income on which tax has been deducted and withheld at the source.				Amount of income on which tax has NOT been deducted and withheld at the source.			
1. Total amount derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid	\$				\$			
2. Total amount derived from professions, vocations, businesses, trade, commerce, or sales or dealings in property, whether real or personal, growing out of the ownership or use of interest in real or personal property, including bonds, stocks, etc.								
3. Total amount derived from rents and from interest on notes, mortgages, and securities (other than reported on lines 5 and 6)								
4. Total amount of gains and profits derived from partnership business, whether the same be divided and distributed or not								
5. Total amount of fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods								
6. Total amount of income derived from coupons, checks, or bills of exchange for or in payment of interest upon bonds issued in <i>foreign countries</i> and upon <i>foreign mortgages</i> or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries								
7. Total amount of income received from fiduciaries								
8. Total amount of income derived from any source whatever, not specified or entered elsewhere on this page								
9. TOTALS								
NOTES.—Enter total of Column A on line 5 of first page.								
10. AGGREGATE TOTALS OF COLUMNS A AND B	\$							
11. Total amount of income derived from dividends on the stock or from the net earnings of corporations, joint-stock companies, associations, or insurance companies subject to like tax (To be entered on line 4 of first page.)	\$							
12. TOTAL "Gross Income" (to be entered on line 1 of first page)	\$							

GENERAL DEDUCTIONS.

1. The amount of necessary expenses actually paid in carrying on business, but not including business expenses of partnerships, and not including personal, living, or family expenses . . . . .	\$	.....	.....	.....
2. All interest paid within the year on personal indebtedness of taxpayer . . . . .		.....	.....	.....
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits) . . . . .		.....	.....	.....
4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise . . . . .		.....	.....	.....
5. Debts due which have been actually ascertained to be worthless and which have been charged off within the year . . . . .		.....	.....	.....
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per cent of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made . . . . .		.....	.....	.....
7. Total "GENERAL DEDUCTIONS" (to be entered on line 2 of first page) . . . . .		.....	.....	.....

AFFIDAVIT TO BE EXECUTED BY INDIVIDUAL MAKING HIS OWN RETURN.

I solemnly swear (or affirm) that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to me during the year for which the return is made, and that I am entitled to all the deductions and exemptions entered or claimed therein, under the Federal Income-tax Law of October 3, 1913.

Sworn to and subscribed before me this

day of, 191

.....
(Signature of individual.)



.....
.....
(Official capacity.)

AFFIDAVIT TO BE EXECUTED BY DULY AUTHORIZED AGENT MAKING RETURN FOR INDIVIDUAL.

I solemnly swear (or affirm) that I have sufficient knowledge of the affairs and property of to enable me to make a full and complete return thereof, and that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to said individual during the year for which the return is made, and that the said individual is entitled, under the Federal Income-tax Law of October 3, 1913, to all the deductions and exemptions entered or claimed therein.

Sworn to and subscribed before me this

day of, 191

.....
(Signature of agent.)

ADDRESS
IN FULL

{
.....



.....
.....
(Official capacity.)

[SEE INSTRUCTIONS ON BACK OF THIS PAGE.]

INSTRUCTIONS.

1. This return shall be made by every citizen of the United States, whether residing at home or abroad, and by every person residing in the United States, though not a citizen thereof, having a *net income* of \$3,000 or over for the taxable year, and *also* by every *nonresident alien* deriving income from property owned and business, trade, or profession carried on *in the United States* by him.

2. When an individual by reason of minority, sickness or other disability, or absence from the United States, is unable to make his own return, it may be made for him by his *duly authorized* representative.

3. The *normal tax* of 1 per cent shall be assessed on the total net income less the specific exemption of \$3,000 or \$4,000 as the case may be. (For the year 1913, the specific exemption allowable is \$2,500 or \$3,333.33, as the case may be.) If, however, the normal tax has been deducted and withheld on any part of the income at the source, or if any part of the income is received as dividends upon the stock or from the net earnings of any corporation, etc., which is taxable upon its net income, such income shall be deducted from the individual's total *net income* for the purpose of calculating the amount of income on which the individual is liable for the normal tax of 1 per cent by virtue of this return. (See page 1, line 7.)

4. The *additional or super tax* shall be calculated as stated on page 1.

5. This return shall be filed with the Collector of Internal Revenue for the district in which the individual resides if he has no other place of business, otherwise in the district in which he has his *principal place of business*; or in case the person resides in a foreign country, then with the collector for the district in which his principal business is carried on in the United States.

6. This return must be filed on or before the first day of March succeeding the close of the calendar year for which return is made.

7. The *penalty for failure to file the return within the time specified by law* is \$20 to \$1,000. In case of refusal or neglect to render the return within the required time (except in cases of sickness or absence), 50 per cent shall be added to amount of tax assessed. In case of *false or fraudulent return*, 100 per cent shall be added to such tax, and any person required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding \$2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

8. When the return is not filed within the required time by reason of sickness or absence of the individual, an extension of time, not exceeding 30 days from March 1, within which to file such return, *may be granted* by the collector, *provided* an application therefor is made by the individual within the period for which such extension is desired.

9. This return properly filled out must be made under oath or affirmation. Affidavits may be made before any officer *authorized by law* to administer oaths. If before a justice of the peace or magistrate; not using a seal, a *certificate of the clerk of the court as to the authority* of such officer to administer oaths should be *attached to the return*.

10. Expense for medical attendance, store accounts, family supplies, wages of domestic servants, cost of board, room, or house rent for family or personal use, *are not expenses that can be deducted from gross income*. In case an individual owns his own residence he can not deduct the estimated value of his rent, neither shall he be required to include such estimated rental of his home as income.

11. The farmer, in computing the net income from his farm for his annual return, shall include all moneys received for produce and animals sold, and for the wool and hides of animals slaughtered, provided such wool and hides are sold, and he shall deduct therefrom the sums actually paid as purchase money for the animals sold or slaughtered during the year.

When animals were raised by the owner and are sold or slaughtered he shall not deduct their value as expenses or loss. He may deduct the amount of money actually paid as expense for producing any farm products, live stock, etc. In deducting expenses for repairs on farm property the amount deducted must not exceed the amount actually expended for such repairs during the year for which the return is made. (See page 3, item 6.) The cost of replacing tools or machinery is a deductible expense to the extent that the cost of the new articles does not exceed the value of the old.

12. In calculating losses, only such losses as shall have been actually sustained and the amount of which has been definitely ascertained during the year covered by the return can be deducted.

13. Persons receiving fees or emoluments for professional or other services, as in the case of physicians or lawyers, should include all actual receipts for services rendered in the year for which return is made, together with all unpaid accounts, charges for services, or contingent income due for that year, if good and collectible.

14. Debts which were contracted during the year for which return is made, but found in said year to be worthless, may be deducted from gross income for said year, but such debts can not be regarded as worthless until after legal proceedings to recover the same have proved fruitless, or it clearly appears that the debtor is insolvent. If debts contracted prior to the year for which return is made were included as income in return for year in which said debts were contracted, and such debts shall subsequently prove to be worthless, they may be deducted under the head of losses in the return for the year in which such debts were charged off as worthless.

15. Amounts due or accrued to the individual members of a partnership from the net earnings of the partnership, whether apportioned and distributed or not, shall be included in the annual return of the individual.

16. United States pensions shall be included as income.

17. Estimated advance in value of real estate is not required to be reported as income, unless the increased value is taken up on the books of the individual as an increase of assets.

18. Costs of suits and other legal proceedings arising from ordinary business may be treated as an expense of such business, and may be deducted from gross income for the year in which such costs were paid.

19. An unmarried individual or a married individual not living with wife or husband shall be allowed an exemption of \$3,000. When husband and wife live together they shall be allowed jointly a total exemption of only \$4,000 on their aggregate income. They may make a joint return, both subscribing thereto, or if they have separate incomes, they may make separate returns; but in no case shall they jointly claim more than \$4,000 exemption on their aggregate income.

20. In computing net income there shall be excluded the compensation of all officers and employees of a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

What Is a Tax Preparer and What Is His Role

A taxpayer may find that the most efficient and cost effective manner in which to comply with filing a timely and accurate tax return is to employ the services of a professional tax preparer. Because the taxpayer is still responsible for the accuracy of his tax return, he should be sure he has chosen an educated professional to assist him. A taxpayer should also remember the following:

“Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the treasury; there is not even a patriotic duty to increase one’s taxes.”

This quote is from the influential U.S. Court of Appeals judge and noted judicial philosopher, Learned Hand, who is expressing his views on our duty as taxpayers to pay our “fair and legitimate” share of taxes. A professional preparer most likely will share U.S. Court of Appeals Judge Learned Hand’s, views.

- a) Goal: to attain least legitimate tax (minimize tax)
- b) Works for the taxpayer, not the IRS (do not audit). (The Tax Relief Act of 1997 does require that preparers of returns with Earned Income Credit exercise “due diligence” in preparing Earned Income Credit (EIC) returns. See Chapter 5 for further explanation.) However, taxpayers may be audited, in which case, they will be required to substantiate entries on their tax returns.
- c) Interprets "gray" areas to the advantage of the taxpayer, not the IRS
- d) Is assertive and asks the taxpayer many questions so that no income or deductions and credits are overlooked
- e) Maintains taxpayer's information in complete confidence
- f) Meets requirements for competence and professional standing:
 - Awareness of all tax laws affecting individuals
 - Ability to research and interpret the tax laws
 - A thorough and efficient interview technique
 - Genuine respect and concern for the taxpayer
- g) If a taxpayer prepares a return that is not in accordance with the tax law or asks a preparer to prepare a return that is not proper, the professional preparer should tell the taxpayer the correct way to report the item and advise him to comply with the tax laws and regulations. The preparer is under no obligation to report the taxpayer. However, the preparer is expected to tell the truth if asked by a representative of either the Federal or State government.
- h) The tax preparer should **never** prepare a return incorrectly merely because the taxpayer insists on it.
- i) Preparers should always be alert to fraud. If a client is vague with answers to questions or provides answers that are suspicious, the tax preparer should be assertive and ask additional questions. If the preparer is not comfortable preparing a return for the taxpayer, he should explain his position to the taxpayer and refuse to prepare the return.

A preparer is subject to a \$1,000 (or, if greater, 50% of the income derived with respect to the income) fine per return for an understatement of taxpayer’s liability due to an unrealistic position. Understatement due to preparer’s willful or reckless conduct or intentional disregard of rules is punishable by a fine of \$5,000 (or, if greater, 50% of the income derived with respect to the income) per return.

Note: IRS Circular 230 addresses changes due to the Small Business and Work Opportunity Tax Act of 2007. Section 8246 of the Act amended several provisions of the Code to extend the application of the income tax return preparer penalties to all tax return preparers, alter the standards of conduct that must be met to avoid imposition of the penalties for preparing a return which reflects an understatement of liability, and increase applicable penalties. The amendments were effective for tax returns prepared after the date of the enactment, May 25, 2007.

Who Should File a Return

- a) See the charts (on the following pages) for Federal filing requirement amounts for most taxpayers and dependents.
- b) Even if one is not required to file, he should file a federal income tax return if:
 1. He can file a return to get a refund of income tax withheld from his pay
 2. He qualifies for the Earned Income Credit
 3. He qualifies for any of the "Refundable Tax credits"

Additional Reasons a Taxpayer Must File

- a) He owes special taxes, such as:
 - Social Security or Medicare tax on tips not reported to employer
 - Social Security or Medicare tax on wages received from an employer who did not withhold these taxes
 - Uncollected Social Security, Medicare, or railroad retirement tax on tips you reported to your employer
 - Uncollected Social Security, Medicare, or railroad retirement tax on group-term life insurance. (This amount should be shown in box 12 of Form W-2.)
 - Alternative Minimum Tax
 - Tax on a qualified distribution, Individual Retirement Account (IRA), or Medical Savings Account (MSA)
 - Additional tax on a Coverdell ESA or qualified tuition program
 - Certain recapture taxes
- b) Also, if he had:
 - Net earnings from self-employment of \$400 or more
 - Received any advanced earned income credit payments
 - Wages of \$108.28 or more from a church or church-controlled organization that is exempt from employer Social Security and Medicare taxes.

Filing Requirements for Most Taxpayers

To use the *Filing Requirements for Most Taxpayers* chart (Exhibit 1-1) first, find the taxpayer's marital status at the end of 2009. Then read across to find the taxpayer's filing status and age at the end of 2009. A return must be filed if the taxpayer had gross income that was at least the amount shown in the last column. Gross income means all income received in the form of money, goods, property, and services that are not exempt from tax, including income from foreign sources (even if the taxpayer may exclude part or all of the income).

Do not include Social Security benefits as gross income unless the taxpayer is Married Filing Separately and lived with his spouse at any time during the tax year.

The filing requirement is calculated by adding the taxpayer's standard deduction (based on his filing status) and his exemption (if Married Filing Joint return, include the spouse's exemption). If the taxpayer is age 65 or older, add the taxpayer's additional standard deduction to his regular standard deduction and personal exemption (discussed in a later chapter). The additional standard deduction amount for Married Filing Joint and Married Filing Separate individuals is \$1,100 for each person age 65 or older. The additional standard deduction amount for Single and Head of Household taxpayers is \$1,400.

Example 1: The filing requirement for a Single taxpayer, under age 65 is calculated as follows:

Standard deduction for a Single Taxpayer	\$5,700
Personal exemption	<u>\$3,650</u>
Gross income filing requirement	\$9,350

Example 2: The filing requirement for a Married Filing Joint taxpayer, age 67 and his spouse age 64 is calculated as follows:

Standard deduction for a Married Filing Joint taxpayer	\$11,400
Additional standard deduction for the taxpayer age 67	\$ 1,100
Personal exemptions for the taxpayer and his spouse	<u>\$ 7,300</u>
Gross income filing requirement	\$19,800

Example 3: The filing requirement for a Head of Household taxpayer, age 72 is calculated as follows:

Standard deduction for a Head of Household taxpayer	\$ 8,350
Additional standard deduction for the taxpayer age 72	\$ 1,400
Personal exemption for the taxpayer	<u>\$ 3,650</u>
Gross income filing requirement	\$13,400

Preparer Note: Married Filing Separate individuals are required to use only their personal exemption to calculate gross income filing requirement.

Please see Exhibit 1-1 on the following page.

**Exhibit 1-1
2009 Filing Requirements for Most Taxpayers**

Marital Status	Filing Status	Age	Gross Income
Single (including divorced and legally separated)	Single	Under 65 65 or older	\$ 9,350 \$10,750
	Head of Household	Under 65 65 or older	\$12,000 \$13,400
Married, with a child, living apart from your spouse during the last 6 months of 2009	Head of Household	Under 65 65 or older	\$12,000 \$13,400
Married, living with spouse at end of 2009 (or on the date the spouse died)	Married, Joint Return	Under 65 (both spouses)	\$18,700
		65 or older (one spouse)	\$19,800
		65 or older (both spouses)	\$20,900
	Married, Separate Return	Any age	\$ 3,650
Married, not living with your spouse at the end of 2009 (or on the date the spouse died)	Married, joint or separate return	Any age	\$ 3,650
Widowed before 2009 and not remarried in 2009	Single	Under 65 65 or older	\$ 9,350 \$10,750
	Head of Household	Under 65 65 or older	\$12,000 \$13,400
	Qualifying Widow(er) with dependent child	Under 65 65 or older	\$15,050 \$16,150

Note: Taxpayers who turn age 65 January 1 are considered age 65 for the prior year.

Dependent Filing Requirements

If a parent (or someone else) can claim the person as a dependent, and any of the situations listed below applies to him, he must file a return. In the charts below, unearned income includes taxable interest, dividends, capital gains, unemployment compensation, taxable Social Security, pensions, annuities, and distributions of unearned income from a trust. Earned income includes wages, tips, taxable scholarships and fellowship grants.

Caution: If the gross income was \$3,650 or more, he generally cannot be claimed as a dependent unless he was under age 19 or under age 24 and a full-time student.

2009 Filing Requirements for Single Dependents

Single dependents	
Were you either age 65 or older or blind?	
No	Yes
You must file a return if any of the following apply	You must file a return if any of the following apply
<ul style="list-style-type: none"> • Your unearned income was more than \$950 • Your earned income was more than \$5,700 • Your gross income was more than the larger of : <ul style="list-style-type: none"> • \$950, or • Your earned income (up to \$5,400) plus \$300 	<ul style="list-style-type: none"> • Your unearned income was more than \$2,350 (\$3,750 if 65 or older and blind) • Your earned income was more than \$7,100 (\$8,500 if age 65 or older and blind) • Your gross income was the larger of: <ul style="list-style-type: none"> • \$2,350 (\$3,750 if 65 or older and blind), or • Your earned income (up to \$5,400) plus \$1,700 (\$3,100 if 65 or older and blind).

2009 Filing Requirements for Married Dependents

Married Dependents	
Were you either age 65 or older or blind?	
No	Yes
You must file a return if any of the following apply	You must file a return if any of the following apply
<ul style="list-style-type: none"> • Your unearned incomes was more than \$950 • Your earned income was more than \$5,700 • Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions • Your gross income was more than the larger of : <ul style="list-style-type: none"> • \$950, or • Your earned income (up to \$5,400) plus \$300 	<ul style="list-style-type: none"> • Your unearned income was more than \$2,050 (\$3,150 if 65 or older and blind) • Your earned income was more than \$6,800 (\$7,900 if age 65 or older and blind) • Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions • Your gross income was the larger of: <ul style="list-style-type: none"> • \$2,050 (\$3,100 if 65 or older and blind), or • Your earned income (up to \$5,400) plus \$1,400 (\$2,500 if 65 or older and blind).

Which Form Should be Used

One of three forms must be used to file the federal income tax return:

1. Form 1040EZ
2. Form 1040A
3. Form 1040

The simplest form should always be used to complete an individual's income tax return.

1. **Form 1040EZ** may be used if all of the following apply:

- Filing status is Single or Married Filing Joint. If the taxpayer was a nonresident alien at any time in the tax year, his filing status must be Married Filing Jointly to use Form 1040EZ.
- Taxpayer (and spouse if married filing a joint return) is under age 65 and not blind at the end of 2009.
- Taxpayer does not claim any dependents.
- Taxable income is less than \$100,000.
- Income is only from wages, salaries, tips, unemployment compensation, Alaska Permanent Fund dividends, taxable scholarship and fellowship grants, and taxable interest of \$1,500 or less.
- Taxpayer did not receive any advance earned income credit (EIC) payments.
- Taxpayer (or spouse if Married Filing Joint) does not claim any adjustments to income such as a deduction for IRA contributions or student loan interest
- Taxpayer does not claim any credits other than the earned income credit or the making work pay credit.
- Taxpayer does not owe any household employment taxes on wages he paid to a household employee.
- The taxpayer is not claiming the additional standard deduction for real estate taxes, taxes on the purchase of a new motor vehicle, or disaster losses.

If taxpayer does not meet all these requirements, he must use Form 1040A or Form 1040.

Heading of the Form 1040EZ

Form		Department of the Treasury—Internal Revenue Service		OMB No. 1545-0074			
1040EZ		Income Tax Return for Single and Joint Filers With No Dependents (99) 2009					
Label (See page 9.) Use the IRS label. Otherwise, please print or type. Presidential Election Campaign (see page 9)	L A B E L H E R E	Your first name and initial	Last name	Your social security number			
		If a joint return, spouse's first name and initial	Last name	Spouse's social security number			
		Home address (number and street). If you have a P.O. box, see page 9.			Apt. no.	▲ You must enter your SSN(s) above. ▲	
		City, town or post office, state, and ZIP code. If you have a foreign address, see page 9.					Checking a box below will not change your tax or refund.
Check here if you, or your spouse if a joint return, want \$3 to go to this fund . . . <input type="checkbox"/> You <input type="checkbox"/> Spouse							

2. **Form 1040A** should be used instead of 1040EZ if all of the following apply:

- Income is from wages, salaries, tips, IRA distributions, pensions and annuities, taxable Social Security and railroad retirement benefits, taxable scholarship and fellowship grants, interest, ordinary dividends (including Alaska Permanent Fund dividends), capital gain distributions, and unemployment compensation.
- Taxable income is less than \$100,000.
- Adjustments to income are only for: educator expenses; deduction for an IRA contribution; student loan interest deduction; and tuition fees deduction.
- Does not itemize deductions.
- Taxes are only from: the Tax Table or Alternative Minimum Tax; advance earned income credit (EIC) payments; recapture of an education credit; Form 8615, *Tax for Certain Children Who Have Investment Income of More Than \$1,900*; or Qualified Dividends and Capital Gain Tax Worksheet.
- Credits allowed on the 1040A are only: child and dependent care expense credit; elderly or disabled credit; child tax credit; additional child tax credit; education credits, including the refundable American opportunity credit; retirement savings contributions credit; earned income credit; the making work pay credit; and the government retiree credit.
- The taxpayer did not have an alternative minimum tax adjustment on stock he acquired from the exercise of an incentive stock option.

If one does not meet all of the above requirements, the taxpayer cannot use Form 1040A. He must use Form 1040.

Heading of the Form 1040A

Form 1040A	Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return (99)	2009	IRS Use Only—Do not write or staple in this space.
Label (See page 17.)	Your first name and initial	Last name	OMB No. 1545-0074
Use the IRS label.	If a joint return, spouse's first name and initial	Last name	Your social security number
Otherwise, please print or type.	Home address (number and street). If you have a P.O. box, see page 17.	Apt. no.	Spouse's social security number
Presidential Election Campaign	City, town or post office, state, and ZIP code. If you have a foreign address, see page 17.		You must enter your SSN(s) above.
	Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 17)		Checking a box below will not change your tax or refund.
		<input type="checkbox"/> You	<input type="checkbox"/> Spouse

3. **Form 1040** must be used if any of the following apply:

- Has taxable income of \$100,000 or more.
- Itemizes deductions.
- Has income that cannot be reported on Form 1040EZ or Form 1040A, including tax-exempt interest from private activity bonds issued after August 7, 1986.
- Claims adjustments to gross income other than the adjustments listed earlier under Form 1040A (i.e. certain business expenses of reservists, performing artists and fee-basis government officials; health savings accounts payments (Archer MSA deduction); moving expenses, self-employed health insurance, deduction for self-employment tax, payments to a Keogh, SEP or Simple plan, penalty on early withdrawal of savings; alimony paid; domestic production activities deduction).
- Has a Form W-2 which shows uncollected employee Social Security and Medicare tax on tips or group term life insurance in box 12
- Received \$20 or more in tips in any one month, and did not report all of these tips to employer.

- Was a bona fide resident of Puerto Rico and exclude income from sources in Puerto Rico.
- Claims any credits other than the credits listed earlier under Form 1040A (i.e. residential energy credits; foreign tax credits; credits from Form 3800 *General Business Credit*, Form 8396 *Mortgage Interest Credit*, Form 8801 *Credit for Prior Year Minimum Tax*, Form 8839 *Qualified Adoption Credit*).
- Owes the excise tax on insider stock compensation from an expatriated corporation.
- Has a Form W-2 which shows an amount in box 12 with a code of Z.
- Had a qualified health savings account health savings account funding distribution from his IRA.
- Is an employee and his employer did not withhold Social Security and Medicare tax.
- Has to file other forms with his return to report certain exclusions, taxes, or transactions (i.e. self-employment tax; unreported Social Security and Medicare tax; additional tax on IRAs, other qualified retirement plans, etc.; advance earned income credit payments from Form W-2 box 9; household employment taxes).
- Is a debtor in a bankruptcy case filed after October 16, 2005.
- Had a net disaster loss attributable to a federally declared disaster, even if you are claiming the standard deduction.

Heading of the Form 1040

Form 1040 Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return 2009 (99) IRS Use Only—Do not write or staple in this space.	For the year Jan. 1–Dec. 31, 2009, or other tax year beginning _____, 2009, ending _____, 20		OMB No. 1545-0074
	Label (See instructions on page 14.) Use the IRS label. Otherwise, please print or type.	L Your first name and initial	A Last name	Your social security number
	B If a joint return, spouse's first name and initial	E Last name	Spouse's social security number
	H Home address (number and street). If you have a P.O. box, see page 14.	R Apt. no.	▲ You must enter your SSN(s) above. ▲
	E City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.		
Presidential Election Campaign	▶ Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) ▶		<input type="checkbox"/> You <input type="checkbox"/> Spouse

The following examples will illustrate how a single simple factor might change the form on which the taxpayer will be required to file.

Example 1: Maggie Pitchford, age 30, is single and her only income for this year is from Form W-2. Maggie has no children, does not own a home, and does not have enough deductions to itemize. Maggie's taxable income is \$36,025.

What form should Maggie use? Maggie should use **Form 1040EZ**. Maggie's circumstances are not complicated; therefore, she should take advantage of the least complicated form.

Example 2: The same situation as in Example 1, with one difference. Maggie has a 4-year old dependent daughter.

What form should Maggie use? Maggie should use **Form 1040A**. Form 1040EZ will not allow Maggie the dependent deduction for her daughter.

Example 3: The same situation as in Example 2, with one difference. Maggie paid mortgage interest in excess of \$8,500. She also paid real estate taxes in the amount of \$1,600.

What form should Maggie use? Maggie should use **Form 1040**. Form 1040EZ and 1040A will not allow Maggie to use Schedule A in order to itemize deductions. (Maggie's total itemized deductions are more than the standard deduction.)

When Taxes Must be Filed

The due date for calendar year taxpayers is April 15. Fiscal year (a year ending on the last day of any month except December, or a 52-53 week year) individual taxpayers file 3½ months after the end of the fiscal year. If the due date falls on a Saturday, Sunday, or a legal holiday, the due date extends to the next regular business day.

Taxpayers may apply for an automatic 6-month extension by filing Form 4868, *Application for Automatic Extension of time to File U.S. Individual Income Tax Return*, on or before the due date; **however, they must still pay the taxes due by the first due date (April 15)** to avoid interest and penalty charges. The IRS Installment Agreement Request Form (Form 9465) may provide relief for those who owe and cannot make the full payment.

Preparer Note: Always encourage the taxpayer to file his return by the deadline even if he is unable to pay the taxes due. If the taxpayer fails to file his return by the deadline, he may have to pay a failure to file penalty.

Form 4868		Application for Automatic Extension of Time To File U.S. Individual Income Tax Return		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)		For calendar year 2009, or other tax year beginning _____, 2009, ending _____, 20_____		2009
Part I Identification		Part II Individual Income Tax		
1 Your name(s) (see instructions)		4 Estimate of total tax liability for 2009 . . . \$ _____		
Address (see instructions)		5 Total 2009 payments _____		
City, town, or post office		6 Balance due. Subtract line 5 from line 4 (see instructions) _____		
State		7 Amount you are paying (see instructions) ▶ _____		
ZIP Code		8 Check here if you are "out of the country" and a U.S. citizen or resident (see instructions) ▶ <input type="checkbox"/>		
2 Your social security number	3 Spouse's social security number	9 Check here if you file Form 1040NR or 1040NR-EZ and did not receive wages as an employee subject to U.S. income tax withholding ▶ <input type="checkbox"/>		
For Privacy Act and Paperwork Reduction Act Notice, see page 4.		Cat. No. 13141W		Form 4868 (2009)

Where to File

A complete list of IRS Filing Centers is found in the 1040, 1040A, or 1040EZ booklets. (The 1040 Instructions is located on the CD you received or you can download it from the online course.) If the taxpayer is mailing his return, he will receive a pre-addressed envelope with his package. (If the taxpayer has moved, this may not be the correct service center address for his new address.)

How to File

Taxpayers may also file their returns electronically through tax preparers who transmit returns to the Internal Revenue Service. Starting with the 2008 filing season, tax preparers can e-file

individual income tax returns only if the returns are signed electronically using one of two methods: either the Self-Select Personal Identification Number (PIN) method or the Practitioner PIN method.

The Self-Select PIN method allows taxpayers to electronically sign their e-file returns using a five-digit PIN and either their Adjusted Gross Income or PIN from the prior year. The Practitioner PIN method does not require taxpayers to use either Adjusted Gross Income or PIN from the prior year. The taxpayer will either enter the PIN himself or give signature authorization for the preparer to enter the PIN for him.

Form 8879 *IRS e-file Signature Authorization* must be completed and signed by taxpayers whenever a taxpayer authorizes the Electronic Return Originator (ERO) to enter a PIN in the return record for the taxpayer. Form 8879 is also required whenever the Practitioner method of signature is used.

If supporting paper documents are required to be submitted to the IRS with an e-filed return, then the newly designed Form 8453 *U.S. Individual Income Tax Transmittal for an IRS e-file Return* will have to be signed by both the taxpayer and the tax preparer. Form 8453 and the supporting documents should be mailed to the IRS. (More detailed information about the PIN and forms will be provided in Chapter 10.)

Taxpayers can also file online by using an IRS-accepted online service, which will usually charge the taxpayer a fee for the service.

How to Pay Amounts Due

There are several methods of IRS accepted payments. The taxpayer can choose to:

1. Send a check, money order, or cashiers check to the IRS
2. Have the amount debited from his checking or savings account
3. Pay by credit card (call 1-800-2PAYTAX)
4. File Form 9465, *Installment Agreement Request*, to apply for an installment agreement

Accounting Periods

Most taxpayers use the calendar year accounting period for their individual income tax return. A taxpayer must choose the accounting period he intends to use when he files his first income tax return. The accounting period cannot be longer than 12 months.

Calendar Year – The 12 months from January 1 through December 31.

Fiscal Year – A 12-month period that ends on the last day of any month except December.

For the first or last return, the accounting period may be less than 12 months.

Accounting Methods

An accounting method is the means that the taxpayer uses to account for his income and expenses.

Cash Method. If one uses this method, all items are reported as income in the year in which they are actually or constructively received. (Income is constructively received when it becomes

available to the taxpayer.) All expenses are deducted in the year they are paid. This is the method most individual taxpayer's use. (Exception is prepaid expenses, like insurance or tuition.)

Accrual Method. If this method is used, income is reported when earned, whether or not it is received. Expenses are deducted when incurred rather than when paid. Businesses, which have an inventory, are required to use the accrual method for the cost of goods sold portion of the business.

Once the accounting method is chosen (with the taxpayer's first return), the taxpayer ordinarily cannot change it without the permission of the IRS. However, taxpayers can use a different method for each business operated.

Social Security Number (SSN)

Taxpayer and spouse SSN must be listed on the tax return and must be correct. If one changes his name due to marriage, divorce, or other circumstance, he must notify the Social Security Administration (SSA) immediately so that the name on the tax return matches the name the SSA has on record.

Dependents SSN must be listed on the dependent section of the tax return in order to be filed. Social Security numbers must be listed for **all** dependents claimed, including dependents other than children.

To obtain a Social Security number, Form SS-5, *Application for Social Security Card*, must be filed with the Social Security Administration.

If the taxpayer is in the process of adopting a child for whom he cannot get a Social Security number, he can file Form W-7A with the IRS to obtain an ITIN for use in place of a Social Security number.

Form W-7A <small>(Rev. October 2008)</small> Department of the Treasury Internal Revenue Service	Application for Taxpayer Identification Number for Pending U.S. Adoptions ▶ See instructions.	OMB No. 1545-0074
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Note. Do not file this form if you are eligible to obtain a U.S. social security number (SSN) for your adoptive child.

Preparer note: A tax return cannot be filed if the SSN of the taxpayer, spouse, or any dependent is not available.

Filing Status

Filing status at first glance appears to be very simple to determine. Upon further study, complexities enter into the decision as to which status a taxpayer qualifies for. Detailed information on filing status found in Publication 17, *Your Federal Income Tax for Individuals*, should be carefully studied.

Marital status for the tax year is determined by the taxpayer's status on December 31 (or the last day of the taxpayer's tax year if he has a fiscal year).

Form 1040		Department of the Treasury—Internal Revenue Service		U.S. Individual Income Tax Return 2009		(99) IRS Use Only—Do not write or staple in this space.	
Label (See instructions on page 14.) Use the IRS label. Otherwise, please print or type.	L A B E L H E R E	For the year Jan. 1–Dec. 31, 2009, or other tax year beginning _____, 2009, ending _____, 20____				OMB No. 1545-0074	
		Your first name and initial		Last name		Your social security number	
		If a joint return, spouse's first name and initial		Last name		Spouse's social security number	
		Home address (number and street). If you have a P.O. box, see page 14.				Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.				▲ You must enter your SSN(s) above. ▲ Checking a box below will not change your tax or refund.			
Presidential Election Campaign		Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) ▶				<input type="checkbox"/> You <input type="checkbox"/> Spouse	
Filing Status		1 <input type="checkbox"/> Single		4 <input type="checkbox"/> Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶			
Check only one box.		2 <input type="checkbox"/> Married filing jointly (even if only one had income)		5 <input type="checkbox"/> Qualifying widow(er) with dependent child (see page 16)			
		3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶					

Single, if taxpayer on December 31:

- Is unmarried on the last day of the year
- Is legally separated by divorce or separate maintenance decree and
- Does not qualify for another filing status

Preparer Note: The taxpayer's filing status may be single if he was widowed before January 1 of the tax year and did not remarry before the end of the tax year. However be certain to check other filing statuses which may give the taxpayer a lower rate if qualified. See *Head of Household* and *Qualifying Widow(er) with Dependent Child*.

Married Filing Joint, if taxpayers on December 31:

- Are married and spouses are filing a joint return, even if one had no income or deductions
- Are living together in a common law marriage that is recognized in the state where the taxpayers now live, or in the state where the common law marriage began
- Are married and living apart, but not legally separated under a decree of divorce or separate maintenance
- Spouse died during the tax year and taxpayer did not remarry before the end of the year
- If spouse died during the tax year and taxpayer remarried before the end of the tax year, he may file Married Filing Joint with the new spouse. The deceased spouse's filing status is Married Filing Separately for the tax year

Note: The taxpayer and spouse are both held responsible, jointly and individually, for the tax and any interest or penalty due on a joint return.

Married Filing Separately, if on December 31:

- Taxpayer may choose this status if he is married, living together or apart
- He wants to be responsible for only his tax
- He may choose this status if it results in less tax than he would owe on a joint return; however, taxpayers who consider Married Filing Separately should be advised that this filing status has severe limitations in deductions, adjustments, and credits. Generally speaking, taxpayers who elect to file Married Filing Separately are subject to the following rules:

1. Must itemize if their spouse itemizes
2. Cannot deduct student loan interest
3. Does not qualify for earned income credit

4. Cannot take credit for child and dependent care expenses (in most instances). The amount that can be excluded from income under an employer's dependent care assistance program is limited to \$2,500 (instead of \$5,000 if filing a joint return)
5. Cannot exclude interest from series EE U.S. savings bonds used for higher education
6. Cannot take credit for the elderly or disabled (unless they lived apart for entire year)
7. Cannot take education credits
8. Cannot take adoption credits
9. Will become subject to the limit on the child tax credit, the limit on itemized deductions, and the phase-out of the deduction for personal exemptions at income levels that are half of those for a joint return
10. May be required to include more Social Security or railroad retirement benefits in taxable income
11. May be more limited in Individual Retirement Arrangements (IRAs) deductions
12. Cannot roll over amounts from a traditional IRA into a Roth IRA during a year they file a separate return
13. Will be limited to a capital loss deduction of \$1,500. (The Married Filing Joint capital loss deduction limit is \$3,000)
14. May not be able to deduct as large a passive activity loss
15. Tax rates are generally higher than on a Married Filing Joint return
16. The exemption amount for figuring the alternative minimum tax will be half that allowed to a joint return filer

Preparer Note: Check to see if the taxpayer qualifies for Head of Household status before choosing Married Filing Separately. Both spouses may qualify for Head of House if each has a qualifying child living with them.

Head of Household, if taxpayer on December 31:

- On the last day of the tax year is unmarried or considered unmarried
- Considered unmarried only if taxpayer meets all of the following conditions:
 1. Filed separately from spouse
 2. Spouse did not live in the home at all during last six months of the tax year
 3. For more than 6 months the home was the principal residence of a qualifying person. (However, dependent parent does not have to live with you.)
 4. Paid more than half the cost of keeping up a home for the tax year
 5. The home was, for more than half the year, the main home of a qualifying child, stepchild, adopted child, or relative who can be claimed as a dependent (for a foster child, the requirement is one full year)
- A taxpayer can still meet this test if the taxpayer cannot claim his child as a dependent only because:
 1. The taxpayer stated in writing to the noncustodial parent that he or she may claim an exemption for the child, or
 2. The non-custodial parent must provide at least \$600 support for the dependent and claim an exemption for the dependent under a pre-1985 divorce or separation agreement

You must meet all of the above requirements to claim Head of Household status.

Preparer Note: The taxpayer is considered unmarried for Head of Household purposes if his spouse was a nonresident alien at any time during the year and he does not choose to treat his nonresident spouse as a resident alien. However, the spouse is not a qualifying person for Head of Household purposes. The taxpayer must have another qualifying person and meet the other tests to be eligible to file as Head of Household.

Qualifying Widow(er) With Dependent Child, if taxpayer:

- Was entitled to file a joint return with spouse for the tax year in which the spouse died (whether or not taxpayer actually filed a joint return)
- Did not remarry before the end of the tax year
- Has a child who qualifies as the taxpayer's dependent for the tax year
- Paid more than half the cost of keeping up a home that was the main home for the taxpayer and that child for the entire year

The taxpayer **must meet all** of the above requirements to qualify. For the tax year in which the spouse died, the taxpayer can file Married Filing Joint. If the taxpayer meets the requirements for the next two years, he qualifies for Qualifying Widow(er) With Dependent Child. After two years, the taxpayer's filing status changes to Head of Household as long as the taxpayer has not remarried and has a dependent child living with them.

Preparer Note: When using the Tax Tables, filing status Qualifying Widow(er) uses the same column as filing status Married Filing Jointly.

Cost of Maintaining a Household

Costs to maintain a household include upkeep expenses such as rent, mortgage interest payments, real estate taxes, insurance on the home, repairs, utilities, and food eaten in the home. It does not include clothing, education, medical treatment, vacations, life insurance, or transportation.

Example: Meghan (age 25, SSN 302-69-1843) and her son, Luka (age 3, SSN 301-70-5423) lived with Meghan's mother all year. Using the following information, determine if Meghan paid more than half of the cost of maintaining a home.

<u>Expenses paid by Meghan</u>		<u>Expenses paid by Meghan's mother</u>	
Electric	\$1,820	Mortgage interest	\$3,720
Water	465	Property taxes	854
Food	2,700	Food	800
Telephone	825	Property insurance	625
Gas (heating)	1,625	Repairs	850

See the completed worksheet on the following page. Keep in mind that in the worksheet Meghan is the "taxpayer" and Meghan's mother would be considered "others".

Cost of Maintaining a Household			
Expenses Paid	Amount Taxpayer Paid	Amount Paid by Others	Total Cost
Property Taxes		854	854
Mortgage Interest Expense		3,720	3,720
Rent			
Utility Charges	4,735		4,735
Upkeep & Repairs		850	850
Property Insurance		625	625
Food Consumed on Premises	2,700	800	3,500
Other Household Expenses			
Totals	7,435	6,849	14,284
Minus totals amount paid by taxpayer			7,435
Amount paid by others			6,849
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.			

Wages and Reading W-2 Forms

22222		a Employee's social security number		OMB No. 1545-0008					
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld				
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld				
			5 Medicare wages and tips		6 Medicare tax withheld				
			7 Social security tips		8 Allocated tips				
d Control number			9 Advance EIC payment		10 Dependent care benefits				
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a	
						13 <input type="checkbox"/> Statutory employee	<input type="checkbox"/> Retirement plan	<input type="checkbox"/> Third-party sick pay	12b
						14 Other	12c	12d	
f Employee's address and ZIP code			15 State	Employer's estate ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement
 Copy 1—For State, City, or Local Tax Department

2009

Department of the Treasury—Internal Revenue Service

Preparer's Note: The example of Form W-2 above is the one found on the IRS website. There are many layouts for this form and you may have received one yourself that is different from this example. However the boxes should always be labeled the same. We will introduce you to other layouts in the Learning Activity sections throughout the course.

Box a—Employee’s Social Security number. Should match the number shown on the employee’s Social Security card. If the Social Security number is incorrect, the employee should notify the employer and request a corrected Form W-2.

Void. Some W-2’s will have a box that is checked when an error is made on Form W-2 and the form is being voided. A voided Form W-2 should not be included on the taxpayer’s return.

Box b—Employer’s identification number. Shows the employer’s identification number (EIN) assigned to the employer by the IRS (00-0000000).

Box c—Employer’s name, address, and ZIP code. This entry should be the same as the information shown on the employer’s Form 941, 943, or CT-1.

Box d—Control number. This box is used to identify individual Forms W-2.

Boxes e and f—Employee’s name and address. The taxpayer’s name should match the name as shown on his Social Security card (first, middle initial, last). The taxpayer’s name may be different if the taxpayer has been recently married, divorced or had a name change of any kind.

The taxpayer’s address (the number, street, apartment or suite number, or P.O. Box number if mail is not delivered to a street address) should be provided in box f.

Box 1—Wages, tips, other compensation. Shows the total wages, tips, and other compensation, before any payroll deductions, paid to the employee during the year.

The following items should be included in box 1:

1. Total wages, bonuses (including signing bonuses), prizes, and awards paid to employee during the year.
2. Total non-cash payments, including certain fringe benefits.
3. Total **tips** reported by the employee to the employer (not allocated tips).
4. Certain employee business expense reimbursements.
5. The cost of **accident and health insurance** premiums for 2% or more shareholder-employees paid by an S corporation.
6. Taxable benefits from a **section 125 (cafeteria) plan** (i.e., employee chooses cash).
7. Employee contributions to an **Archer Medical Savings Account (MSA)**.
8. Employer contributions to an **Archer MSA** if includible in the income of the employee.
9. Employer contributions for **qualified long-term care services** to the extent that such coverage is provided through a flexible spending account or similar arrangement.
10. Taxable cost of group-term life insurance in excess of \$50,000.
11. Unless excludable under an **educational assistance program**, payments for non-job-related education expenses or for payments under a non-accountable plan.
12. The amount includible as wages because the employer paid his employee’s share of Social Security and Medicare taxes.
13. Designated Roth contributions made under a section 401(k) plan or under a section 403(b) salary reduction agreement.
14. **Distributions** to an employee or former employee from a nonqualified deferred compensation plan or a **nongovernmental** section 457(b) plan.
15. Amounts includible in income under section 457(f) because the amounts are no longer subject to a substantial risk of forfeiture.
16. Payments to statutory employees that are subject to Social Security and Medicare taxes but not subject to Federal income tax withholding must be shown in box 1 as other compensation.
17. Cost of current insurance protection under a **compensatory split-dollar** life insurance arrangement.
18. **Employee** contributions to a **Health Savings Account (HSA)**.

19. Employer contributions to a **Health Savings Account (HSA)** if includible in the income of the employee.
20. Amounts includible in income **under a nonqualified deferred compensation plan** because of section 409A.
21. Payments made to former employees while they are on active duty for more than 30 days in the Armed Forces or other uniformed services.
22. All other compensation, including certain scholarship & fellowship grants. May include other compensation for which federal taxes were not withheld

Box 2—Federal income tax withheld. Shows the total Federal income tax withheld from the employee's wages for the year (wages should not be reduced by any advance EIC payments made to the employee). Include 20% excise tax withheld on excess parachute payments.

Box 3—Social Security wages. Shows the total wages paid (before payroll deductions) subject to employee Social Security tax but **not** including **Social Security tips** and **allocated tips**. Generally, noncash payments are considered to be wages. Include employee business expense reimbursements reported in box 1.

The total of boxes 3 and 7 can not exceed \$106,800 (2009 maximum Social Security wage base). Include in box 5 any amounts reported in box 3. Box 3 will also include elective deferrals to certain qualified cash or **deferred compensation** arrangements and to retirement arrangements described in box 12, in codes **D, E, F, G,** and **S**, even though the deferrals are not includible in box 1. Also report in box 3 designated Roth contributions made under a section 401(k) plan or under a section 403(b) salary reduction agreement described in box 12 (codes **AA** and **BB**).

Amounts deferred (plus earnings) under a **nonqualified or section 457(b) plan** must be included in boxes 3 and/or 5 as a Social Security and/or Medicare wages as of the later of when the services giving rise to the deferral are performed or when there is no substantial forfeiture risk of the rights to the deferred amount. Include elective and nonelective deferrals for purposes of section 457(b) plans.

Also include in box 3:

- Signing bonuses an employer pays for signing or ratifying an employment contract.
- Taxable cost of group-term life insurance over \$50,000 included in box 1.
- Cost of accident and health insurance premiums for 2% or more shareholder-employees paid by an S corporation, but only if not excludable under section 3121(a)(2)(B).
- Employee and non-excludable employer contributions to an MSA or HSA. However do not include employee contributions to an HSA that were made through a cafeteria plan.
- Employee contributions to a SIMPLE retirement account.
- Adoption benefits.

Box 4—Social Security tax withheld. Shows the total employee Social Security tax withheld (not the employer share), including Social Security tax on tips. This amount should not be reduced by any advance EIC payments made to the employee. For 2009, the amount should not exceed \$6,621.60 (\$106,800 x 6.2%). Only taxes withheld (or paid by the employer for the employee) for 2009 wages and tips should be included.

Box 5—Medicare wages and tips. The wages and tips subject to Medicare tax are the same as those subject to Social Security tax (boxes 3 and 7), except that there is no wage base limit for Medicare tax.

Box 6—Medicare tax withheld. Shows the total employee Medicare tax withheld.

Box 7—Social Security tips. Shows the tips the employee reported to the employer. **The total of boxes should not be more than \$106,800** (the maximum Social Security wage base for 2009).

Box 8—Allocated tips. Shows the tips allocated to the employee. This amount is **not** included in boxes 1, 3, 5, or 7.

Box 9—Advance EIC payment. Shows the total paid to the employee as advance earned income credit (EIC) payments.

Box 10—Dependent care benefits. Shows the total dependent care benefits under a dependent care assistance program (**section 129**) paid or incurred by the employer for the employee. This amount will also include the fair market value (FMV) of employer-provided or employer-sponsored day-care facilities and amounts paid or incurred in a **section 125** (cafeteria) plan.

Box 11—Nonqualified plans. The purpose of box 11 is for the Social Security Administration (SSA) to determine if any part of the amount reported in box 1 or boxes 3 and/or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits. Shows **distributions** to an employee from a nonqualified plan or a **nongovernmental** section 457 plan. This amount is also reported in box 1.

Box 12—Codes. This box is coded for all items described below:

Code A—Uncollected Social Security or RRTA tax on tips. Shows the employee Social Security or Railroad Retirement Tax Act (RRTA) tax on all the employee's tips that the employer could **not** collect, because the employee did not have enough funds from which to deduct the tax.

Code B—Uncollected Medicare tax on tips. Shows the employee Medicare tax or RRTA Medicare tax on tips that the employer could **not** collect, because the employee did not have enough funds from which to deduct the tax.

Code C—Taxable cost of group-term life insurance over \$50,000. Shows the taxable cost of group-term life insurance coverage over \$50,000, provided to the employee (including a former employee).

Code D—Elective deferrals to a section 401(k) cash or deferred arrangement. Also shows deferrals under a SIMPLE retirement account that is part of a section 401(k) arrangement.

Code E—Elective deferrals under a section 403(b) salary reduction agreement.

Code F—Elective deferrals under a section 408(k)(6) salary reduction SEP.

Code G—Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan for employees of state and local governments or tax-exempt organizations.

Code H—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan.

Code J—Nontaxable sick pay. Shows any sick pay **not** included in income (and **not** shown in boxes 1, 3, and 5) because the employee contributed to the sick pay plan.

Code K—20% excise tax on excess golden parachute payments.

Code L—Substantiated employee business expense reimbursements (nontaxable).

Code M—Uncollected Social Security or RRTA tax on cost of group-term life insurance over \$50,000 (for former employees)

Code N—Uncollected Medicare tax on cost of group-term life insurance over \$50,000 (former employees only)

Code P—Excludible moving expense reimbursements paid directly to employee. Shows the total moving expense reimbursements paid directly to the employee for qualified (deductible) moving expenses. The total for moving expense reimbursement is not included in boxes 1, 3, or 5.

Code Q—Nontaxable combat pay. See the instructions for Form 1040 or Form 1040A for details on reporting this amount.

Code R—Employer contributions to an Archer MSA. Shows any employer contributions to an Archer MSA.

Code S—Employee salary reduction contributions under a section 408(p) SIMPLE. Shows deferrals under a section 408(p) salary reduction SIMPLE retirement account.

Code T—Adoption benefits. Shows the total amount paid or reimbursed for qualified adoption expenses furnished to an employee under an adoption assistance program (not included in box 1). Employee must complete Form 8839.

Code V—Income from the exercise of nonstatutory stock option(s). Shows the spread (i.e., fair market value of stock over the exercise price of option(s) granted to an employee with respect to that stock) from the employee's (or former employee's) exercise of nonstatutory stock option(s) (included in boxes 1,3, and 5).

Code W—Employer contributions to a Health Savings Account. Report on Form 8889, Health Savings Accounts (HSAs).

Code Y—Deferrals under a section 409A nonqualified deferred compensation plan.

Code Z—Income under section 409A on a nonqualified deferred compensation plan. This amount is also included in box 1. It is subject to an additional 20% tax plus interest. See "Total Tax" in the Form 1040 instructions.

Code AA – Designated Roth contributions under a section 401(k) plan.

Code BB – Designated Roth contributions under a section 403(b) plan.

Box 13—Checkboxes.

Statutory employee. This box is checked for statutory employees whose earnings are subject to Social Security and Medicare taxes but **not subject to Federal income tax withholding**. The following are considered statutory employees:

1. A driver who distributes beverages (other than milk), or meat, vegetables, fruit, or bakery products; or who picks up and delivers laundry or dry cleaning, if the driver is an agent or is paid on commission.
2. A full-time life insurance sales agent whose principal business activity is selling life insurance or annuity contracts, or both, primarily for one life insurance company.

3. An individual who works at home on materials or goods that the employer supplied and that must be returned to the employer or to a person the employer named, if the employer also furnished specifications for the work to be done.
4. A full-time traveling or city salesperson who works on the employer's behalf and turns in orders to the employer from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments. The goods sold must be merchandise for resale or supplies for use in the buyer's business operation. The work performed for the employer must be the salesperson's principal business activity.

Retirement plan. This box will be checked if the employee was an active participant (for any part of the year) in any of the following:

1. A qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan).
2. An annuity plan described in section 403(a).
3. An annuity contract or custodial account described in section 403(b).
4. A simplified employee pension (SEP) plan described in section 408(k).
5. A SIMPLE retirement account described in section 408(p).
6. A trust described in section 501(c)(18).
7. A plan for Federal, State, or local government employees or by an agency or instrumentality thereof (other than a section 457 plan).

Third-party sick pay. This box will be checked **only** if the payer is a third-party sick pay payer filing a Form W-2 for an insured's employee or an employer reporting sick pay payments made by a third party.

Box 14—Other. The lease value of a vehicle provided to an employee and reported in box 1 **must** be reported here or in a separate statement to the employee. The employer may also use this box for any other information he may want to give his employee. Examples include State disability insurance taxes withheld, union dues, uniform payments, health insurance premiums deducted, nontaxable income, educational assistance payments, or a member of the clergy's parsonage allowance and utilities.

In addition, the employer may enter the following contributions to a pension plan: **(a)** nonelective employer contributions made on behalf of an employee, **(b)** voluntary after-tax contributions that are deducted from an employee's pay, **(c)** required employee contributions, and **(d)** employer matching contributions.

Boxes 15 through 20—State and local income tax information. These boxes are used to report State and local income tax information.

The chart on the following page lists several items from Form W-2 and where they should be reported on a tax return.

Item	Box	Where to Report
Wages, salary, tips, etc.	Box 1	Form 1040, line 7
Allocated tips	Box 8	Form 4137 & 1040 line 7
Dependent care benefits	Box 10	Form 2441, line 14
Adoption benefits	Box 12, Code T	Form 8839
Employer contributions to an MSA	Box 12, Code R	Form 8853
Advanced Earned Income Credit (EIC) Payments	Box 9	Form 1040, line 59

Note: Form 4137 is titled *Social Security and Medicare Tax on Unreported Tip Income*.
Form 2441 is titled *Child and Dependent Care Expenses*
Form 8839 is titled *Qualified Adoption Expenses*.
Form 8853 is titled *Archer MSAs and Long-Term Care Insurance Contracts*.

If the employee notices an error on his W-2, he should notify the employer and request a corrected W-2.

Paid Preparer's Signature

Anyone paid to prepare a return must sign it in the space provided. A paid preparer can sign the return manually or use a rubber stamp, mechanical device, or computer software program. The preparer is personally responsible for affixing his or her signature.

Paid preparers who fail to sign a return for which payment was received, may be fined \$50 per return, up to \$25,000 per year.

Paid Preparer's Use Only	Preparer's signature	← Preparer Signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code		EIN	Phone no.	

Paid Preparer Identification Number

Paid preparers are required to include their Social Security number or preparer tax identification number (PTIN) in the paid preparer section of the taxpayer's return. Individuals who are planning to prepare returns professionally should complete Form W-7P, *Application for Preparer Tax Identification Number*, to apply for a PTIN. Use of the PTIN is recommended to prevent theft or fraudulent use of a preparer's SSN and to protect the paid preparer's privacy.

Paid preparers who fail to provide a preparer identification number may be fined \$50 per return up to \$25,000 per year.

Paid Preparer's Use Only	Preparer's signature	Preparer Identification Number (PTIN or Social Security Number) →	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code		Phone no.

Third Party Designee

If the taxpayer wants to allow the IRS to discuss his tax return for tax year 2009 with a third party (family member, friend, or preparer), he may check the “yes” box in the area above the signature section of his return. The authorization applies only to the individual whose name is listed on the tax return. The third party designee’s phone number must also be listed as well as a PIN number chosen by the designee. The PIN number will be used to identify the designee when discussing the return with the IRS. Third party designee privileges do not apply to the firm, if any, shown in that section. If the “yes” box is checked, and the taxpayer and his spouse are filing a joint return, both are giving authorization for the IRS to call the designee to answer any questions that may arise during the processing of his return. The taxpayer is also authorizing the designee to:

- Give the IRS any information that is missing from his return
- Call the IRS to obtain information regarding processing the taxpayer’s return or the status of the taxpayer’s refund or payment and
- Respond to certain IRS notices that the taxpayer has shared with the preparer about math errors, offsets, and return preparation. The notices will not be sent to the preparer

The taxpayer is **not** authorizing the designee to receive any refund check, bind the taxpayer to anything (including additional tax liability), or otherwise represent the taxpayer before the IRS.

The authorization cannot be revoked. However, authorization will automatically end no later than the due date (without regard to extensions) for filing the 2009 tax return. For most people this is April 15, 2010.

Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see page 66)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No					
Designee's name ▶	Phone no. ▶ ()	Personal identification number (PIN) ▶	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Required Retention of Records

Paid tax preparers are required to retain copies of returns prepared or to maintain a list of clients. Records must be maintained for the duration of the statute of limitations for the individual return. Usually, statute of limitations is the later of, three years from the date the return is due or the date the return is filed.

Paid preparers who fail to maintain copies of returns or a list of clients face a fine of \$50 per return up to \$25,000 per year.

See the chart on the following page.

Other Paid Preparer Penalties		
Violation	Penalty	Authority
Understatement/disregard of taxpayer's tax liability due to unrealistic position	the greater of \$1,000 or 50% of the income derived per return	IRC Section 6694 (a)
Endorsing a taxpayer's refund check	\$500 per check	IRC Section Circular 230, Sec 10.7 (c)
Failure to furnish the taxpayer with a copy of his return	\$50 per return up to \$25,000 per year	IRC Section 6695 (a)
Preparer's willful disregard of IRS rules that result in understatement of a taxpayer's tax liability.	the greater of \$5,000 or 50% of the income derived per return.	IRC Section 6701

Note: IRS Circular 230 addresses changes due to the Small Business and Work Opportunity Tax Act of 2007. Section 8246 of the Act amended several provisions of the Code to extend the application of the income tax return preparer penalties to all tax return preparers, alter the standards of conduct that must be met to avoid imposition of the penalties for preparing a return which reflects an understatement of liability, and increase applicable penalties. The amendments were effective for tax returns prepared after the date of the enactment, May 25, 2007.

Key Terms

Adjustments: Certain “allowances” taken from gross income.

Examples:

- Alimony paid
- Contributions to an IRA
- 1/2 self-employment tax
- Deductible portion of self-employed health insurance

Adjusted Gross Income (AGI): Income after the adjustments are subtracted

Dependent: A person for whom the taxpayer can claim a dependency exemption. He must be supported by the taxpayer and meet **all six** of the dependency requirements to be claimed as a dependent. The requirements are: age, relationship (or household member), citizenship (or residency), and legal relationship tests. Dependency exemptions are not “tradable”. If the person who is entitled to claim the dependency exemption chooses not to do so, the exemption is lost.

Gross Income: The total amount of income received by a taxpayer from all sources before any adjustments or deductions.

Examples:

- Wages
- Taxable interest income
- Alimony received
- Net rent income
- Net income from a business (if the taxpayer is the only owner)
- Capital gains

Nonresident alien and resident alien: If the taxpayer is an alien (not a U.S. citizen), he is considered a nonresident alien unless he meets one of two tests:

- Green card test or
- Substantial presence test for the calendar year (See Pub. 519 *U.S. Tax Guide for Aliens*)

For tax purposes, an alien is an individual who is not a U.S. citizen. Aliens are classified as resident aliens and nonresident aliens. Resident aliens are taxed on their worldwide income, the same as U.S. citizens. Nonresident aliens are taxed only on their U.S. source income.

Personal Exemptions: An additional amount taxpayers may deduct from adjusted gross income to arrive at taxable income. \$3,650 per exemption is allowed for tax year 2009. This amount is adjusted every year.

Taxable Income:

Gross income	\$99,999	
Less adjustments	<u>- 9,999</u>	
Adjusted Gross Income	\$90,000	
Less Deductions	- 5,700 (Single)	
Less Exemptions	<u>- 3,650</u>	
Taxable Income	\$80,650	This is the amount the taxpayer’s tax is based on.

Student Note: Please be certain to study your Reading Assignment for Chapter 1.

- Pub 17 – Part One, Chapter 1, *Filing Information*, pages 6-21
- Pub 17 – Part One, Chapter 2, *Filing Status*, pages 21-26

Chapter 1: Review Questions

1. Jack Clark, a full-time student living with his parents, had a summer job as a waiter at a restaurant. Is he required to file a tax return?
 - a) Only if he expects to receive a refund
 - b) If he meets filing requirement.
 - c) If he is Married Filing Joint
 - d) If he is older than 18

2. Mr. and Mrs. Ray plan to file a joint return this year. Neither is over 65 or blind, nor do they have any dependents. What is the amount of gross income required before they must file a federal return?
 - a) \$11,400
 - b) \$ 3,650
 - c) \$18,700
 - d) \$20,900

3. Walter Dodge's only income is from W-2s. Which one of the following would disqualify him from filing a 1040EZ?
 - a) Single
 - b) No dependents
 - c) 64 years old
 - d) Taxable income of \$107,000

4. Lee Goebel is a calendar year taxpayer who has waited far too long to organize documents for his tax return. What is the due date for filing the federal return?
 - a) December 31st or the next business day if December 31st falls on a Saturday, Sunday or holiday
 - b) 4½ months after the end of the year
 - c) April 15th or the next business day if April 15th falls on a Saturday, Sunday or holiday
 - d) The first Monday after April 15th

5. Mr. Goebel is certain he cannot complete his federal tax return by the due date. What must he do in order for him to receive an automatic 6-month extension?
 - a) File Form 4868 on or before the due date of the return and pay any taxes due by the first due date (April 15th)
 - b) Do nothing – the extension is automatic
 - c) File Form 9465 on or before the due date of the return
 - d) Pay all taxes due by April 15th and file his return within 6 months

6. After graduating from college last year, Janice Brown started working. She will be filing a tax return for the first time this year but is uncertain how to send it. Which of the following is listed **incorrectly** as a permissible method for filing a tax return?
 - a) Mailing the return to the IRS service center in the taxpayer's area.
 - b) Using an IRS-accepted online service.
 - c) Electronic filing through a tax preparer.
 - d) Fax.

7. Bill Marshall is low on funds but has a sizable balance due on his Federal return. Which of the following is **disallowed** as a method by which payments can be made to the IRS?
- a) Debit from checking or savings account
 - b) Post-dated checks
 - c) Mail check, money order, or cashier's check to the IRS
 - d) Installment agreement
8. Joseph Moneymaker wants to change his method of accounting. What IRS requirement must be met before changing an accounting method?
- a) Notify his bookkeeper
 - b) Notify the IRS
 - c) Try the new method of accounting for one year to decide if it is more beneficial for his business
 - d) Obtain permission from the IRS
9. John has graduated from college and plans to start his own business. Which of the following accounting periods is he allowed use?
- a) Half-month or full-month
 - b) Short-year
 - c) Fiduciary
 - d) Calendar or fiscal
10. Larry, a new tax preparer, is urged to obtain a preparer tax identification number (PTIN) by his manager. Larry's manager explains how using the PTIN can assist in preventing several potential situations for Larry in his role as a preparer. Which of the following situations is listed **incorrectly** as one which can be avoided by using the PTIN?
- a) Theft of the paid preparer's Social Security number
 - b) Fraud involving the use of the paid preparer's Social Security number
 - c) Invasion of preparer's privacy
 - d) IRS understatement penalties
11. Phil has started his own tax preparation business. As a paid preparer he must maintain copies of returns prepared or a list of clients for what period of time?
- a) For the duration of the statute of limitations for the return
 - b) Until the taxpayer becomes deceased
 - c) Until the deadline of the return
 - d) For as long as the preparer is in business
12. Integrity and attention to detail are paramount to tax professionals. The IRS can penalize a paid preparer for failing to prepare returns in an ethical manner. Which of the following situations is listed **incorrectly** as one that would constitute unethical behavior?
- a) Failure to sign a return
 - b) Failure to provide a preparer identification number
 - c) Willful understatement of taxpayer's liability due to an unrealistic position
 - d) Taxpayer failure to provide information regarding all earned income

13. The Smiths, married and living together for the entire tax year, may choose which of the following filing statuses?
- a) Single
 - b) Head of Household
 - c) Qualifying Widow(er)
 - d) Married Filing Joint
14. As a Married Filing Separate taxpayer, Gloria is able to claim which of the following credits if she meets all other requirements?
- a) Earned Income Credit
 - b) Child and Dependent Care Credit
 - c) Education Credits
 - d) Child Tax Credit
15. Brenda and her husband separated last year and Brenda moved out taking their son with her. Which of the following is listed **incorrectly** as a condition Brenda must meet in order to be considered unmarried and able to file as Head of Household?
- a) Filed separately from spouse
 - b) Spouse did not live in the home for some part of six months during the tax year
 - c) Paid more than half the cost of maintaining a home
 - d) For more than 6 months the home was the principal residence of a qualifying person

Chapter 1: Learning Activity

Kimberly Whitaker (age 37, SSN 245-45-5778) and her daughter, Sierra (age 9, SSN 245-98-7412) lived with Kimberly's mother all year. Using the following information, determine if Kimberly paid more than half of the cost of maintaining a home.

Expenses paid by Kimberly

Electric	\$2,149
Water	480
Repairs	1,500
Food	2,600
Telephone	576

Expenses paid by Kimberly's mother

Mortgage Interest Expense	\$3,202
Property Taxes	798
Food	600
Property Insurance	280

Cost of Maintaining a Household			
Expenses Paid	Amount Taxpayer Paid	Amount Paid by Others	Total Cost
Property Taxes			
Mortgage Interest Expense			
Rent			
Utility Charges			
Upkeep & Repairs			
Property Insurance			
Food Consumed on Premises			
Other Household Expenses			
Totals			
Minus totals amount paid by taxpayer			
Amount paid by others			
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.			

Chapter 1: Learning Activity Questions

1. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total amount paid by the Taxpayer?

- A) \$ 4,880
- B) \$ 5,805
- C) \$12,185
- D) \$ 7,305

2. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total amount paid by Others?

- A) \$12,185
- B) \$ 4,880
- C) \$ 0
- D) \$ 7,305

3. Answer the following question based on the Cost of Maintaining a Household Worksheet you completed for Kimberly Whitaker:

What is the total cost for the Taxpayer and Others?

- A) \$12,185
- B) \$ 7,305
- C) \$ 4,880
- D) \$ 5,805

**INTERMEDIATE INCOME
TAX COURSE**

Instructor
Answer Key

Chapter 1: Employee Business Expense and Other Miscellaneous Itemized Deductions

Review

Go over the return for Fred and Margaret Sewell from Basic Chapter 9.
Note the following things:

1. Their medical expenses do not exceed the AGI limitation; therefore, they cannot claim medical expenses.
2. On Form 4684 Casualties and Thefts, their loss is too small to claim.
3. Because their interest totals less than \$1,500, they do not need to use Schedule B.
4. They must use 1040 rather than 1040A because of "other income" as an election judge, state tax refund, and they itemized.

Miscellaneous Itemized Deductions

Review the various types of miscellaneous itemized deductions the taxpayer may deduct.
Remind students that miscellaneous itemized deductions are limited by a 2% floor.

Employee Business Expense

Allowable Employee Business Expense rules are very complex. The student manual offers general explanation, but the instructor should go over some of the complexities in Pub. 17. For this class, the Commuting and Transportation expenses and office-in-home and education expenses should be discussed.

Auto Expense (Standard and Actual)

Review the following with the students:

- The taxpayer must elect to use either the actual expenses of operating his vehicle or the standard mileage rate
- To use the standard mileage rate, the taxpayer must use the standard mileage rate the first year the car is placed in service
- In years after the first, he can elect either the standard mileage or the actual expenses unless he has used Section 179 to expense all or part of the vehicle or has used ACRS, MACRS or any other method of depreciation other than straight line
- Taxpayer cannot choose the standard rate and also use depreciation or a Section 179 deduction
- If he has chosen the standard rate the first year and later decides to use actual expenses, he must estimate the useful life of the automobile in determining the depreciation. Instead of using MACRS, he would use straight-line depreciation.
- Since depreciation has not yet been discussed, this information may serve to confuse the students. Explain that it will be discussed in detail in a later class and that for the moment they should just concern themselves with the standard mileage rate.

Office in the Home

(Includes Regular and Exclusive Use as well as Principal Place of Business)

Remind students that office in the home is a deduction with constantly changing requirements. The area must be used **regularly** and **exclusively** for business and must be the principal place of business for any business or trade in which the taxpayer is engaged or a place to meet and deal with clients in the normal course of the business or trade. Although self-employment has not yet been introduced, the instructor should discuss the differences between being an employee versus self-employed and how the office in home deduction should be used with most of the emphasis on employees.

More Than One Trade or Business

Review the rules for office in home if the taxpayer has more than one trade or business. Go over the example.

Deducting Expenses

Evaluate the types of expenses that can be deducted for office in home and the category they may fall into. Give students examples of direct, indirect, and unrelated expenses.

Depreciation

Review depreciation with students. Remind them that the information covered in this lesson is just enough to get through office in home.

Travel Expenses

Discuss travel expenses with students.

Tax Home

Review the definition of a tax home with students. Discuss the criteria of a tax home.

Travel and Transportation

Go over the various types of travel and transportation expenses attributable to a business. Review the incidental expenses a taxpayer may encounter during the course of business travel.

Meals

Review meal expenses with students and go over the term "per diem".

Education

Point out to students that with the new lifetime learning credits, the client may benefit more by using the credit instead of itemizing his education expenses.

Business Gifts

Review business gifts with students. They should be aware that there is a \$25 limit per client per year for business gifts.

Entertainment

Discuss entertainment expenses. Point out the various types of expenses a taxpayer could have for entertainment purposes. Students should also be aware that the entertainment event should be acceptable in the taxpayer's field of business or occupation.

Record Keeping

Record keeping is essential in deducting and documenting employee business expenses. Strict records should be kept by the employee at all times. Students should review the type of information needed in the records.

Other Expenses (Miscellaneous Itemized Deductions)

Discuss the other expenses deductible to the taxpayer. Students should familiarize themselves with the various types of "other" expenses a taxpayer may be eligible to deduct.

Personal Property Rental (PPR) Expenses

Review personal property rental. Inexperienced students might miss the fact that a property is considered a PPR particularly if it is the first year the property was rented.

Hobby Expenses

Go over hobby expenses. Students should be able to differentiate between a hobby and a business (discussed in a later chapter).

Reimbursements

Discuss reimbursements. Students should be familiar with whether or not a reimbursement is taxable and, if so, where it should be reported on the tax return.

Classroom Review Questions

- Q: What form is used to deduct employee business expenses?**
- Q: An employee may deduct expenses even if the employer reimburses the expense.
True or False?**
- Q: Give examples of employee business expenses.**
- Q: Describe the two methods of deducting employee auto expenses.**
- Q: What is the standard mileage rate for 2009?**
- Q: What information must be recorded in an employee's mileage log?**
- Q: What expenses are allowed as deductions using actual auto expenses?**
- Q: What requirements must a taxpayer meet to be eligible to deduct office in home expenses?**
- Q: What requirements must be met for a home to be considered the taxpayer's principal place of business?**
- Q: Give examples of deductible expenses when using the office in home deduction.**

Q: Give examples of deductible travel expenses.

Q: Give examples of deductible educational expenses.

Chapter 1: Review Questions

1. Jamie is a nurse at a local hospital. Last year she started a second job as a nurse who visits homebound patients. She incurs many expenses in her new job which she is not certain whether or not she can deduct. Which of the following statements is **false**?

Employee business expenses are:

- a) Expenses incurred by an employee for his job that are unreimbursed.
- b) Unreimbursed expenses that are paid and incurred during the current tax year.
- c) Expenses that are ordinary and necessary for the taxpayer to perform his job.
- d) **Fully deductible on IRS Form 1040, Schedule A.**

- a) *This answer is incorrect. Employee business expenses are expenses incurred by an employee for his job that are unreimbursed and are valid expenses and should be deducted on the taxpayer's personal return.*
- b) *This answer is incorrect. Unreimbursed employee business expenses must be paid and incurred in the current tax year to be eligible to be deducted. The taxpayer cannot deduct an expense he incurred this year if he did not pay for it in this year. If the taxpayer paid for an expense this year that will not be incurred until next year he cannot deduct the expenses on his tax return.*
- c) *This answer is incorrect. Employee business expenses are expenses that are ordinary and necessary for the taxpayer to perform his job are deductible expenses and should be deducted on the taxpayer's tax return.*
- d) **Correct. Employee business expenses are not fully deductible on Schedule A. The unreimbursed business expenses are deducted on Schedule A as a miscellaneous deduction subject to the 2% AGI limitation. Page 1.1-1.2**

2. Some of Jamie's expenses were those she had previously when she worked at the hospital. However, there are some additional expenses from her new job. Which of the following is listed **incorrectly** as an example of employee business expenses?

- a) **Commuting mileage to and from home and the taxpayer's regular place of work.**
- b) Union dues.
- c) Licenses.
- d) Professional memberships.

- a) **Correct. Commuting mileage is never deductible. The cost of taking a bus, trolley, subway, or taxi, or of driving a car between your home and your main or regular place of work is not deductible. Pages 1.2-1.3**
- b) *This answer is incorrect. Union dues are a required expense for employees who work with companies that have unions and therefore they are a deductible employee expense.*
- c) *This answer is incorrect. Licenses are often required in occupations such as the medical field, real estate sales and over the road drivers. This is an expense required for their job and therefore deductible.*
- d) *This answer is incorrect. Professional memberships are a necessary expense in many jobs. Professional memberships offer a chance for employees to network with other members of their profession and learn new ways of doing business, obtain education, obtain referrals, gain contacts, and get more closely involved with the changes in their industry.*

3. Jamie uses her own vehicle when driving to and from the home of her patients. She is required to keep a record of her mileage. Which of the following would be an exception to the information she is required to keep for her mileage records?
- a) Beginning & ending mileage.
 - b) Commuting mileage.
 - c) Business mileage.
 - d) **Dates of tire changes.**
- a) *This answer is incorrect. Beginning mileage is necessary to determine the distance at which the mileage calculation should begin. Ending mileage is necessary to determine the distance at which the mileage calculation should end.*
- b) *This answer is incorrect. Commuting mileage necessary when calculating the total number of miles the vehicle has been driven in the current tax year.*
- c) *This answer is incorrect. Business mileage is necessary when calculating the total number of miles the vehicle was driven during the current tax year. Business mileage is also necessary to determine the deduction for standard mileage or the business percentage of depreciation and other actual expenses that can be deducted on the taxpayer's tax return.*
- d) **Correct. Dates of tire changes are not necessary items to include in daily mileage records. Page 1.3**
4. Jamie's tax preparer tells her she can choose between are two methods to claim the expenses from using her own vehicle for work. One method is standard mileage rate and the other is actual auto expense. Which of the following is **not** a requirement to be eligible to use the standard mileage rate?
- a) The taxpayer owns or leases the car.
 - b) The taxpayer must not use the car for hire.
 - c) **The taxpayer must use another vehicle for personal use.**
 - d) The taxpayer must have elected to use the standard mileage rate the first year the car was placed in service.
- a) *This answer is incorrect. The taxpayer owning or leasing the car is a requirement for the taxpayer to be eligible to use the standard mileage rate.*
- b) *This answer is incorrect. The taxpayer not using the car for hire is a requirement for the taxpayer to be eligible to use the standard mileage rate.*
- c) **Correct. There is no requirement the taxpayer must use another vehicle for personal use to be eligible to use the standard mileage rate. Page 1.3-1.4**
- d) *This answer is incorrect. The taxpayer must have elected to use the standard mileage rate the first year the car was place in service is a requirement for the taxpayer to be eligible to use the standard mileage rate.*

5. Jamie's tax preparer explains who may use the standard mileage rate. Which of the following is a scenario in which a taxpayer may use the standard mileage rate?
- a) **The taxpayer alternates use between any number of vehicles.**
 - b) Is a rural mail carrier that receives a qualified reimbursement.
 - c) Ever claimed a section 179-expense deduction.
 - d) Ever used the modified accelerated cost recovery system (MACRS).
- a) **Correct. A taxpayer may use the standard mileage rate if he alternates use between any number of vehicles. If he uses five or more vehicles at the same time the taxpayer must use actual expenses. Page 1.3-1.4**
- b) *This answer is incorrect. A rural mail carrier that receives a qualified reimbursement is not eligible to use the standard mileage rate.*
- c) *This answer is incorrect. A taxpayer that has ever claimed a section 179-expense deduction is not eligible to use the standard mileage rate. The standard mileage allowance includes an amount for depreciation.*
- d) *This answer is incorrect. A taxpayer that has used the modified accelerated cost recovery system (MACRS) is not eligible to use the standard mileage rate. The standard mileage allowance includes an amount for depreciation.*
6. Jamie has found she's putting a lot more miles on her vehicle since she started her new job. In addition to the extra gas, she had to buy new tires, had her exhaust system repaired and she also pays tolls on some of the trips. Which of the following expenses may a taxpayer deduct if he uses the standard mileage rate?
- a) Gas.
 - b) Tires.
 - c) Repairs.
 - d) **Tolls.**
- a) *This answer is incorrect. Gas would not be an expense a taxpayer could deduct if he uses the standard mileage rate.*
- b) *This answer is incorrect. Tires would not be an expense a taxpayer could deduct if he uses the standard mileage rate.*
- c) *This answer is incorrect. Repairs would not be an expense a taxpayer could deduct if he uses the standard mileage rate.*
- d) **Correct. Tolls would be an expense a taxpayer could deduct if he uses the standard mileage rate. Page 1.3-1.4**

7. Because Jamie is incurring so many additional expenses she is considering using actual auto expenses instead of the standard mileage rate. She wants to make certain she includes everything allowable in her deduction. Which of the following unreimbursed business expense would be invalid if included in actual auto expenses?
- a) Garage rent.
 - b) Insurance.
 - c) Interest on a vehicle loan.**
 - d) Licenses.
- a) *This answer is incorrect. Garage rent would be included in the actual expenses for a vehicle.*
 - b) *This answer is incorrect. Insurance would be included in the actual expenses for a vehicle.*
 - c) *Correct. Interest on a vehicle loan would not be included in the actual expenses for a vehicle. Loan interest on the vehicle is not deductible by employees. It is treated as personal interest and personal interest is not deductible. Page 1.4-1.5***
 - d) *This answer is incorrect. Licenses would be included in the actual expenses for a vehicle.*
8. Matt works for a company which sells sports cards and other sports memorabilia. Because he is located in a different city than his employer he conducts his sales out of his home and has set aside a room for this purpose. Which of the following statements concerning an office in the home is **incorrect**?
- a) Office in home is a deduction for the portion of the home used exclusively in connection with a business and on a regular basis.
 - b) The office must be maintained for the convenience of the employer.
 - c) The office in home must be the principal place of business or a place to meet clients and customers.
 - d) The expenses for office in home are deductible in full.**
- a) *This answer is incorrect. The IRS allows a taxpayer to deduct, as an employee business expenses, the cost of maintaining an office in home when the office is used regularly and exclusively in connection with a business.*
 - b) *This answer is incorrect. The taxpayer cannot simply decide he needs an office in home and be eligible to deduct the expenses. The taxpayer must maintain the office as a convenience for his employer in order to be able to deduct the expense.*
 - c) *This answer is incorrect. The office in home must be the principal place of business or a place to meet clients. If the clients are being met at a restaurant or a corporate office of the company the employee cannot use the deduction for home office unless he can prove that the office is being used for administrative purposes.*
 - d) *Correct. The expenses for office in home are deductible in full is not a true statement. The expenses are limited by the percentage of the home used for business and the office in home expenses are limited to a deduction that exceeds 2% of AGI. Page 1.6***

9. Matt is uncertain what expenses he might be able to claim as deductible. He consults with his tax preparer for some guidance. Which of the following expenses is unacceptable as a deductible office in home expense?

- a) **Redecorating expenses for the guest room that is also used for an office.**
- b) Homeowner's insurance.
- c) Utilities (electricity, water, etc.).
- d) Repairs.

a) **Correct. Redecorating expenses for a guest room that is also used for an office would not be a deductible office in home expense. This would not pass the exclusive use test. Page 1.7**

- b) *This answer is incorrect. Homeowner's insurance would be a deductible office in home expense. This expense is an indirect expense of maintaining an office in home.*
- c) *This answer is incorrect. Utilities (cost for electricity, water, etc.) would be a deductible office in home expense. Cost for utilities is an indirect expense of maintaining an office in home.*
- d) *This answer is incorrect. Repairs would be a deductible office in home expense. Repairs to the office space would be a direct expense. Repairs to other areas of the home would be an indirect expense.*

10. Matt's tax preparer explains in order for Matt to be able to claim an office in home deduction he must meet the exclusive use test. Which of the following would fail to meet the exclusive use test for office in home?

- a) Storage of inventory.
- b) Day care facilities.
- c) **An office that contains a computer that is used for business and is also used by the children to play computer games.**
- d) An area inside another room that is an identifiably separate space for an office.

a) *This answer is incorrect. Storage of inventory would meet the exclusive use test for office in home. The inventory is used in the business and therefore has a direct impact on the business. Storage of inventory or product samples is an exception to the exclusive use rule.*

b) *This answer is incorrect. Day care facilities meet the exclusive use test for office in home. A day care facility will often use most of the home in order to provide adequate services for the children. Using a home as a daycare facility is the other exception to the exclusive use rule.*

c) **Correct. An office that contains a computer that is used for business and is also used by the children to play their computer games does not meet the exclusive use test for office in home. The children playing computer games is not business use. Page 1.7**

d) *This answer is incorrect. An area inside another room that is an identifiable separate space for an office would meet the exclusive use test for office in home. The "office in home" does not have to be a separate room.*

11. Matt has a lot of inventory which he needs to store somewhere other than the room he's using as an office. Which of the following is listed **incorrectly** as a requirement that a taxpayer must meet to be eligible to deduct expenses for storage of inventory?
- a) Must keep the inventory or product samples for use in the taxpayer's trade or business.
 - b) The trade or business is the wholesale or retail sale of products.
 - c) The home is the only fixed location of the taxpayer's trade or business.
 - d) **The storage space is used at least part-time to store inventory.**
- a) *This answer is incorrect. The taxpayer must store only inventory or product samples directly related and used in the taxpayer's business.*
- b) *This answer is incorrect. In order to be eligible to deduct the office in home space for inventory and sample the taxpayer must be a wholesaler or retailer of products.*
- c) *This answer is incorrect. The home must be the location used for the taxpayer's business or trade. The taxpayer cannot have an office in his employer's place of business and then deduct home office expenses for inventory and sample storage.*
- d) **Correct. The space must be used regularly. The taxpayer cannot keep inventory or samples in the space for 7 months of the year and have the space remain empty for the remainder of the year. Page 1.7**
12. Matt's company is growing. They have an agreement with the local baseball team to set up a kiosk at the baseball stadium during home games and sell sports cards and other items. The company may ask Matt to spend some time working at the kiosk. In order for Matt to be able to continue to claim office in home he must meet the principal place of business test. Which of the following would be unsuccessful in satisfying the principal place of business test?
- a) The taxpayer uses the office regularly for administrative or management activities for his trade or business.
 - b) The taxpayer uses the office exclusively for administrative or management activities for his trade or business.
 - c) There is no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business.
 - d) **The taxpayer maintains an office at the employer's place of business and meets clients at his home office as needed.**
- a) *This answer is incorrect. The taxpayer uses the office regularly for administrative or management activities for his trade or business does satisfy the principal place of business test.*
- b) *This answer is incorrect. The taxpayer uses the office exclusively for administrative or management activities for his trade or business does satisfy the principal place of business test.*
- c) *This answer is incorrect. There is no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business does satisfy the principal place of business test.*
- d) **Correct. The taxpayer maintains an office at the employer's place of business and meets clients at his home office as needed would not satisfy the principal place of business test. To meet the principal place of business test there must be no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business. Page 1.8**

13. Matt's tax preparer has explained there are both direct and indirect expenses for office in home. Which of the following would be listed **incorrectly** as an indirect expense of office in home?
- a) Homeowners' association dues.
 - b) Insurance rider for the business.**
 - c) Utilities.
 - d) HVAC (Heating, Ventilation, and Air Conditioning) system repair.
- a) *This answer is incorrect. Homeowners' association dues would be an indirect expense of office in home. Indirect expenses are expenses that relate to the entire home.*
- b) *Correct. An insurance rider for the business would not be an indirect expense of office in home. This would relate fully to the business and would be a direct expense. Page 1.9***
- c) *This answer is incorrect. Utilities would be an indirect expense of office in home. Indirect expenses are expenses that relate to the entire home.*
- d) *This answer is incorrect. HVAC system repair would be an indirect expense of office in home. Indirect expenses are expenses that relate to the entire home.*
14. Matt understands he can also depreciate the area of his home he is using as a home office. He is trying to gather all the information he needs to be able to calculate the depreciation. Which of the following information is unnecessary to calculate depreciation expenses for his home office?
- a) The month and year the taxpayer began using the home for business.
 - b) The adjusted basis and fair market value of the home at the time the taxpayer began using it for business.
 - c) The cost of improvements before and after the taxpayer began using the home for business.
 - d) The date of purchase.**
- a) *This answer is incorrect. The month and year the taxpayer began using the home for business is needed to calculate depreciation expenses for his home office.*
- b) *This answer is incorrect. The adjusted basis and fair market value of the home at the time the taxpayer began using it for business is needed to calculate depreciation expenses for his home office.*
- c) *This answer is incorrect. The cost of improvements before and after the taxpayer began using the home for business is needed to calculate depreciation expense for his home office.*
- d) *Correct. The date of purchase is not needed to calculate depreciation expenses for his home office. Date placed in service is used. Page 1.10***

15. Jonah lives in Detroit where he has a job in the music industry. Last year he became more involved with country music and spent 4 months in Nashville working with a recording company there. Approximately 70% of his income was earned at his job in Detroit. Jonah understands in order to determine if he is eligible to deduct his travel expenses he must establish where his tax home was located. Which of the following is listed **incorrectly** as criteria for a tax home?

- a) **The taxpayer's vehicles are registered in the same area that he conducts business.**
- b) Part of his business is in the area of his main home and he uses that home for lodging while doing business there.
- c) Living expenses at the main home are duplicated because the taxpayer's business requires that he be away from home.
- d) The taxpayer has not left the area in which both his traditional place of lodging and his main home are located; or he had a member or members of his family living at that main home; or he often uses that home for lodging.

- a) **Correct. The taxpayer's vehicles being registered in the same area that he conducts business is not a criteria for determining a tax home. Pages 1.11**
- b) *This answer is incorrect. Part of his business is in the area of his main home and he uses that home for lodging while doing business there is criteria used to determine a tax home.*
- c) *This answer is incorrect. Living expenses at the main home are duplicated because the taxpayer's business requires that he be away from home is a criteria used to determine a tax home.*
- d) *This answer is incorrect. The taxpayer has not left the area in which both his traditional place of lodging and his main home are located; or he had a member or members of his family living at that main home; or he often uses that home for lodging is a criteria used to determine a tax home.*

Chapter 1: Learning Activity

(Solutions follow the Learning Activity Questions.)

Chapter 1: Learning Activity Questions

1. Answer the following question based on the scenario for Mary Warden and Form 2106:

If you choose to use the Actual Expenses for Mary's car, select her vehicle expense from Part II Section C Line 29?

- A) \$ 5,624
- B) \$ 3,157
- C) \$13,665

2. Answer the following question based on the scenario for Mary Warden and Form 2106:

If you choose to use the Standard Mileage Rate for Mary's car, select her vehicle expense from Part II Section B Line 22c?

- A) \$ 5,624
- B) \$12,625
- C) \$13,750

3. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select Mary's total expenses on Line 6 Column A:

- A) \$14,802
- B) \$13,665
- C) \$14,677

4. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select Mary's meal expenses from Line 9 Column B?

- A) \$238
- B) \$380
- C) \$475

5. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select the total amount of employee business expenses which should be transferred to Form 1040 Schedule A:

- A) \$13,805
- B) \$14,092
- C) \$13,940

6. Answer the following question based on the tax return you prepared for Charles Carpenter:

Which form did you use to file the Carpenter return?

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

7. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select total wages:

- A) \$63,023
- B) \$63,258
- C) **\$61,315**

8. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select total income:

- A) **\$63,258**
- B) \$61,315
- C) \$63,023

9. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the Adjusted Gross Income (AGI):

- A) **\$33,258**
- B) \$31,315
- C) \$33,023

10. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the standard/ itemized deductions:

- A) **\$28,310**
- B) \$28,183
- C) \$27,664

11. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total taxable income:

- A) \$34,948
- B) **\$31,298**
- C) \$31,289

12. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the tax from the Tax Tables:

- A) \$4,247
- B) \$4,919
- C) **\$4,274**

13. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total tax:

- A) \$4,247
- B) \$4,919
- C) **\$4,274**

14. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total tax withheld:

- A) \$7,758
- B) **\$7,358**
- C) \$6,958

15. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the refund:

- A) **\$3,484**
- B) \$3,084
- C) \$3,884

16. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Which form did you use to file the Goldstein return?

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

17. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select total wages:

- A) **\$91,569**
- B) \$92,630
- C) \$85,689

18. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select total income:

- A) \$91,569
- B) **\$92,630**
- C) \$92,306

19. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the Adjusted Gross Income (AGI):

- A) \$92,630
- B) **\$92,380**
- C) \$91,978

20. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the standard/itemized deductions:

- A) \$10,900
- B) \$12,747
- C) **\$12,805**

21. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total taxable income:

- A) \$70,980
- B) **\$68,625**
- C) \$69,133

22. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the tax from the Tax Tables:

- A) **\$ 9,531**
- B) \$10,431
- C) \$ 9,969

23. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total tax:

- A) **\$8,831**
- B) \$9,431
- C) \$9,869

24. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total tax withheld:

- A) \$ 9,426
- B) \$10,868
- C) \$10,073**

25. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the refund:

- A) \$1,542
- B) \$2,342**
- C) \$3,142

See the returns following this page for additional explanation.

Your name
MARY S WARDEN

Occupation in which you incurred expenses
SALES

Social security no.
220-45-6789

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See inst.)	13,750.	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	50.	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	718.	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	284.	
5 Meals and entertainment expenses (see instructions)		475.
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	14,802.	475.

Note: If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	1,100.	
---	--------	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	13,702.	475.
Note: If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	13,702.	238.
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 9). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.)		13,940.

For Paperwork Reduction Act Notice, see instructions.

Form **2106** (2009)

Part II Vehicle Expenses

Section A-General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	02/01/2009	
12	Total miles the vehicle was driven during 2009	30000miles	miles
13	Business miles included on line 12	25000miles	miles
14	Percent of business use. Divide line 13 by line 12	83.33 %	%
15	Average daily roundtrip commuting distance	5miles	miles
16	Commuting miles included on line 12	1250miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	3750miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
19	Do you (or your spouse) have another vehicle available for personal use?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
20	Do you have evidence to support your deduction?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
21	If "Yes," is the evidence written?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Section B-Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)	
22	Multiply line 13 by 55 cents (.55). Enter the result here and on line 1

Section C-Actual Expenses		(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.	3,789.	
24a	Vehicle rentals		
24b	b Inclusion amount (see instructions)		
24c	c Subtract line 24b from line 24a		
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2 - see instructions)		
26	Add lines 23, 24c, and 25	3,789.	
27	Multiply line 26 by the percentage on line 14	3,157.	
28	Depreciation (see instructions)	2,467.	
29	Add lines 27 and 28. Enter total here and on line 1	5,624.	

Section D-Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)		(a) Vehicle 1	(b) Vehicle 2
30	Enter cost or other basis (see instructions)	15,544.	
31	Enter section 179 deduction and special allowance (see instructions) ..		
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance) ..	12,953.	
33	Enter depreciation method and percentage (see instructions)	200DB 20.00	
34	Multiply line 32 by the percentage on line 33 (see instructions)	2,591.	
35	Add lines 31 and 34	2,591.	
36	Enter the applicable limit explained in the line 36 instructions	2,960.	
37	Multiply line 36 by the percentage on line 14	2,467.	
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above	2,467.	

Label	For the year Jan. 1-Dec. 31, 2009, or other tax year beginning _____, 2009, ending _____, 20	OMB No. 1545-0074
(See instructions)	Name Spouse's Name (if Joint Return) Home Address City, State, and ZIP Code	Your social security number
Use the IRS label. Otherwise, please print or type.	CHARLES CARPENTER	423-45-6789
	1429 PAXTON AVE CLATSKANIE OR 97016	Spouse's social security no.
		▲ You must enter your SSN(s) above. ▲

Presidential Election Campaign ▶ Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see instructions) ▶ **You** **Spouse**

Filing Status

1	<input checked="" type="checkbox"/> Single	4	<input type="checkbox"/> Head of household (with qualifying person). (See instructions.)
2	<input type="checkbox"/> Married filing jointly (even if only one had income)	If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____	
3	<input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ _____	5	<input type="checkbox"/> Qualifying widow(er) with dependent child (see instructions)

Exemptions

6a	<input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a	Boxes checked on	
b	<input type="checkbox"/> Spouse	6a and 6b	1
c Dependents:		No. of children on 6c who:	
(1) First name	Last name	- lived with you	0
		- did not live with you due to divorce or separation (see instr.)	0
		Dependents on 6c not entered above	0
d Total number of exemptions claimed		Add numbers on lines above ▶	1

Income	7 Wages, salaries, tips, etc. Attach Form(s) W-2		7	61,315.
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	8a Taxable interest. Attach Schedule B if required		8a	1,708.
	b Tax-exempt interest. Do not include on line 8a	8b		
If you did not get a W-2, see instructions.	9a Ordinary dividends. Attach Schedule B if required		9a	
	b Qualified dividends (see instructions)	9b		
Enclose, but do not attach, any payment. Also, please use Form 1040-V.	10 Taxable refunds, credits, or offsets of state and local income taxes (see instructions)		10	235.
	11 Alimony received		11	
	12 Business income or (loss). Attach Schedule C or C-EZ		12	
	13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>		13	
	14 Other gains or (losses). Attach Form 4797		14	
	15a IRA distributions	15a	b Taxable amount (see inst.)	15b
	16a Pensions and annuities	16a	b Taxable amount (see inst.)	16b
	17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
	18 Farm income or (loss). Attach Schedule F		18	
	19 Unemployment compensation in excess of \$2,400 per recipient (see instructions)		19	
	20a Social security benefits	20a	b Taxable amount (see inst.)	20b
	21 Other income. List type and amount (see instr.)		21	
	22 Add the amounts in the far right column for lines 7 through 21. This is your total income ▶		22	63,258.
Adjusted Gross Income	23 Educator expenses (see instructions)	23		
	24 Certain business expenses of reservists, performing artists, and fee-basis gov. officials. Attach Form 2106 or 2106-EZ	24		
	25 Health savings account deduction. Attach Form 8889	25		
	26 Moving expenses. Attach Form 3903	26		
	27 One-half of self-employment tax. Attach Schedule SE	27		
	28 Self-employed SEP, SIMPLE, and qualified plans	28		
	29 Self-employed health insurance deduction (see instr.)	29		
	30 Penalty on early withdrawal of savings	30		
	31a Alimony paid b Recipient's SSN ▶ _____	31a		
	32 IRA deduction (see instructions)	32		
	33 Student loan interest deduction (see instructions)	33		
	34 Tuition and fees deduction. Attach Form 8917	34		
	35 Domestic production activities deduction. Attach Form 8903	35		
	36 Add lines 23 through 31a and 32 through 35		36	
	37 Subtract line 36 from line 22. This is your adjusted gross income ▶		37	63,258.

Tax and Credits

Standard Deduction for -

People who check any box on line 39a, 39b, or 40b or who can be claimed as a dependent, see instr.

All others: Single or Married filing separately, \$5,700

Married filing jointly or Qualifying widow(er), \$11,400

Head of household, \$8,350

Table with 3 columns: Line number, Description, and Amount. Includes lines 38-55 for Tax and Credits.

Other Taxes

Table with 3 columns: Line number, Description, and Amount. Includes lines 56-60 for Other Taxes.

Payments

If you have a qualifying child, attach Schedule EIC.

Table with 3 columns: Line number, Description, and Amount. Includes lines 61-71 for Payments.

Refund

Direct deposit? See instructions and fill in 73b, 73c, and 73d, or Form 8888.

Table with 3 columns: Line number, Description, and Amount. Includes lines 72-74 for Refund.

Amount You Owe

Table with 3 columns: Line number, Description, and Amount. Includes lines 75-76 for Amount You Owe.

Third Party Designee

Form for Third Party Designee with fields for name, phone, and PIN.

Sign Here

Joint return? See instr. Keep a copy for your records.

Signature area with fields for signature, date, occupation, and phone number.

Paid

Preparer's Use Only

Preparer information section including signature, date, firm name, address, and EIN.

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

OMB No. 1545-0074

2009
Attachment
Sequence No. **07**

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule A (Form 1040).**

Name(s) shown on Form 1040

CHARLES CARPENTER

Your social security no.

423-45-6789

Medical and Dental Expenses

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

1	Medical and dental expenses (see instructions).....	1	4,453.
2	Enter amount from Form 1040, line 38	2	63,258.
3	Multiply line 2 by 7.5% (.075)	3	4,744.
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-.....	4	

Taxes You Paid

5 State and local (check only one box);

a	<input checked="" type="checkbox"/> Income taxes, or	5	3,312.
b	<input type="checkbox"/> General sales taxes		

6	Real estate taxes (see instructions).....	6	
7	New motor vehicle taxes from line 11 of the worksheet in the instructions. Skip this line if you checked box 5b	7	
8	Other taxes. List type and amount ▶	8	
9	Add lines 5 through 8	9	3,312.

Interest You Paid

(See instructions.)

10	Home mortgage interest & points reported to you on Form 1098	10	
11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see inst. and show that person's name, identifying no., and address ▶	11	

Note.

Personal interest is not deductible.

12	Points not reported to you on Form 1098. See instructions for special rules	12	
13	Qualified mortgage insurance premiums (See instructions).....	13	
14	Investment interest. Attach Form 4952 if required. (See inst.)	14	
15	Add lines 10 through 14	15	

Gifts to Charity

If you made a gift and got a benefit for it, see instructions.

16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	2,500.
17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	
18	Carryover from prior year	18	
19	Add lines 16 through 18	19	2,500.

Casualty and Theft Losses

20	Casualty or theft loss(es). Attach Form 4684. (See instructions.).....	20	
----	--	----	--

Job Expenses and Certain Miscellaneous Deductions

(See instructions.)

21	Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions)▶ BUSINESS EXPENSE	21	23,328.
22	Tax preparation fees	22	435.
23	Other expenses - investment, safe deposit box, etc. List type and amount ▶	23	
24	Add lines 21 through 23	24	23,763.
25	Enter amount from Form 1040, line 38	25	63,258.
26	Multiply line 25 by 2% (.02)	26	1,265.
27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	22,498.

Other Miscellaneous Deductions

28	Other - from list in the inst. List type and amount	28	
----	---	----	--

Total Itemized Deductions

29	Is Form 1040, line 38, over \$166,800 (over \$83,400 if married filing separately)? <input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40a. ▶.....	29	28,310.
30	<input type="checkbox"/> Yes. Your deduction may be limited. See instructions for the amount to enter. If you elect to itemize deductions even though they are less than your standard deduction, check here		

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 2009

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ **Attach to Form 1040A or 1040.** ▶ **See Instructions**

OMB No. 1545-0074

2009
Attachment
Sequence No. **08**

Name(s) shown on return
CHARLES CARPENTER

Your social security number
423-45-6789

Part I
Interest

(See instructions and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

	Amount
1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions and list this interest first. Also, show that buyer's social security number and address ▶ NATIONSBANK OF VA	1,708.
2 Add the amounts on line 1	1,708.
3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶	1,708.

Note. If line 4 is over \$1,500, you must complete Part III.

Part II
Ordinary Dividends

(See instructions and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

	Amount
5 List name of payer ▶	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶	

Note. If line 6 is over \$1,500, you must complete Part III.

Part III
Foreign Accounts and Trusts

(See instructions)

	Yes	No
You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.		
7 a At any time during 2009, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See instructions for exceptions and filing requirements for Form TD F 90-22.1.....		X
b If "Yes," enter the name of the foreign country ▶		
8 During 2009, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions.....		X

For Paperwork Reduction Act Notice, see Form 1040A or 1040 instructions.

Schedule B (Form 1040A or 1040) 2009

▶ See separate instructions.
▶ Attach to Form 1040 or Form 1040NR.

Your name
CHARLES CARPENTER

Occupation in which you incurred expenses
SALES

Social security no.
423-45-6789

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See inst.)	20,268.	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	68.	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	1,280.	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	2,489.	
5 Meals and entertainment expenses (see instructions)		845.
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	24,105.	845.

Note: If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	1,200.	
---	--------	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	22,905.	845.
Note: If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	22,905.	423.
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 9). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.)		23,328.

For Paperwork Reduction Act Notice, see instructions.

Part II Vehicle Expenses

Section A-General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	02/08/2009	
12	Total miles the vehicle was driven during 2009	36850miles	miles
13	Business miles included on line 12	36850miles	miles
14	Percent of business use. Divide line 13 by line 12	100.00 %	%
15	Average daily roundtrip commuting distance	miles	miles
16	Commuting miles included on line 12	miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
19	Do you (or your spouse) have another vehicle available for personal use?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
20	Do you have evidence to support your deduction?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
21	If "Yes," is the evidence written?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Section B-Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)	
22	Multiply line 13 by 55 cents (.55). Enter the result here and on line 1

Section C-Actual Expenses		(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.		
24a	Vehicle rentals		
24b	b Inclusion amount (see instructions)		
24c	c Subtract line 24b from line 24a		
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2 - see instructions)		
26	Add lines 23, 24c, and 25		
27	Multiply line 26 by the percentage on line 14		
28	Depreciation (see instructions)		
29	Add lines 27 and 28. Enter total here and on line 1		

Section D-Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)		(a) Vehicle 1	(b) Vehicle 2
30	Enter cost or other basis (see instructions)		
31	Enter section 179 deduction and special allowance (see instructions) ..		
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance) ..		
33	Enter depreciation method and percentage (see instructions)		
34	Multiply line 32 by the percentage on line 33 (see instructions)		
35	Add lines 31 and 34		
36	Enter the applicable limit explained in the line 36 instructions		
37	Multiply line 36 by the percentage on line 14		
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above		

Detail Sheet

2009

Name: CHARLES CARPENTER

ID: 423-45-6789

Description: INCOME LESS EXPENSES FOR THE OFFICE

Type	Amount
INCOME	61,315.
LINE 1 FORM 2106	20,268.
LINE 2 FORM 2106	68.
LINE 3 FORM 2106	1,280.
BUSINESS EXPENSES	725.
MEALS AND ENTERTAINMENT EXPENSES	845.

INFORMATION ONLY

Total 84,501.

Name: CHARLES CARPENTER

SSN: 423-45-6789

Part I: Part of Your Home Used for Business

Table with 7 rows for Part I: Part of Your Home Used for Business. Includes fields for area used for business, total area, business percentage, and hours used.

Part II: Figure Your Allowable Deduction

Table with 35 rows for Part II: Figure Your Allowable Deduction. Includes columns for (a) Direct and (b) Indirect expenses, and a final column for the total deduction.

Part III: Depreciation of Your Home

Table with 11 rows for Part III: Depreciation of Your Home. Includes fields for adjusted basis, value of land, basis of building, date placed in service, and depreciation allowed.

Part IV: Carryover of Unallowed Expenses to Next Year

Table with 2 rows for Part IV: Carryover of Unallowed Expenses to Next Year. Includes fields for operating expenses and excess casualty losses.

Name: CHARLES CARPENTER

SSN: 423-45-6789

Use the spouse column if this is a married joint return for this year and the spouse filed separately last year.	Joint or Taxpayer	Spouse	Taxable
1 CA 2008 state/local income tax refund	235 .		
___ 2008 state/local income tax refund			
Total state/local income tax refund for 2008	235 .		
2 Enter the amounts from the 2008 tax return If the itemized deductions were reduced due to the AGI limitation, be sure to enter the reduced amounts			
Schedule A, line 5a, income taxes	1,991 .		
Schedule A, line 5b, general sales tax			
Difference - the state tax refund is only taxable to the extent the state tax deduction exceeds the sales tax deduction	1,991 .		
3 Net state/local income tax refund	235 .		
4 Enter the total of all other Schedule A refunds or reimbursements			
5 Add lines 3 and 4	235 .		
On the 2008 tax return, If itemized deductions are reduced due to income limitations, AMT is included, or there are unused credits, see Publication 525. Some or all of the state tax refund may be tax-free. Check here if the ENTIRE state tax refund is nontaxable. Stop here	<input type="checkbox"/>	<input type="checkbox"/>	
6 2008 itemized deductions	28,434 .		
7 Filing status for 2008. Enter 1, 2, 3, 4, or 5. 1 = Single 4 = Head of household 2 = Married filing jointly 5 = Qualifying widow(er) 3 = Married filing separately	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
If the 2008 filing status was married filing separately, and itemized deductions were required to be used because the spouse itemized, check here	<input type="checkbox"/>	<input type="checkbox"/>	
8 Age 65 or blind, enter amount from the 2008 Form 1040, page 2, line 39a	<input type="checkbox"/>	<input type="checkbox"/>	
9 Standard deduction	5,450 .		
10 State or local real estate taxes shown on your 2008 Schedule A, line 6 (limited to \$500, \$1,000 if married joint)			
11 Net disaster loss from your 2008 Form 4684, line 18a			
12 Total standard deduction	5,450 .		
13 Subtract line 12 from line 6	22,984 .		
14 Smaller of line 5 or line 13	235 .		
15 Enter the taxable income for 2008, adjusted for any NOL carryover. If less than -0-, show the amount as a negative number	1,324 .		
16 Amount to include in income for 2009	235 .		
17 Taxable state/local income tax refund	235 .		235 .
18 Taxable amount of other income			

**SCHEDULE M
(Form 1040A or 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Making Work Pay and Government
Retiree Credits**

▶ **Attach to Form 1040A, 1040, or 1040NR.** ▶ **See separate instructions.**

OMB No. 1545-0074

2009

Attachment
Sequence No. **166**

Name(s) shown on return
CHARLES CARPENTER

Your social security number
423-45-6789

1 a Important: See the instructions if you can be claimed as someone else's dependent or are filing Form 1040NR. Check the "No" box below and see the instructions if **(a)** you have a net loss from a business, **(b)** you received a taxable scholarship or fellowship grant not reported on a Form W-2, **(c)** your wages include pay for work performed while an inmate in a penal institution, **(d)** you received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan, or **(e)** you are filing Form 2555 or 2555-EZ.

Do you (and your spouse if filing jointly) have 2009 wages of more than \$6,451 (\$12,903 if married filing jointly)?

Yes. Skip lines 1a through 3. Enter \$400 (\$800 if married filing jointly) on line 4 and go to line 5.

No. Enter your earned income (see instructions) **1a** _____

b Nontaxable combat pay included on line 1a (see instructions) **1b** _____

2 Multiply line 1a by 6.2% (.062) **2** _____

3 Enter \$400 (\$800 if married filing jointly) **3** _____

4 Enter the **smaller** of line 2 or line 3 (unless you checked "Yes" on line 1a) **4** 400.

5 Enter the amount from Form 1040, line 38*, or Form 1040A, line 22 **5** 63,258.

6 Enter \$75,000 (\$150,000 if married filing jointly) **6** 75,000.

7 Is the amount on line 5 more than the amount on line 6?

No. Skip line 8. Enter the amount from line 4 on line 9 below.

Yes. Subtract line 6 from line 5 **7** _____

8 Multiply line 7 by 2% (.02) **8** _____

9 Subtract line 8 from line 4. If zero or less, enter -0- **9** 400.

10 Did you (or your spouse, if filing jointly) receive an economic recovery payment in 2009? You may have received this payment if you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits (see instructions).

No. Enter -0- on line 10 and go to line 11.

Yes. Enter the total of the payments received by you (and your spouse, if filing jointly). Do not enter more than \$250 (\$500 if married filing jointly) } **10** _____

11 Did you (or your spouse, if filing jointly) receive a pension or annuity in 2009 for services performed as an employee of the U.S. Government or any U.S. state or local government from work **not** covered by social security? Do not include any pension or annuity reported on Form W-2.

No. Enter -0- on line 11 and go to line 12.

Yes. • If you checked "No" on line 10, enter \$250 (\$500 if married filing jointly and the answer on line 11 is "Yes" for both spouses)

• If you checked "Yes" on line 10, enter -0- (exception: enter \$250 if filing jointly and the spouse who received the pension or annuity did not receive an economic recovery payment described on line 10) } **11** _____

12 Add lines 10 and 11 **12** _____

13 Subtract line 12 from line 9. If zero or less, enter -0- **13** 400.

14 Making work pay and government retiree credits. Add lines 11 and 13. Enter the result here and on Form 1040, line 63; Form 1040A, line 40; or Form 1040NR, line 60 **14** 400.

*If you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico, see instructions.

For Paperwork Reduction Act Notice, see Form 1040A, 1040, or 1040NR instructions.

Schedule M (Form 1040A or 1040) 2009

Label (See instructions) Use the IRS label. Otherwise, please print or type. For the year Jan. 1-Dec. 31, 2009, or other tax year beginning ,2009, ending ,20 OMB No. 1545-0074 Name Spouse's Name (if Joint Return) Home Address City, State, and ZIP Code REUBEN GOLDSTEIN DEBORAH GOLDSTEIN 3548 SUNFLOWER LANE SACRAMENTO CA 94203 Your social security number 663-42-7815 Spouse's social security no. 433-62-5612 You must enter your SSN(s) above. Checking a box below will not change your tax or refund.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see instructions) You Spouse

Filing Status 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child (see instructions)

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a 6b Spouse 6c Dependents: (1) First name Last name (2) Dependent's social security no. (3) Dependent's relationship to you (4) if qualifying child for child tax credit (see inst) Boxes checked on 6a and 6b No. of children on 6c who: lived with you did not live with you due to divorce or separation (see instr.) Dependents on 6c not entered above Add numbers on lines above

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 91,569. 8a Taxable interest. Attach Schedule B if required 8a 83. 8b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a 654. 9b Qualified dividends (see instructions) 9b 10 Taxable refunds, credits, or offsets of state and local income taxes (see instructions) 10 324. 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here 13 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a 15b Taxable amount (see inst.) 15b 16a Pensions and annuities 16a 16b Taxable amount (see inst.) 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 19 Unemployment compensation in excess of \$2,400 per recipient (see instructions) 19 20a Social security benefits 20a 20b Taxable amount (see inst.) 20b 21 Other income. List type and amount (see instr.) 21 22 Add the amounts in the far right column for lines 7 through 21. This is your total income 22 92,630.

Adjusted Gross Income 23 Educator expenses (see instructions) 23 250. 24 Certain business expenses of reservists, performing artists, and fee-basis gov. officials. Attach Form 2106 or 2106-EZ 24 25 Health savings account deduction. Attach Form 8889 25 26 Moving expenses. Attach Form 3903 26 27 One-half of self-employment tax. Attach Schedule SE 27 28 Self-employed SEP, SIMPLE, and qualified plans 28 29 Self-employed health insurance deduction (see instr.) 29 30 Penalty on early withdrawal of savings 30 31a Alimony paid b Recipient's SSN 31a 32 IRA deduction (see instructions) 32 33 Student loan interest deduction (see instructions) 33 34 Tuition and fees deduction. Attach Form 8917 34 35 Domestic production activities deduction. Attach Form 8903 35 36 Add lines 23 through 31a and 32 through 35 36 250. 37 Subtract line 36 from line 22. This is your adjusted gross income 37 92,380.

Tax and Credits

Standard Deduction for -
People who check any box on line 39a, 39b, or 40b or who can be claimed as a dependent, see instr.
All others: Single or Married filing separately, \$5,700
Married filing jointly or Qualifying widow(er), \$11,400
Head of household, \$8,350

Table with 3 columns: Line number, Description, and Amount. Includes lines 38-55 for Tax and Credits.

Other Taxes

Table with 3 columns: Line number, Description, and Amount. Includes lines 56-60 for Other Taxes.

Payments

If you have a qualifying child, attach Schedule EIC.

Table with 3 columns: Line number, Description, and Amount. Includes lines 61-71 for Payments.

Refund

Direct deposit? See instructions and fill in 73b, 73c, and 73d, or Form 8888.

Table with 3 columns: Line number, Description, and Amount. Includes lines 72-74 for Refund.

Amount You Owe

Table with 3 columns: Line number, Description, and Amount. Includes lines 75-76 for Amount You Owe.

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? [X] Yes. Complete the following. [] No
Designee's name: PREPARER Phone no.: 804-204-1040 Personal identification number (PIN): 55555

Sign Here

Joint return? See instr. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
Your signature: [Signature] Date: [Date] Your occupation: TEACHER Daytime phone number: 555-555-5556
Spouse's signature: [Signature] Date: [Date] Spouse's occupation: MED TRANSCRIPTIONIST

Paid Preparer's Use Only

Preparer's signature: PROFESSIONAL PREPARER Date: 02/11/2010 Check if self-employed: [] Preparer's SSN or PTIN: P5555555
Firm's name (or yours if self-employed), address, and ZIP code: PROFESSIONAL PREPARERS, 1040 UNCLE SAM LOOP, RICHMOND VA 23226-
EIN: 55-5555555
Phone no.: 555-555-5555

**SCHEDULE A
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

▶ **Attach to Form 1040.** ▶ **See Instructions for Schedule A (Form 1040).**

OMB No. 1545-0074

2009
Attachment
Sequence No. **07**

Name(s) shown on Form 1040
REUBEN & DEBORAH GOLDSTEIN

Your social security no.
663-42-7815

Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.			
	1 Medical and dental expenses (see instructions).....	1	2,195.	
	2 Enter amount from Form 1040, line 38	2	92,380.	
	3 Multiply line 2 by 7.5% (.075)	3	6,929.	
4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-.....				4

Taxes You Paid (See instructions.)	5 State and local (check only one box); a <input checked="" type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes	5	4,674.	
	6 Real estate taxes (see instructions).....	6		
	7 New motor vehicle taxes from line 11 of the worksheet in the instructions. Skip this line if you checked box 5b	7		
	8 Other taxes. List type and amount ▶ PERSONAL PROPERTY TAX	8	328.	
	9 Add lines 5 through 8			

Interest You Paid (See instructions.) Note. Personal interest is not deductible.	10 Home mortgage interest & points reported to you on Form 1098	10		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see inst. and show that person's name, identifying no., and address ▶	11		
	12 Points not reported to you on Form 1098. See instructions for special rules	12		
	13 Qualified mortgage insurance premiums (See instructions).....	13		
	14 Investment interest. Attach Form 4952 if required. (See inst.)	14		
15 Add lines 10 through 14				15

Gifts to Charity If you made a gift and got a benefit for it, see instructions.	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	3,200.	
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17		
	18 Carryover from prior year.....	18		
	19 Add lines 16 through 18			

Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.).....				20
----------------------------------	---	--	--	--	----

Job Expenses and Certain Miscellaneous Deductions (See instructions.)	21 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions)▶ BUSINESS EXPENSE	21	6,176.	
	22 Tax preparation fees	22	275.	
	23 Other expenses - investment, safe deposit box, etc. List type and amount ▶	23		
	24 Add lines 21 through 23	24	6,451.	
	25 Enter amount from Form 1040, line 38	25	92,380.	
26 Multiply line 25 by 2% (.02)	26	1,848.		
27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-.....				27

Other Miscellaneous Deductions	28 Other - from list in the inst. List type and amount				28
---------------------------------------	--	--	--	--	----

Total Itemized Deductions	29 Is Form 1040, line 38, over \$166,800 (over \$83,400 if married filing separately)? <input checked="" type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40a. ▶.....	29	12,805.	
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here			

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 2009

Your name
DEBORAH GOLDSTEIN

Occupation in which you incurred expenses
MEDICAL TRANSCRIPTIONIST

Social security no.
433-62-5612

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See inst.)	1	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment	2,664.	
5 Meals and entertainment expenses (see instructions)		
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	2,664.	

Note: If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7	
--	----------	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	8	2,664.
Note: If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.		
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	9	2,664.
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 9). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.)	10	2,664.

For Paperwork Reduction Act Notice, see instructions.

▶ See separate instructions.
▶ Attach to Form 1040 or Form 1040NR.

Your name
REUBEN GOLDSTEIN

Occupation in which you incurred expenses
COURIER

Social security no.
663-42-7815

Part I Employee Business Expenses and Reimbursements

Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See inst.)	3,440.	
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	72.	
3 Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment		
4 Business expenses not included on lines 1 through 3. Do not include meals and entertainment		
5 Meals and entertainment expenses (see instructions)		
6 Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	3,512.	

Note: If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7 Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7		
---	---	--	--

Step 3 Figure Expenses To Deduct on Schedule A (Form 1040 or Form 1040NR)

8 Subtract line 7 from line 6. If zero or less, enter -0-. However, if line 7 is greater than line 6 in Column A, report the excess as income on Form 1040, line 7 (or on Form 1040NR, line 8)	8	3,512.	
Note: If both columns of line 8 are zero, you cannot deduct employee business expenses. Stop here and attach Form 2106 to your return.			
9 In Column A, enter the amount from line 8. In Column B, multiply line 8 by 50% (.50). (Employees subject to Department of Transportation (DOT) hours of service limits: Multiply meal expenses incurred while away from home on business by 80% (.80) instead of 50%. For details, see instructions.)	9	3,512.	
10 Add the amounts on line 9 of both columns and enter the total here. Also, enter the total on Schedule A (Form 1040), line 21 (or on Schedule A (Form 1040NR), line 9). (Armed Forces reservists, qualified performing artists, fee-basis state or local government officials, and individuals with disabilities: See the instructions for special rules on where to enter the total.)	10		3,512.

For Paperwork Reduction Act Notice, see instructions.

Part II Vehicle Expenses

Section A-General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	06/15/2007	
12	Total miles the vehicle was driven during 2009	19640miles	miles
13	Business miles included on line 12	6254miles	miles
14	Percent of business use. Divide line 13 by line 12	31.84 %	%
15	Average daily roundtrip commuting distance	11miles	miles
16	Commuting miles included on line 12	440miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	12946miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
19	Do you (or your spouse) have another vehicle available for personal use?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
20	Do you have evidence to support your deduction?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
21	If "Yes," is the evidence written?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Section B-Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)	
22	Multiply line 13 by 55 cents (.55). Enter the result here and on line 1

Section C-Actual Expenses		(a) Vehicle 1	(b) Vehicle 2
23	Gasoline, oil, repairs, vehicle insurance, etc.		
24a	Vehicle rentals		
24b	b Inclusion amount (see instructions)		
24c	c Subtract line 24b from line 24a		
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2 - see instructions)		
26	Add lines 23, 24c, and 25		
27	Multiply line 26 by the percentage on line 14		
28	Depreciation (see instructions)		
29	Add lines 27 and 28. Enter total here and on line 1		

Section D-Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)		(a) Vehicle 1	(b) Vehicle 2
30	Enter cost or other basis (see instructions)		
31	Enter section 179 deduction and special allowance (see instructions) ..		
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance) ..		
33	Enter depreciation method and percentage (see instructions)		
34	Multiply line 32 by the percentage on line 33 (see instructions)		
35	Add lines 31 and 34		
36	Enter the applicable limit explained in the line 36 instructions		
37	Multiply line 36 by the percentage on line 14		
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above		

Name: DEBORAH GOLDSTEIN

SSN: 433-62-5612

Part I: Part of Your Home Used for Business

1	Area used regularly and exclusively for business		168
2	Total area of home		1240
3	Divide line 1 by 2. Non-exclusive use day-care, complete lines 4-6		13.55 %
4	Day care. Hours used. Days: _____ X Hours per Day: _____	hrs.	
5	Total hours available (defaults to 365 X 24)	hrs.	
6	Divide line 4 by line 5		
7	Business percentage. Multiply line 6 by line 3		13.55 %

Part II: Figure Your Allowable Deduction

8	Income less all other expenses to which this office pertains			40,563.
Expenses		(a) Direct	(b) Indirect	
9	Casualty losses \	Enter these amounts		
10	Deductible mortgage interest. >	in full here and also		
11	Real estate taxes /	on Schedule A		
12	Add lines 9, 10 and 11			
13	Multiply line 12, column (b), by line 7			
14	Add line 12, column (a), and line 13. This is for limitation purposes only			
15	Subtract line 14 from line 8. If -0- or less, enter -0-			40,563.
16	Excess mortgage interest			
17	Insurance		624.	
18	Rent		12,600.	
19	Repairs and maintenance			
20	Utilities	329.	1,263.	
21	Other expenses			
22	Add lines 16 through 21	329.	14,487.	
23	Multiply line 22, column (b), by line 7		1,963.	
24	Carryover of operating expenses from last year's tax return			
25	Add line 22, column (a), line 23 and line 24			2,292.
26	Allowable operating expenses. Smaller of line 15 or line 25			2,292.
27	Limit on excess casualty losses and depreciation			38,271.
28	Excess casualty losses			
29	Depreciation of your home from Part III below			
30	Carryover of excess casualty losses and depreciation from last year's tax return			
31	Add lines 28 through 30			
32	Allowable excess casualty losses and depreciation. Smaller of line 27 or 31			
33	Add lines 26 and 32			2,292.
34	Casualty losses included on line 32. Enter this amount on Form 4684, Section B			
35	Allowable expenses. Subtract line 34 from line 33			2,292.

Part III: Depreciation of Your Home

36	Enter the smaller of the home's adjusted basis or fair market value	
37	Value of land included on line 36	
38	Basis of building	
39	Business basis of building. Multiply line 38 by line 7	
40	Date placed in service: _____ Method: _____ Convention: _____ Recovery period: _____ Prior depreciation: _____ Date business use ceased: _____	
41	Depreciation allowed	

Part IV: Carryover of Unallowed Expenses to Next Year

42	Operating expenses. Subtract line 26 from line 25	
43	Excess casualty losses and depreciation	

**SCHEDULE M
(Form 1040A or 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Making Work Pay and Government
Retiree Credits**

▶ **Attach to Form 1040A, 1040, or 1040NR.**

▶ **See separate instructions.**

OMB No. 1545-0074

2009

Attachment
Sequence No. **166**

Name(s) shown on return
REUBEN & DEBORAH GOLDSTEIN

Your social security number
663-42-7815

1 a Important: See the instructions if you can be claimed as someone else's dependent or are filing Form 1040NR. Check the "No" box below and see the instructions if **(a)** you have a net loss from a business, **(b)** you received a taxable scholarship or fellowship grant not reported on a Form W-2, **(c)** your wages include pay for work performed while an inmate in a penal institution, **(d)** you received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan, or **(e)** you are filing Form 2555 or 2555-EZ.

Do you (and your spouse if filing jointly) have 2009 wages of more than \$6,451 (\$12,903 if married filing jointly)?

Yes. Skip lines 1a through 3. Enter \$400 (\$800 if married filing jointly) on line 4 and go to line 5.

No. Enter your earned income (see instructions) **1a** _____

b Nontaxable combat pay included on line 1a (see instructions) **1b** _____

2 Multiply line 1a by 6.2% (.062) **2** _____

3 Enter \$400 (\$800 if married filing jointly) **3** _____

4 Enter the **smaller** of line 2 or line 3 (unless you checked "Yes" on line 1a) **4** 800.

5 Enter the amount from Form 1040, line 38*, or Form 1040A, line 22 **5** 92,380.

6 Enter \$75,000 (\$150,000 if married filing jointly) **6** 150,000.

7 Is the amount on line 5 more than the amount on line 6?

No. Skip line 8. Enter the amount from line 4 on line 9 below.

Yes. Subtract line 6 from line 5 **7** _____

8 Multiply line 7 by 2% (.02) **8** _____

9 Subtract line 8 from line 4. If zero or less, enter -0- **9** 800.

10 Did you (or your spouse, if filing jointly) receive an economic recovery payment in 2009? You may have received this payment if you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits (see instructions).

No. Enter -0- on line 10 and go to line 11.

Yes. Enter the total of the payments received by you (and your spouse, if filing jointly). Do not enter more than \$250 (\$500 if married filing jointly) **10** _____

11 Did you (or your spouse, if filing jointly) receive a pension or annuity in 2009 for services performed as an employee of the U.S. Government or any U.S. state or local government from work **not** covered by social security? Do not include any pension or annuity reported on Form W-2.

No. Enter -0- on line 11 and go to line 12.

Yes.

- If you checked "No" on line 10, enter \$250 (\$500 if married filing jointly and the answer on line 11 is "Yes" for both spouses)
- If you checked "Yes" on line 10, enter -0- (exception: enter \$250 if filing jointly and the spouse who received the pension or annuity did not receive an economic recovery payment described on line 10)

..... **11** _____

12 Add lines 10 and 11 **12** _____

13 Subtract line 12 from line 9. If zero or less, enter -0- **13** 800.

14 Making work pay and government retiree credits. Add lines 11 and 13. Enter the result here and on Form 1040, line 63; Form 1040A, line 40; or Form 1040NR, line 60 **14** 800.

*If you are filing Form 2555, 2555-EZ, or 4563 or you are excluding income from Puerto Rico, see instructions.

For Paperwork Reduction Act Notice, see Form 1040A, 1040, or 1040NR instructions.

Schedule M (Form 1040A or 1040) 2009

Student Manual

Chapter 1: Employee Business Expense and Miscellaneous Itemized Deductions

Learning Objective: Students will be presented with an examination of employee business expenses to determine which expenses are deductible and when the expenses are allowed. This lesson will focus primarily on expenses relating to business auto use and office-in-home expenses. Students will learn how to complete office-in-home worksheets, Form 2106 - Employee Business Expense, and where to transfer the information from these forms. They will also study other miscellaneous deductions such as investment related expenses. Students will learn how to handle reimbursed employee business expenses.

Student note: Depreciation and Schedule C will be discussed in Chapters 4 and 5; however, there are many references to both in this chapter. While this may seem confusing, the references are necessary to adequately explain the subject matter in this chapter.

Miscellaneous Itemized Deduction Limitation

The taxpayer can deduct certain expenses as miscellaneous itemized deductions on Schedule A. He can deduct the expenses that exceed 2% of his adjusted gross income. He must calculate his deduction on Schedule A by subtracting 2% of his adjusted gross income from the total amount of these expenses.

Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-9.) ▶					
	22	Tax preparation fees.					
(See page A-9.)	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶					
	24	Add lines 21 through 23					
	25	Enter amount from Form 1040, line 38	25				
	26	Multiply line 25 by 2% (.02)	26				
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-					

Reduce expenses by 2% of taxpayer's AGI

Generally, the taxpayer applies the 2% limit after he applies any other deduction limit. For example, he applies the 50% (or 80% for individuals whose work is subject to the hours of service limitations of the Department of Transportation) limit on business-related meals and entertainment before he applies the 2% limit. Deductions subject to the 2% limit are broken into three categories —

- 1) Unreimbursed employee expenses (line 21) (Discussed in the Basic Course.)
- 2) Tax preparation fees (line 22)
- 3) Other expenses (line 23)

Job Expenses and Certain Miscellaneous Deductions (See page A-9.)	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-9.) ▶				<div style="border: 1px solid red; padding: 2px; display: inline-block;">Unreimbursed employee expenses</div>	
	22	Tax preparation fees.					<div style="border: 1px solid red; padding: 2px; display: inline-block;">Tax preparation fee</div>
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶					
		24	Add lines 21 through 23				
		25	Enter amount from Form 1040, line 38 | 25 |				
		26	Multiply line 25 by 2% (.02)				
		27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-				

Employee Business Expenses

An employee may deduct unreimbursed expenses that are paid and incurred during the current tax year. The expenses must be incurred for conducting trade or business as an employee and the expenses must be ordinary and necessary. An expense is considered ordinary if it is common and necessary in the taxpayer's trade or business. An expense is considered necessary if it is appropriate and helpful to the taxpayer's trade or business. For example: a nurse is required to provide malpractice insurance and often required to wear a uniform. Since the employer does not reimburse these expenses, the nurse may deduct them on Schedule A as a miscellaneous deduction subject to the 2% AGI limitation. (Discussed later in this chapter.)

Job Expenses and Certain Miscellaneous	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See page A-9.) ▶				<div style="border: 1px solid red; padding: 2px; display: inline-block;">Unreimbursed employee expenses</div>
			21			

An employee may deduct the following unreimbursed business expenses on Schedule A as a miscellaneous deduction subject to the 2% AGI limitation:

- Business bad debt of an employee
- Education that is employment related
- Licenses and regulatory fees
- Malpractice or professional insurance premiums
- Medical examinations required by an employer
- Occupational taxes
- Passport for a business trip
- Subscriptions to professional journals and trade magazines related to the taxpayer's trade or business
- Travel, transportation, entertainment, gifts, and car expenses related to the taxpayer's trade or business
- Tools used in a trade or business
- Memberships for professional associations
- Uniforms, work clothing, or protective wear, as well as their cleaning and maintenance

Auto Expense

A taxpayer may be required by his employer to use his personal vehicle during the course of conducting his trade or business. The following examples illustrate the deductible use of an automobile:

Example 1: A delivery driver for a local lab is required as a condition of his employment to use his personal vehicle to pick up and deliver lab specimens. His employer does not reimburse expenses. This taxpayer would be eligible to deduct auto expenses on Schedule A, if he is otherwise qualified to use Schedule A.

Example 2: A pharmaceutical salesman travels out of state to make sales calls. He is often away from home overnight. His employer does not reimburse expenses. This taxpayer would be eligible to deduct auto expenses on Schedule A, if he is otherwise qualified to use Schedule A.

Example 3: A receptionist for an insurance company is required to make daily bank deposits and periodically run errands for the company using her personal vehicle. Her employer does not reimburse expenses. This taxpayer would be eligible to deduct auto expenses on Schedule A, if she is otherwise qualified to use Schedule A.

Example 4: A taxpayer leaves his full-time job and travels to his part-time job. This taxpayer would be eligible to deduct auto expenses on Schedule A, if he is otherwise qualified to use Schedule A. The expense of travel to the second job is not deductible if the taxpayer does not work at both jobs in the same day. If the taxpayer leaves the first job and goes home before traveling to the second job, the auto expenses are not deductible.

In the four examples, the taxpayer is required to keep records of his/her expenses. The taxpayer should include in his daily mileage records the following information:

- Beginning mileage
- Ending mileage
- Commuting mileage
- Business mileage (notes about the destination and reason for travel should be made)

Taxpayers who itemize deductions and use their personal vehicles for business purposes must deduct those expenses on Form 2106, *Employee Business Expenses*. The total expense from Form 2106 transfers to Schedule A, line 21. The employee business expense deduction is subject to the 2% limitation for miscellaneous itemized deductions on Schedule A. Commuting miles from the taxpayer's home to his place of business are not deductible.

Form 2106 Department of the Treasury Internal Revenue Service (99)	Employee Business Expenses ▶ See separate instructions. ▶ Attach to Form 1040 or Form 1040NR.	OMB No. 1545-0074 2009 Attachment Sequence No. 129
Your name	Occupation in which you incurred expenses	Social security number
Part I Employee Business Expenses and Reimbursements		
Step 1 Enter Your Expenses	Column A Other Than Meals and Entertainment	Column B Meals and Entertainment
1 Vehicle expense from line 22 or line 29. (Rural mail carriers: See instructions.)	1	←
2 Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel or commuting to and from work	2	|

Vehicle expenses are entered here after calculating the standard mileage rate or actual expenses.

Within certain restrictions, one can choose between taking actual expenses and taking a standard mileage rate for all business miles. If the employer reimburses expenses in whole or part, the taxpayer must reduce his employee business expenses by the amount reimbursed.

Standard Mileage Rate

The 2009 standard mileage rate is 55 cents per business mile. In order to take the standard mileage rate, the taxpayer must meet the following requirements:

- Own or lease the car
- Not use the car for hire (taxi)
- Not operate a fleet of cars using five or more at the same time
- Have elected to use standard mileage the first year the car was placed in service
- For leases that began on or after December 31, 1997, the standard mileage rate must be used for the entire portion of the lease period that is after 1997.

The standard mileage rate cannot be used if the taxpayer has ever used ACRS (Accelerated Cost Recovery System – discussed in Chapter 4), MACRS (Modified Accelerated Cost Recovery System - discussed in Chapter 4), Section 179 expense deduction (discussed in Chapter 4), or any other method of depreciation other than straight line (discussed in Chapter 4) for this auto. The taxpayer cannot use the standard mileage rate if he is a rural mail carrier that received a qualified reimbursement.

The standard mileage rate usually results in a better deduction for the taxpayer and it requires less record keeping. Note that a taxpayer can also deduct business parking and tolls whether taking the standard mileage rate or actual expenses. Costs to park at the employee’s place of business are not deductible.

The taxpayer cannot use the standard mileage rate if he uses five or more vehicles at the same time for business (such as a taxi or limousine service). If the taxpayer is alternating use between any number of vehicles, he may use the standard mileage rate.

Note: Self-employed taxpayers can deduct, as a business expense, the business percentage of vehicle loan interest, and the business percentage of personal property tax. This is an advantage to the self-employed person who does not itemize deductions. It is also an advantage in that only the self-employed individual has any way of deducting interest paid for vehicle loans. Deductions against self-employment income reduce self-employment tax in addition to income tax.

Part II Vehicle Expenses

Section A—General Information (You must complete this section if you are claiming vehicle expenses.)		(a) Vehicle 1	(b) Vehicle 2
11	Enter the date the vehicle was placed in service	11 / /	/ /
12	Total miles the vehicle was driven during 2009	12 miles	miles
13	Business miles included on line 12	13 miles	miles
14	Percent of business use. Divide line 13 by line 12	14 %	%
15	Average daily roundtrip commuting distance	15 miles	miles
16	Commuting miles included on line 12	16 miles	miles
17	Other miles. Add lines 13 and 16 and subtract the total from line 12	17 miles	miles
18	Was your vehicle available for personal use during off-duty hours?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
19	Do you (or your spouse) have another vehicle available for personal use?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
20	Do you have evidence to support your deduction?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
21	If “Yes,” is the evidence written?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Section B—Standard Mileage Rate (See the instructions for Part II to find out whether to complete this section or Section C.)			
22	Multiply line 13 by 55¢ (.55). Enter the result here and on line 1	22	

Actual Auto Expense

Actual auto expenses include gas, oil, tolls, parking, garage rent, lease payments, rental fees, depreciation, repairs, licenses, tires, and insurance. Loan interest on the vehicle is not deductible by employees. It is treated as personal interest and personal interest is not deductible. Loan interest on a business vehicle is deductible only if the taxpayer is self-employed and files a Schedule C. If the taxpayer leases the vehicle, he may use actual auto expenses or the standard mileage rate, but must continue using the same method from the first year in which the leased vehicle was put in service. (He may NOT switch from year to year.)

Taxpayers often think that they can claim both depreciation and mileage. Tax preparers must be sure to point out that they cannot. Tax preparers must also explain how to divide actual expenses based on the percentage of use of the vehicle that is for business versus personal use. Please refer to "Instructions for Form 2106", Part II, page 4 for a more complete review of the requirements.

Example: Jason used his car in the course of his daily business. He drove a total of 43,010 miles for the year of which, 29,525 miles were business and 3,412 miles were commuting. Jason's total nonbusiness mileage is 13,485. The business percentage of Jason's vehicle expenses that may be deducted is 68.65%. *Note: carry the percentage to two decimal places.* If Jason's total actual expenses were \$4,835, he would be allowed to deduct \$3,319 as a business expense ($\$4,835 \times 68.65\% = \$3,319$).

Taxpayers who use actual expenses may be eligible to recover the cost of the vehicle using depreciation or the section 179-expense deduction. In addition, a special depreciation allowance may apply to vehicles purchased and placed in service in 2009 if the percentage of business use is more than 50%. The total allowable depreciation deduction depends on when the vehicle was placed into service and what percentage of the time it was used for business purposes. See Exhibit 1-1 on the next page for depreciation information.

Section C—Actual Expenses			(a) Vehicle 1			(b) Vehicle 2		
23	Gasoline, oil, repairs, vehicle insurance, etc.	23						
24a	Vehicle rentals	24a						
b	Inclusion amount (see instructions)	24b						
c	Subtract line 24b from line 24a	24c						
25	Value of employer-provided vehicle (applies only if 100% of annual lease value was included on Form W-2—see instructions)	25						
26	Add lines 23, 24c, and 25.	26						
27	Multiply line 26 by the percentage on line 14	27						
28	Depreciation (see instructions)	28						
29	Add lines 27 and 28. Enter total here and on line 1	29						

Section D—Depreciation of Vehicles (Use this section only if you owned the vehicle and are completing Section C for the vehicle.)

			(a) Vehicle 1			(b) Vehicle 2		
30	Enter cost or other basis (see instructions)	30						
31	Enter section 179 deduction and special allowance (see instructions)	31						
32	Multiply line 30 by line 14 (see instructions if you claimed the section 179 deduction or special allowance)	32						
33	Enter depreciation method and percentage (see instructions)	33						
34	Multiply line 32 by the percentage on line 33 (see instructions)	34						
35	Add lines 31 and 34	35						
36	Enter the applicable limit explained in the line 36 instructions	36						
37	Multiply line 36 by the percentage on line 14	37						
38	Enter the smaller of line 35 or line 37. If you skipped lines 36 and 37, enter the amount from line 35. Also enter this amount on line 28 above.	38						

Exhibit 1-1

Figuring Depreciation on Employee Autos for Form 2106

Column (a) – Use column (a) only if the business percentage on line 14 is more than 50%. The method in this column, the 200% declining balance method, will give the largest deduction in the first 3 years (after considering the depreciation limit for your vehicle). See the depreciation limit tables below.

Column (b) – The taxpayer may use column (b) only if the business use percentage on line 14 is more than 50%. The method in this column, the 150% declining balance method, will give a smaller depreciation deduction than in column (a) for the first 3 years. However, the taxpayer will not have a “depreciation adjustment” on this item for alternative minimum tax purposes. This may result in a smaller tax liability if he must file **Form 6251, Alternative Minimum Tax – Individuals**.

Column (c) – The taxpayer must use column (c) if the business use percentage on line 14 is 50% or less. If the taxpayer used the standard mileage rate the first year and now elects to use actual expense, he must use column (c). The method in this column is the straight-line method over 5 years. It is optional if the business use percentage on line 14 is more than 50%.

Note: If the vehicle was used more than 50% for business in the year it was placed in service and used 50% or less in a later year, part of the depreciation and section 179 deduction previously claimed may have to be added back to the income in the later year. Figure the amount to be included in income on **Form 4797, Sales of Business Property, Part IV**.

Caution: If the taxpayer placed other business property in service during the year he placed his vehicle in service or he used his vehicle mainly within an Indian reservation, he may not be able to use the chart. See Pub. 946, *How to Depreciate Property*, to calculate the depreciation.

Date Placed in Service	(a) ¹	(b) ¹	(c)
Oct. 1 – Dec. 31, 2009	200 DB 5.0 %	150 DB 3.75%	SL 2.5%
Jan. 1 – Sept. 30, 2009	200 DB 20.0	150 DB 15.0	SL 10.0
Oct. 1 – Dec. 31, 2008	200 DB 38.0	150 DB 28.88	SL 20.0
Jan. 1 – Sept. 30, 2008	200 DB 32.0	150 DB 25.5	SL 20.0
Oct. 1 – Dec. 31, 2007	200 DB 22.8	150 DB 20.21	SL 20.0
Jan. 1 – Sept. 30, 2007	200 DB 19.2	150 DB 17.85	SL 20.0
Oct. 1 – Dec. 31, 2006	200 DB 13.68	150 DB 16.4	SL 20.0
Jan. 1 – Sept. 30, 2006	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 – Dec. 31, 2005	200 DB 10.94	150 DB 16.41	SL 20.0
Jan. 1 – Sept. 30, 2005	200 DB 11.52	150 DB 16.66	SL 20.0
Oct. 1 – Dec. 31, 2004	200 DB 9.58	150 DB 14.35	SL 17.5
Jan. 1 – Sept. 30, 2004	200 DB 5.76	150 DB 8.33	SL 10.0
Prior to 2004 ²			

¹You can use this column only if the business use of your car is more than 50%.

²If your car was subject to the maximum limits for depreciation and you have unrecovered basis in the car, you can continue to claim depreciation. See Pub. 463 for more information.

Line 34 – If during the year the taxpayer sold or exchanged his vehicle, use the following instructions to figure the amount to enter on line 34. If the vehicle was placed in service: (1) Before 2003, enter the result of multiplying line 32 by the percentage on line 33; (2) After 2002, from January 1 through September 30, enter the amount figured by multiplying the result in (1) by 50%; or (3) after 2002, from October 1 through December 31, enter the amount figured by multiplying the result in (1) by the percentage shown below for the month you disposed of the vehicle.

Month	Percentage
Jan., Feb., March	12.5%
April, May, June	37.5%
July, Aug., Sept.	62.5%
Oct., Nov., Dec.	87.5%

Line 36 -- Using the applicable chart for the taxpayer’s vehicle, find the date he placed his vehicle in service. Then, enter on line 36 the corresponding amount from the **Limit** column.

- A passenger automobile is a 4-wheeled vehicle manufactured primarily for use on public roads that is rated at 6,000 pounds unloaded gross vehicle weight or less (or a truck or van, gross vehicle weight is substituted for unloaded gross vehicle weight). Certain vehicles, such as ambulances, hearses, and taxicabs, are not considered passenger automobiles and are not subject to the line 36 limits.
- A truck or van is a passenger automobile that is classified by the manufacturer as a truck or van, and that is rated at 6,000 pounds gross vehicle weight or less.

Limits for Passenger Automobiles (Except Trucks and Vans)

Date Vehicle Was Placed in Service	Limit
Jan. 1 – Dec. 31, 2009	\$10,960*
Jan. 1 – Dec. 31, 2008	4,800
Jan. 1 – Dec. 31, 2007	2,850
Jan. 1 – Dec. 31, 2006	1,775
Jan. 1, 2004 – Dec. 31, 2005	1,675
Jan. 1, 1995 – Dec. 31, 2003	1,775

* If you elect not to claim the special depreciation allowance for the vehicle or the vehicle is not qualified property, the limit is \$2,960.

Limits for Trucks and Vans

Date Vehicle Was Placed in Service	Limit
Jan. 1 – Dec. 31, 2009	\$11,060*
Jan. 1 – Dec. 31, 2008	5,100
Jan. 1 – Dec. 31, 2007	3,050
Jan. 1, 2004 – Dec. 31, 2006	1,875
Jan. 1 – Dec. 31, 2003	1,975
Jan. 1, 1995 – Dec. 31, 2002	1,775

* If you elect not to claim the special depreciation allowance for the vehicle or the vehicle is not qualified property, the limit is \$3,060.

Note: The charts on this page are found in the instructions for Form 2106.

Office in Home

Office in Home is a deduction for the portion of the home used exclusively in connection with a business and used on a regular basis. The home office must be maintained for the convenience of the employer, not just to be helpful in the taxpayer's job. The area or room used for business must be the principal place of business, or a place to meet patients, clients, or customers. The area may also be used for administrative work and management duties such as billing customers, clients, or patients, keeping books or records, etc.

A separate structure used in connection with the taxpayer's trade or business may also be considered an office in home. If the taxpayer rents all or part of his home to his employer and then uses the rented portion to conduct business as an employee, he does not qualify for office in home.

The deduction for the business use of a home is limited. The deductions can include repairs, utilities, rent, depreciation, and insurance based on the percentage of business use. For an employee, mortgage interest and real estate tax are used only to determine the deduction limit (described later in **Deducting Expenses**). To determine expenses of an Office in Home, use the *Worksheet to Figure the Deduction for Business Use of Your Home* (see Illustration 1-A on page 1.20) to aid in the calculation of this deduction. An employee will deduct Office in the Home expenses on Schedule A, under miscellaneous deductions subject to the 2% AGI limitation. Form 8829, *Expenses for Business Use of Your Home*, is used by Schedule C taxpayers. Employees should not use Form 8829 to calculate Office in the Home deductions for Schedule A.

3	Travel expense while away from home overnight, including lodging, airplane, car rental, etc. Do not include meals and entertainment	3	
4	Business expenses not included on lines 1 through 3. Do not include meals and entertainment.	4	
5	Meals and entertainment expenses (see instructions)	5	
6	Total expenses. In Column A, add lines 1 through 4 and enter the result. In Column B, enter the amount from line 5	6	

Note: If you were not reimbursed for any expenses in Step 1, skip line 7 and enter the amount from line 6 on line 8.

Enter expenses for business use of your home (office in home) on Form 2106, line 4, after using the *Worksheet to Figure the Deduction for Business Use of Your Home* to calculate the expenses.

Note: The Office in Home deduction worksheet, *Worksheet to Figure the Deduction for Business Use of Your Home*, along with the instructions for the worksheet are in Illustration 1-A on page 1.20.

Exclusive Use

To pass the exclusive test the taxpayer must use the area for business purposes only. The taxpayer cannot use the area for personal purposes such as a guest bedroom, storage room, or play room. A portion of a room such as the area that includes the desk and chair can be an office-in-home. The area does not have to be an entire room. There are two exceptions to the exclusive rule:

1. Storage of inventory or product samples
2. Daycare facilities (see IRS Pub. 587 *Business Use of Your Home* for details)

If the taxpayer is using part of the home for storage of inventory or product samples, he does not have to meet the exclusive use test. However, he must meet the following tests:

- Must keep the inventory or product samples for use in the trade or business

- The trade or business is the wholesale or retail sale of products
- The home is the only fixed location of the trade or business
- The storage space is used on a regular basis
- The space used is an identifiably separate space suitable for storage

Regular Use

The taxpayer must use the area on a regular and continuing basis to meet the regular use test. If the taxpayer only uses the area occasionally, he does not qualify for the office in home deduction.

The regular use must be trade or business use. If the use of the home consists of use for a profit-seeking activity that is not a trade or business, the office in home deduction is not allowed.

Example 1: The taxpayer uses an area of his home to read financial periodicals and reports, clip bond coupons, and carry out similar activities related to his investments. He does not make investments as a broker or dealer. His activities are not part of a trade or business; therefore, he would not be eligible for an office in home deduction.

Example 2: The taxpayer uses an area of his home to conduct a “day trader” business. Since the taxpayer is actually making investments as a broker or dealer, his activities make him eligible for an office in home deduction.

Principal Place of Business

The taxpayer can have more than one business location, including the home office, for a single trade or business. The home must be the principal place of business to be eligible for the office in home deduction. The taxpayer’s home qualifies as his principal place of business if he meets the following requirements:

- The office is used regularly and exclusively for administrative or management activities of the taxpayer’s trade or business.
- There is no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business.

If the taxpayer does not qualify for the office in home deduction based on the previous rules, and he has more than one principal place of business, he can determine his principal place of business based on the following factors:

- The relative importance of the activities performed at each location.
- If the relative importance factor does not determine the principal place of business, time spent at each location can be considered.

Examples of administrative or management duties are —

- Billing customers, clients, or patients
- Keeping books and records
- Ordering supplies
- Setting up appointments
- Forwarding orders or writing reports

More Than One Trade or Business

Whether the taxpayer's home office is the principal place of business must be determined separately for each trade or business activity. One home office may be the principal place of business for more than one activity. However, the taxpayer would not meet the exclusive test for any activity unless each activity conducted in that office meets all the tests for the business use of the home deduction.

Example: Tracy White is employed as a teacher. Her principal place of business is at school. She also has a mail order jewelry business. All her work in the jewelry business is done in her home office and the office is used exclusively for the business.

If Tracy also uses the office for work related to her teaching, she would not meet the exclusive use test for the jewelry business. As an employee, Tracy must meet the convenience-of-the-employer test to qualify for the deduction. Because she does not meet this test for her work as a teacher, she cannot claim a deduction for the business use of her home for either activity. Therefore, she should be advised to do her schoolwork in another room of her house in order to preserve her business deduction.

Deducting Expenses

There are three types of expenses included in the operation of a home when considering office in home:

1. Direct – Expenses incurred only for the business part of the home such as painting and repairs in the area used for business. These expenses are fully deductible.
2. Indirect – Expenses for running the home such as insurance, utilities, and general repairs (e.g., roof, HVAC, etc.). These expenses are deducted based on the percentage of the home used for business.
3. Unrelated – Expenses only for the parts of the home not used for business such as lawn care, painting a room not used for business. These expenses are not deductible.

Worksheet to Figure the Deduction for Business Use of Your Home

(Use this worksheet if you file Schedule F (Form 1040) or you are an employee or a partner)

Part 1 – Part of Your Home Used for Business

- | | |
|---|------------|
| 1. Area of home used for business | 1. _____ |
| 2. Total area of home | 2. _____ |
| 3. Percentage of home used for business (divide line 1 by line 2) and show result as percentage with 2 places after the decimal point (i.e. 17.86%) | 3. _____ % |

Part 2 – Figure Your Allowable Deduction

- | | | |
|---|---------------------|-----------------------|
| 4. Gross income from business (see instructions) | 4. _____ | |
| | (a) Direct Expenses | (b) Indirect Expenses |
| 5. Casualty losses | 5. _____ | _____ |
| 6. Deductible mortgage interest and qualified mortgage insurance premiums | 6. _____ | _____ |
| 7. Real estate taxes | 7. _____ | _____ |
| 8. Total of lines 5 through 7 | 8. _____ | _____ |
| 9. Multiply line 8, column (b), by line 3 | | 9. _____ |

Certain expenses are deductible whether or not the taxpayer uses his home for business. If the taxpayer qualifies to deduct business use of the home expenses, use the business percentage of these expenses to figure his total business use of the home deduction. Unlike self-employed taxpayers, these expenses are not included in the actual business use of home deduction. The

worksheet uses these expenses to determine the deduction limit. These expenses will lower the deduction limit (line 13 of worksheet) and include the following.

- Real estate taxes.
- Qualified mortgage insurance premiums.
- Deductible mortgage interest
- Casualty losses.

The above expenses should be entered in full here and the remainder on the appropriate lines of Schedule A.

Other expenses are deductible only if the taxpayer uses his home for business. He can use the business percentage of these expenses to figure his total business use of home deduction. These expenses generally include (but are not limited to) the following.

- Insurance – Indirect insurance covers the entire home; direct insurance covers the business.
- Rent.
- Repairs.
- Security system – The cost to maintain and monitor the system is considered an indirect cost. However, the taxpayer may depreciate the percentage of the system that relates to his business.
- Utilities and services – Includes electricity, gas, trash removal, and cleaning services.
- Telephone – The basic local service charge, including taxes for the first line into the home is a nondeductible personal expense. Business long distance and the cost of a second line into the home used exclusively for business are deductible.
- Depreciation – If the taxpayer owns the home he may deduct depreciation.

Depreciation

Before calculating the depreciation deduction, the taxpayer needs to know the following information:

- The month and year the taxpayer began using the home for business
- The adjusted basis and fair market value of the home at the time the taxpayer began using it for business (The cost of the home plus any improvements, minus casualty losses or depreciation deducted in earlier years. Land is never considered part of the adjusted basis.)
- The cost of improvements before and after the taxpayer began using the home for business, and
- The percentage of the home used for business

Part 3 – Depreciation of Your Home

34. Smaller of adjusted basis or fair market value of home (see instructions)	34. _____
35. Basis of land	35. _____
36. Basis of building (subtract line 35 from line 34)	36. _____
37. Business basis of building (multiply line 36 by line 3)	37. _____
38. Depreciation percentage (from applicable table or method)	38. _____ %
39. Depreciation allowable (multiply line 37 by line 38)	39. _____

Use the chart in Exhibit 1-2 on the next page to calculate the first year of depreciation. For subsequent years, use 2.564% for the depreciation percentage.

Exhibit 1-2
Office in Home Depreciation Table (Placed in service after 5/12/93)

Use the chart below to calculate depreciation for the first year a home is used for business

Month of tax year first used for business	Percentages
1	2.461%
2	2.247%
3	2.033%
4	1.819%
5	1.605%
6	1.391%
7	1.177%
8	0.963%
9	0.749%
10	0.535%
11	0.321%
12	0.107%

Multiply the depreciable basis of the business part of the home by the percentage from the table for the first month in the tax year that the home was first used for business. For subsequent years, use 2.564% for the depreciation percentage.

Example:	Home cost	\$100,000
	Land	<u>- 10,000</u>
	Depreciable basis	\$ 90,000

If 50% of the home was used for business, the depreciable basis for business would be \$45,000 (50% of \$90,000). If the home was placed in service June 1, the percentage used would be 1.391%.

	\$45,000
	<u>x 1.391%</u>
Allowable depreciation	\$625.95

Travel Expenses

Business related travel expenses must be ordinary and necessary expenses of traveling away from home for business, profession, or job. Expenses cannot be lavish or extravagant.

A taxpayer is traveling away from home if —

- His duties require him to be away from the general area of his tax home substantially longer than an ordinary day's work, and
- He needs sleep or rest to meet the demands of his work while away from home.

Tax Home

Generally, the taxpayer's tax home is his regular (main) place of business. If the taxpayer does not have a regular or a main place of business due to the nature of his work, his tax home may be the place where he regularly lives. In order for the taxpayer's home to meet the criteria of a "tax home," the taxpayer should use the following guidelines:

Exhibit 1-3 gives examples of the different types of travel expenses and their descriptions.

Exhibit 1-3 Deductible Travel Expenses

Expense	Description
Transportation	The cost of travel by airplane, train, or bus between the taxpayer's home and his business destination
Taxi, commuter bus, and limousine	Fares for these and other types of transportation between the airport or station and the hotel, or between the hotel and the work location away from home
Baggage and shipping	The cost of sending baggage and sample or display materials between the regular and temporary work locations
Car	The costs of operating and maintaining a car when traveling away from home on business. The taxpayer may deduct actual expenses or the standard mileage rate, including business-related tolls and parking. If he leases a car while away from home on business, he can deduct business-related expenses only
Lodging	The cost of lodging if a business trip is overnight or long enough to require the taxpayer to get substantial sleep or rest to properly perform his duties
Meals	The cost of meals only if a business trip is overnight or long enough to require the taxpayer to get substantial sleep or rest to properly perform his duties
Cleaning	Cleaning and laundry expenses while away from home overnight
Telephone	The cost of business calls while on a business trip, including business communication by fax machine or other communication devices
Tips	Tips paid for any expenses in this chart
Other	Other similar ordinary and necessary expenses related to business travel such as public stenographer's fees and computer rental fees

Education

The taxpayer can deduct qualifying educational tuition and expenses. The education must be required by the employer or the law to keep one's salary, status, or job, or maintain or improve skills required in his present job in order to be deductible. Education that qualifies the taxpayer for his first job in a specific field is not deductible, nor is education which enables the taxpayer to change jobs.

Deductible expenses are: tuition, textbooks, registration fees, supplies, transportation (standard mileage or actual expenses), lab fees, cost of writing term papers or dissertations, student cards, insurance, degree cost, meals (limited to 50%) and lodging while attending school away from home.

The tax preparer will need to decide which yields a greater tax benefit for the taxpayer: miscellaneous itemized deduction, or Hope or Lifetime Learning Credit. When making the decision to itemize education expenses or to use them as a credit, the preparer should remember that the education expenses must be job related. He should also remember to consider any additional education expenses that may qualify as an itemized deduction; however, the expense may not be considered a qualifying expense when used to calculate the Hope or Lifetime Learning Credit (books, for example).

Business Gifts

The taxpayer can deduct up to \$25 per client per year for business gifts. This does not include items that cost less than \$4, have the taxpayer's name imprinted on them and are widely distributed, i.e. pens, pencils, cases etc.

Entertainment

The expense has to be directly related to the active conduct of business either before, during, or after the entertainment or associated with the active conduct of business.

Entertainment expenses must be ordinary and necessary. This includes activities generally considered to provide entertainment, recreation or amusement to clients, customers, or employees. Expenses for entertainment that is lavish or extravagant are not deductible. An expense is not considered lavish or extravagant if the expense is reasonably based on facts and circumstances relating to the business. Entertainment expenses are limited to 50% of the actual expense and are further reduced by the 2% floor.

Daily lunch or entertainment expenses with subordinates or co-workers are not deductible even if business is discussed. See Exhibit 1-4 to help understand deductible entertainment expenses.

Exhibit 1-4 Deductible Entertainment Expenses

What Entertainment Expenses Are Deductible?	
General Rule	<ul style="list-style-type: none"> • Ordinary and necessary expenses to entertain a client, customer, or employee if the expenses meet the directly related test or the associated test
Definitions	<ul style="list-style-type: none"> • Entertainment includes any activity generally considered to provide entertainment, amusement, or recreation, and includes meals provided to a client • Ordinary expense is one that is common and accepted in the taxpayer's field of business, trade, or profession • Necessary expense is one that is helpful and appropriate, although not necessarily indispensable for the business
Tests to be Met	<p>Directly Related Test</p> <ul style="list-style-type: none"> • Entertainment took place in a clear business setting, or • Main purpose of the entertainment was the active conduct of business, and The taxpayer did engage in business with the person during the entertainment period, and The taxpayer had more than a general expectation of getting income or some other specific business benefit <p>Associated Test</p> <ul style="list-style-type: none"> • Entertainment is associated with the taxpayer's trade or business, and entertainment directly precedes or follows a substantial business discussion
Other Rules	<ul style="list-style-type: none"> • The taxpayer cannot deduct the cost of his meal as an entertainment expense if he is claiming the meal as a travel expense • The taxpayer can deduct expenses only to the extent that they are not lavish or extravagant under the circumstances • The taxpayer can generally deduct only 50% of his unreimbursed entertainment expenses

Record Keeping

A taxpayer must be able to prove his deductions to the IRS if audited. It is very important to keep all receipts related to the tax return. Records should include the following:

1. Amount paid
2. Time, date and place
3. Purpose of business discussion or nature of business benefit expected
4. People who were present

Reimbursements

Enter on line 7 of Form 2106 the amounts the employer (or third party) reimbursed that were not reported in box 1 of Form W-2. This includes any amount reported under code L in box 12 of Form W-2.

Step 2 Enter Reimbursements Received From Your Employer for Expenses Listed in Step 1

7	Enter reimbursements received from your employer that were not reported to you in box 1 of Form W-2. Include any reimbursements reported under code "L" in box 12 of your Form W-2 (see instructions)	7					
---	---	---	--	--	--	--	--

If the taxpayer was reimbursed under an accountable plan and wants to deduct excess expenses that were not reimbursed, he may have to allocate the reimbursement. This is necessary when the employer pays a reimbursement in the following manner:

1. Pays the taxpayer a single amount that covers meals and/or entertainment, as well as other business expenses, and
2. Does not clearly identify how much is for deductible meals and/or entertainment. The taxpayer must allocate that single payment so that he knows how much to enter in Column A and Column B of line 7 of Form 2106.

Follow the directions on Form 2106 or Form 2106-EZ to transfer employee business expenses to the appropriate line of taxpayer's tax return. For most taxpayers, this is line 21 of Schedule A (Form 1040).

Note: Form 2106-EZ can only be used if the employee received no employer reimbursements not included in box 1 of Form W-2 and if claiming vehicle expenses, he must take the standard mileage rate and not actual expenses.

Performing Artists

If the taxpayer is a performing artist, he may qualify to deduct his employee business expenses as an adjustment to gross income rather than as a miscellaneous itemized deduction. To qualify, the taxpayer must meet all of the following requirements:

1. During the tax year, the taxpayer performed services in the performing arts for at least two employers.
2. The taxpayer received at least \$200 each from any two of these employers.
3. The taxpayer related performing-arts business expenses are more than 10% of the gross income from the performance of those services.

- Taxpayer's adjusted gross income is not more than \$16,000 before deducting these business expenses.

If the taxpayer is married, he must file a joint return unless he lived apart from his spouse at all times during the tax year. If the taxpayer files a joint return, he must figure requirements (1), (2), and (3) separately for both the taxpayer and his spouse. However, requirement (4) applies to the taxpayer and his spouse's combined adjusted gross income.

If the taxpayer meets all of the above requirements, he should first complete Form 2106 or 2106-EZ. Then include his performing-arts-related expenses from line 10 of Form 2106 or line 6 of Form 2106-EZ in the total on line 24 of Form 1040. Write "QPA" and the amount of the performing-arts-related expenses in the space to the left of line 24 of Form 1040.

Adjusted Gross Income	23	Educator expenses (see page 28)	23			
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	QPA - 1,895		
	25	Health savings account deduction. Attach Form 8889	25			

If the taxpayer does not meet all of the above requirements, he does not qualify to deduct expenses as an adjustment to gross income. Instead, he must complete Form 2106 or Form 2106-EZ and deduct his employee business expenses as an itemized deduction on line 21 of Schedule A (Form 1040).

Other Expenses (Miscellaneous Itemized Deductions)

Tax preparation fees are deductible to the taxpayer. Fees for attending a class to learn how to prepare tax returns, software purchased, how-to books on tax preparation and online preparation fees are also deductible. Fees for electronic filing are deductible; however, fees for fast refunds or refund loans are not deductible.

The taxpayer can deduct certain other expenses as miscellaneous itemized deductions subject to the 2%-of-adjusted-gross-income limit. The following are examples of deductible expenses:

- Expenses to manage, conserve, or maintain property held for producing taxable gross income (such as office space rented to maintain investment property)
- To determine, contest, pay, or claim a reformation fund of any tax
- Attorney's fees and legal expenses paid to collect taxable income, such as alimony
- Fees paid to an appraiser to determine the value of a donated property
- Fees paid to determine the value of a casualty loss
- Custodial fees associated with property held for investment
- Fees paid for safe deposit box rental. The safe deposit box must contain income-bearing documents (such as stocks, bonds, investment documents, etc.)
- Fees paid to an agent or broker for financial advice

The taxpayer can deduct investment fees, custodial fees, trust administration fees, and other expenses paid for managing investments that produce taxable income.

Not-for-Profit and Personal Property Rental (PPR) Expenses

Rental expenses related to rental property that is not-for-profit or personal property rental (PPR) expenses are deductible to the extent of the personal property rental income. If the taxpayer rented property with a gross income of \$1,000, the PPR expenses would be limited to \$1,000.

The expenses are reported on Schedule A, line 23 and are subject to the 2% floor. Losses are not allowed for PPR rental income.

Hobby Expenses

Hobby expenses related to hobby income are also deducted on Schedule A, line 23. The expenses are deductible to the extent of the income. Losses are not allowed for hobby income.

See the *Worksheet to Figure the Deduction for Business Use of Your Home* on the next page and the instructions that follow. This worksheet and instructions are included in IRS Publication 587 *Business Use of Your Home*. We have also included an example of how the worksheet should be completed; this can be found after the instructions for the worksheet.

Illustration 1-A

Worksheet to Figure the Deduction for Business Use of Your Home

(Use this worksheet if you file Schedule F (Form 1040) or you are an employee or a partner)

Part 1 – Part of Your Home Used for Business

- | | |
|---|------------|
| 1. Area of home used for business | 1. _____ |
| 2. Total area of home | 2. _____ |
| 3. Percentage of home used for business (divide line 1 by line 2) and show result as percentage with 2 places after the decimal point (i.e. 17.86%) | 3. _____ % |

Part 2 – Figure Your Allowable Deduction

- | | | |
|--|---------------------|-----------------------|
| 4. Gross income from business (see instructions) | 4. _____ | |
| | (a) Direct Expenses | (b) Indirect Expenses |
| 5. Casualty losses | 5. _____ | _____ |
| 6. Deductible mortgage interest and qualified mortgage insurance premiums | 6. _____ | _____ |
| 7. Real estate taxes | 7. _____ | _____ |
| 8. Total of lines 5 through 7 | 8. _____ | _____ |
| 9. Multiply line 8, column (b), by line 3 | 9. _____ | _____ |
| 10. Add line 8, column (a), and line 9 | 10. _____ | _____ |
| 11. Business expenses not from business use of home | 11. _____ | _____ |
| 12. Add lines 10 and 11 | 12. _____ | _____ |
| 13. Deduction limit. Subtract line 12 from line 4 | 13. _____ | _____ |
| 14. Excess mortgage interest and qualified mortgage insurance premiums | 14. _____ | _____ |
| 15. Insurance | 15. _____ | _____ |
| 16. Rent | 16. _____ | _____ |
| 17. Repairs and maintenance | 17. _____ | _____ |
| 18. Utilities | 18. _____ | _____ |
| 19. Other expenses | 19. _____ | _____ |
| 20. Add lines 14 through 19 | 20. _____ | _____ |
| 21. Multiply line 20, column (b) by line 3 | 21. _____ | _____ |
| 22. Carryover of operating expenses from prior year | 22. _____ | _____ |
| 23. Add line 20 column (a), line 21, and line 22 | 23. _____ | _____ |
| 24. Allowable operating expenses. Enter the smaller of line 13 or 23 | 24. _____ | _____ |
| 25. Limit on excess casualty losses and depreciation. Subtract line 24 from line 13 | 25. _____ | _____ |
| 26. Excess casualty losses | 26. _____ | _____ |
| 27. Depreciation of your home from line 39 below | 27. _____ | _____ |
| 28. Carryover of excess casualty losses and depreciation from prior year | 28. _____ | _____ |
| 29. Add lines 26 through 28 | 29. _____ | _____ |
| 30. Allowable excess casualty losses and depreciation. Enter the smaller of line 25 or line 29. | 30. _____ | _____ |
| 31. Add lines 10, 24 and 30 | 31. _____ | _____ |
| 32. Casualty losses included on lines 10 and 30 | 32. _____ | _____ |
| 33. Allowable expenses for business use of your home. (Subtract line 32 from line 31.) | 33. _____ | _____ |

Part 3 – Depreciation of Your Home

- | | |
|---|-------------|
| 34. Smaller of adjusted basis or fair market value of home | 34. _____ |
| 35. Basis of land | 35. _____ |
| 36. Basis of building (subtract line 35 from line 34) | 36. _____ |
| 37. Business basis of building (multiply line 36 by line 3) | 37. _____ |
| 38. Depreciation percentage (from applicable table or method) | 38. _____ % |
| 39. Depreciation allowable (multiply line 37 by line 38) | 39. _____ |

Part 4 – Carryover of Unallowable Expenses to Next Year

- | | |
|--|-----------|
| 40. Operating expenses. Subtract line 24 from line 23. If less than zero, enter 0. | 40. _____ |
| 41. Excess casualty losses and depreciation. Subtract line 29 from line 28. If less than zero, enter 0 | 41. _____ |

Illustration 1-A (continued)

Instructions for the Business Use of Your Home Worksheet

If the taxpayer is an employee or a partner or files Schedule F (Form 1040), use the preceding worksheet to figure the deduction for the business use of a home. The following instructions explain how to complete each part. ***If the taxpayer files Schedule C (Form 1040), use Form 8829 to figure the deductions and attach the form to his return.***

Part 1 – Part of Your Home Used for Business

Lines 1 – 3. If the taxpayer figures the percentage based on area, use lines 1 through 3 to figure the business-use percentage. Enter the percentage on line 3.

The taxpayer can use any other reasonable method that accurately reflects his business-use percentage. If the taxpayer uses another method to figure his business percentage, skip lines 1 and 2 and enter the percentage on line 3.

Part 2 – Figure the Allowable Deduction

Line 4. If the taxpayer files Schedule F, enter his total gross income from the business use of his home. This would generally be the amount on line 11 of Schedule F.

If the taxpayer is an employee, enter his total wages from the business use of the home.

Lines 5 – 7. Enter expenses paid for deductible mortgage interest, qualified mortgage insurance premiums, real estate taxes, and casualty losses. Under column (a), *Direct Expenses*, enter expenses that benefit only the business part of the home. Under column (b), *Indirect Expenses*, enter expenses that benefit the entire home. The taxpayer should generally enter 100% of the expenses. However, if the business percentage of an indirect expense is different from the percentage on line 3, enter only the business part of the expense on the appropriate line in column (a), and leave that line in column (b) blank.

Enter only amounts that would be deductible whether or not the taxpayer used his home for business. In other words, these amounts would normally be allowable as itemized deductions on Schedule A (Form 1040). Include only the part of a casualty loss that exceeds \$100 plus 10% of adjusted gross income.

Lines 9 – 10. Multiply the total indirect expenses (line 8, column (b)) by the business percentage from line 3. Enter the result on line 9. Add this amount to the total direct expenses (line 8, column (a)) and enter the total on line 10.

Lines 11 – 13. Enter any other business expenses that are not attributable to business use of the home on line 11. For employees, examples include travel, supplies, and business telephone expenses. Farmers should generally enter their total farm expenses before deducting office in the home expenses. Do not enter the deduction for one-half of the taxpayer's self-employment tax. Add the expenses on line 11 to the line 10 amount, and enter the total on line 12. Subtract line 12 from line 4, and enter the result on line 13. This is the deduction limit. The taxpayer uses it to determine whether he can deduct any of the other expenses for business use of the home. If he cannot, he will carry them over to next year.

If line 13 is zero or less, enter zero. Deduct expenses for deductible home mortgage interest, qualified mortgage insurance premiums, real estate taxes, casualty losses, and any business expenses not attributable to use of the home on the appropriate lines of the schedule(s) for Form 1040.

Illustration 1-A (continued)

Lines 14 – 22. On lines 14 through 19, enter the otherwise nondeductible expenses for the business use of the home. These include utilities, insurance, repairs, and maintenance. If the taxpayer rents, report the amount paid on line 16. If he filed Schedule F, include any part of his home mortgage interest that is more than the limits given in Publication 936. (If he is an employee, do not enter any excess home mortgage interest or qualified mortgage insurance premiums.) In column (a), enter the expenses that benefit only the business part of the home (direct expenses). In column (b), enter the expenses that benefit the entire home (indirect expenses). Multiply line 20, column (b) by the business-use percentage and enter this amount on line 21.

If the taxpayer claimed a deduction for business use of his home on his 2008 tax return, enter the amount from line 39 of his 2008 worksheet on line 22.

Lines 25 – 30. On lines 25 through 30, figure the limit on deductions for excess casualty losses and depreciation. On line 26, figure the excess casualty loss by multiplying the business use percentage from line 3 by the part of casualty losses that would not be allowable if the taxpayer did not use his home for business (\$100 plus 10% of the adjusted gross income). On line 27, enter the depreciation deduction from Part 3. If he claimed a deduction for business use of his home on his 2008 tax return, enter on line 28 the amount from line 41 of the 2008 worksheet. On lines 29 and 30, figure the allowable excess casualty losses and depreciation.

Lines 31 – 33. On line 31, total all allowable business use of the home deductions.

Note: Line 31 says “Add lines 10, 24 and 30.” If the taxpayer is an employee or partner, refer back to the **Deducting Expenses** section earlier in this chapter. Note that line 10 is the sum of certain expenses which are deductible whether or not the taxpayer uses his home for business. They are used in the worksheet to determine the deduction limit. For an employee or partner, these expenses should not be included in the amount entered on Form 2106 line 4, they should be claimed in full on appropriate lines of Schedule A. If the taxpayer files Schedule F, he is reporting profit or loss from farming and special rules apply; they are beyond the scope of this course and will not be discussed further.

On line 32, enter the total of the casualty losses shown on lines 10 and 30. Enter the amount from line 32 on line 27 of Form 4684, *Casualties and Thefts*, Section B. See the instructions for Form 4684 for more information on completing that form.

Line 33 is the total (other than casualty losses) allowable as a deduction for business use of a home. If the taxpayer files Schedule F (Form 1040), enter this amount on line 34 of Schedule F and write “Business Use of Home” on the line beside the entry. Do not add the specific expenses into other line totals of Part II of Schedule F.

Part 3 — Depreciation of A Home

Figure the depreciation deduction on lines 34 through 39. On line 34, enter the smaller of the adjusted basis or the fair market value of the property at the time the taxpayer first used it for business. Do not adjust this amount for changes in basis or value after that date. Allocate the basis between the land and the building on lines 35 and 36. The taxpayer cannot depreciate any part of the land. On line 38, enter the correct percentage for the current year from the tables in Publication 946. Multiply this percentage by the business basis to get the depreciation deduction. Enter this figure on lines 39 and 27. Complete and attach *Form 4562* to the return if this is the first year the taxpayer used his home, or an improvement or addition to his home, in business. Please note that the taxpayer does NOT have to take the depreciation deduction when filing for “Business Use of Home”; there are conditions when it may not be to their advantage.

Part 4 — Carryover of Unallowed Expenses to Next Year

Complete these lines to figure the expenses that must be carried forward to next year.

Example – Michael is employed as an outside salesman. His employer's home office is located 94 miles from his residence. He maintains an office in one room of his apartment for the convenience of his employer. He completes administrative paper work in his home office and makes telephone calls to set up appointments with perspective clients. The apartment has 1,020 square feet and the room that he uses for the office is 156 square feet.

Michael's expenses include:

Electric	\$ 645	Gas heat	\$ 340
Renters insurance	575	Apartment rent	10,200
Second phone line for office	180	Office supplies	76
Miles	25,455 miles		

Michael's W-2 shows his gross income from his business as a salesman was \$21,450. This figure will be entered on Line 4 of the worksheet.

To determine the amount to be entered on Line 11, you must first determine all of his business expenses which do not relate to his home office. In this example, that would be his mileage.

25,455 miles @ .55 = \$14,000
\$14,000 - will be entered on Line 11.

If Michael had other business expenses such as meals or overnight travel, this would be included in the total on Line 11.

The expense of the second phone line and the office supplies is exclusive to the office. Therefore these are Direct Expenses.

Worksheet to Figure the Deduction for Business Use of Your Home

(Use this worksheet if you file Schedule F (Form 1040) or you are an employee or a partner)

Part 1 – Part of Your Home Used for Business

- | | |
|---|------------------|
| 4. Area of home used for business | 1. <u>156</u> |
| 5. Total area of home | 2. <u>1,020</u> |
| 6. Percentage of home used for business (divide line 1 by line 2) and show result as percentage with 2 places after the decimal point (i.e. 17.86%) | 3. <u>15.29%</u> |

Part 2 – Figure Your Allowable Deduction

- | | | |
|--|---------------------|-----------------------|
| 4. Gross income from business (see instructions) | | 4. <u>21,450</u> |
| | (a) Direct Expenses | (b) Indirect Expenses |
| 5. Casualty losses | 5. _____ | _____ |
| 6. Deductible mortgage interest and qualified mortgage insurance premiums | 6. _____ | _____ |
| 7. Real estate taxes | 7. _____ | _____ |
| 8. Total of lines 5 through 7 | 8. _____ | _____ |
| 9. Multiply line 8, column (b), by line 3 | | 9. _____ |
| 10. Add line 8, column (a), and line 9 | | 10. _____ |
| 11. Business expenses not from business use of home (see instructions) | | 11. <u>14,000</u> |
| 12. Add lines 10 and 11 | | 12. <u>14,000</u> |
| 13. Deduction limit. Subtract line 12 from line 4 | | 13. <u>7,450</u> |
| 14. Excess mortgage interest and qualified mortgage insurance premiums | 14. _____ | _____ |
| 15. Insurance | 15. _____ | <u>575</u> |
| 16. Rent | 16. _____ | <u>10,200</u> |
| 17. Repairs and maintenance | 17. _____ | _____ |
| 18. Utilities | 18. <u>180</u> | <u>985</u> |
| 19. Other expenses | 19. <u>76</u> | _____ |
| 20. Add lines 14 through 19 | 20. <u>256</u> | <u>11,760</u> |
| 21. Multiply line 20, column (b) by line 3 | | 21. <u>1,798</u> |
| 22. Carryover of operating expenses from prior year (see instructions) | | 22. _____ |
| 23. Add line 20 column (a), line 21, and line 22 | | 23. <u>2,054</u> |
| 24. Allowable operating expenses. Enter the smaller of line 13 or line 23 | | 24. <u>2,054</u> |
| 25. Limit on excess casualty losses and depreciation. Subtract line 24 from line 13 | | 25. <u>5,396</u> |
| 26. Excess casualty losses (see instructions) | | 26. _____ |
| 27. Depreciation of your home from line 39 below | | 27. _____ |
| 28. Carryover of excess casualty losses and depreciation from prior year (see instructions) | | 28. _____ |
| 29. Add lines 26 through 28 | | 29. _____ |
| 30. Allowable excess casualty losses and depreciation. Enter the smaller of line 25 or line 29. | | 30. _____ |
| 31. Add lines 10, 24 and 30 | | 31. <u>2,054</u> |
| 32. Casualty losses included on lines 10 and 30 (see instructions) | | 32. _____ |
| 33. Allowable expenses for business use of your home. (Subtract line 32 from line 31.) See instructions for where to enter on your return. | | 33. <u>2,054</u> |

Part 3 – Depreciation of Your Home

- | | |
|---|------------|
| 34. Smaller of adjusted basis or fair market value of home | 34. _____ |
| 35. Basis of land | 35. _____ |
| 36. Basis of building (subtract line 35 from line 34) | 36. _____ |
| 37. Business basis of building (multiply line 36 by line 3) | 37. _____ |
| 38. Depreciation percentage (from applicable table or method) | 38. _____% |
| 39. Depreciation allowable (multiply line 37 by line 38) | 39. _____ |

Part 4 – Carryover of Unallowable Expenses to Next Year

- | | |
|--|-----------|
| 40. Operating expenses. Subtract line 24 from line 23. If less than zero, enter 0. | 40. _____ |
| 41. Excess casualty losses and depreciation. Subtract line 30 from line 29. If less than zero, enter 0 | 41. _____ |

Key Terms

Accountable plan: Employer reimbursement plans can be either accountable or nonaccountable. For more information, see Chapter 6 of Pub 463: Travel, Entertainment, Gift and Car Expenses.

ACRS: Accelerated Cost Recovery System (ACRS) is a method of depreciation that depreciates an asset using recovery periods instead of useful life.

Actual auto expense: Expense incurred by the taxpayer during the course of conducting his trade or business. Instead of using the standard mileage rate, the taxpayer deducts the actual cost of operating his vehicle for business.

Business mileage: Mileage traveled by a taxpayer during the course of conducting his trade or business. The taxpayer must use a vehicle that he owns or leases.

Commuting mileage: Mileage traveled from home to work or from work to home.

Depreciation: A method of recovering the cost of an asset over the assets useful life or recovery period.

Direct expenses: Expenses incurred only as a result of conducting business in the home

Exclusively: Must be used for business purposes only.

Indirect expenses: Expenses for running the entire home.

MACRS: Modified Accelerated Cost Recovery System (MACRS) is a method of depreciation that replaced the Accelerated Cost Recovery System (ACRS). The asset is depreciated over a longer life than with ACRS.

Necessary expense: An expense that is appropriate and helpful to the taxpayer's trade or business.

Ordinary expense: An expense that is common and accepted in the taxpayer's trade or business.

Standard mileage rate: A rate at which a taxpayer deducts business use of his vehicle. The Internal Revenue Service predetermines the rate per mile. For 2009 the standard mileage rate is \$.55 per mile.

Section 179-expense deduction: Allows immediate expensing of tangible person property. (Limits apply and are adjusted annually.)

Straight-line: A method of depreciation whereby the cost of the asset is divided by its useful life in order to obtain the annual expense.

Regularly: Must be used on more than an occasional basis.

Principal Place of Business: Place where a taxpayer conducts most of his business the majority of the time.

Tax home: An individual's main or regular place of business.

Unrelated expenses: Expenses incurred for anything not used for business.

Student Note: Please be certain to study your Reading Assignment for Chapter 1.

- Pub 17 – Part Five, Chapter 26, *Car Expenses and Other Employee Business Expenses*, pages 178-196
- Pub 17 – Part Five, Chapter 27, *Tax Benefits for Work-Related Education*, pages 197-200
- Pub 17 – Part Five, Chapter 28, *Miscellaneous Deduction*, pages 201-206
- Pub 17 – Part Five, Chapter 29, *Limit on Itemized Deductions*, pages 207-208

Chapter 1: Review Questions

1. Jamie is a nurse at a local hospital. Last year she started a second job as a nurse who visits homebound patients. She incurs many expenses in her new job which she is not certain whether or not she can deduct. Which of the following statements is **false**?

Employee business expenses are:

- a) Expenses incurred by an employee for his job that are unreimbursed.
 - b) Unreimbursed expenses that are paid and incurred during the current tax year.
 - c) Expenses that are ordinary and necessary for the taxpayer to perform his job.
 - d) Fully deductible on IRS Form 1040, Schedule A.
2. Some of Jamie's expenses were those she had previously when she worked at the hospital. However, there are some additional expenses from her new job. Which of the following is listed **incorrectly** as an example of employee business expenses?
- a) Commuting mileage to and from home and the taxpayer's regular place of work.
 - b) Union dues.
 - c) Licenses.
 - d) Professional memberships.
3. Jamie uses her own vehicle when driving to and from the home of her patients. She is required to keep a record of her mileage. Which of the following would be an exception to the information she is required to keep for her mileage records?
- a) Beginning & ending mileage.
 - b) Commuting mileage.
 - c) Business mileage.
 - d) Dates of tire changes.
4. Jamie's tax preparer tells her she can choose between two methods to claim the expenses from using her own vehicle for work. One method is standard mileage rate and the other is actual auto expense. Which of the following is **not** a requirement to be eligible to use the standard mileage rate?
- a) The taxpayer owns or leases the car.
 - b) The taxpayer must not use the car for hire.
 - c) The taxpayer must use another vehicle for personal use.
 - d) The taxpayer must have elected to use the standard mileage rate the first year the car was placed in service.
5. Jamie's tax preparer explains who may use the standard mileage rate. Which of the following is a scenario in which a taxpayer may use the standard mileage rate?
- a) Alternates use between any number of vehicles.
 - b) Is a rural mail carrier that receives a qualified reimbursement.
 - c) Ever claimed a section 179-expense deduction.
 - d) Ever used the modified accelerated cost recovery system (MACRS).

6. Jamie has found she's putting a lot more miles on her vehicle since she started her new job. In addition to the extra gas, she had to buy new tires, had her exhaust system repaired and she also pays tolls on some of the trips. Which of the following expenses may a taxpayer deduct if he uses the standard mileage rate?
- a) Gas.
 - b) Tires.
 - c) Repairs.
 - d) Tolls.
7. Because Jamie is incurring so many additional expenses she is considering using actual auto expenses instead of the standard mileage rate. She wants to make certain she includes everything allowable in her deduction. Which of the following unreimbursed business expense would be invalid if included in actual auto expenses?
- a) Garage rent.
 - b) Insurance.
 - c) Interest on a vehicle loan.
 - d) Licenses.
8. Matt works for a company which sells sports cards and other sports memorabilia. Because he is located in a different city than his employer he conducts his sales out of his home and has set aside a room for this purpose. Which of the following statements concerning an office in the home is **incorrect**?
- a) Office in home is a deduction for the portion of the home used exclusively in connection with a business and on a regular basis.
 - b) The office must be maintained for the convenience of the employer.
 - c) The office in home must be the principal place of business or a place to meet clients and customers.
 - d) The expenses for office in home are deductible in full.
9. Matt is uncertain what expenses he might be able to claim as a deduction. He consults with his tax preparer for some guidance. Which of the following expense is unacceptable as a deductible office in home expense?
- a) Redecorating expenses for the guest room that is also used for an office.
 - b) Homeowner's insurance.
 - c) Utilities (electricity, water, etc).
 - d) Repairs.
10. Matt's tax preparer explains in order for Matt to be able to claim an office in home deduction he must meet the exclusive use test. Which of the following would fail to meet the exclusive use test for office in home?
- a) Storage of inventory.
 - b) Day care facilities.
 - c) An office that contains a computer that is used for business and is also used by the children to play computer games.
 - d) An area inside another room that is an identifiably separate space for an office.

11. Matt has a lot of inventory which he needs to store somewhere other than the room he's using as an office. Which of the following is listed **incorrectly** as a requirement that a taxpayer must meet to be eligible to deduct expenses for storage of inventory?
- a) Must keep the inventory or product samples for use in the taxpayer's trade or business.
 - b) The trade or business is the wholesale or retail sale of products.
 - c) The home is the only fixed location of the taxpayer's trade or business.
 - d) The storage space is used at least part-time to store inventory.
12. Matt's company is growing. They have an agreement with the local baseball team to set up a kiosk at the baseball stadium during home games and sell sports cards and other items. The company may ask Matt to spend some time working at the kiosk. In order for Matt to be able to continue to claim office in home he must meet the principal place of business test. Which of the following would be unsuccessful in satisfying the principal place of business test?
- a) The taxpayer uses the office regularly for administrative or management activities for his trade or business.
 - b) The taxpayer uses the office exclusively for administrative or management activities for his trade or business.
 - c) There is no other fixed location where the taxpayer conducts substantial administrative or management activities of the trade or business.
 - d) The taxpayer maintains an office at the employer's place of business and meets clients at his home office as needed.
13. Matt's tax preparer has explained there are both direct and indirect expenses for office in home. Which of the following would be listed **incorrectly** as an indirect expense of office in home?
- a) Homeowners' association dues.
 - b) Insurance rider for the business.
 - c) Utilities.
 - d) HVAC system repair.
14. Matt understands he can also depreciate the area of his home he is using as a home office. He is trying to gather all the information he needs to be able to calculate the depreciation. Which of the following information is unnecessary to calculate depreciation expenses for his home office?
- a) The month and year the taxpayer began using the home for business.
 - b) The adjusted basis and fair market value of the home at the time the taxpayer began using it for business.
 - c) The cost of improvements before and after the taxpayer began using the home for business.
 - d) The date of purchase.

15. Jonah lives in Detroit where he has a job in the music industry. Last year he became more involved with country music and spent 4 months in Nashville working with a recording company there. Approximately 70% of his income was earned at his job in Detroit. Jonah understands in order to determine if he is eligible to deduct his travel expenses he must establish where his tax home was located. Which of the following is listed **incorrectly** as criteria for a tax home?
- a) The taxpayer's vehicles are registered in the same area that he conducts business.
 - b) Part of his business is in the area of his main home and he uses that home for lodging while doing business there.
 - c) Living expenses at the main home are duplicated because the taxpayer's business requires that he be away from home.
 - d) The taxpayer has not left the area in which both his traditional place of lodging and his main home are located; or he had a member or members of his family living at that main home; or he often uses that home for lodging.

Chapter 1: Learning Activity

1. Complete Form 2106 utilizing the method most beneficial to Mary Warden. Fill out both auto sections and then choose the better one for the Step I Line 1 figure of the Form 2106.

Mary S. Warden (SSN 220-45-6789) is an outside salesperson.

She incurred the following expenses:

Parking fees	\$ 50	Gas, Oil, Repairs	\$3,789
Travel expenses (while away from home overnight)	\$569	Car Rentals (while away from home overnight)	\$ 149
Office supplies	\$129		
Business meals	\$475		
Long distance calls	\$155		

Her car was placed in service February 1, and she drove it a total of 30,000 miles, of which 25,000 was for business use. She commuted 5 miles per day, round trip, for a total of 250 days. She keeps a written record of her mileage. The auto cost \$15,544. She was reimbursed, under her employer's accountable plan, \$100 per month to cover auto expenses, and this is not included in her taxable wages on her Form W-2. Ms. Warden has another vehicle available for personal use.

Because we have not yet studied depreciation, the information for lines 31, 33 and 36 of Form 2106 is listed below.

Line 31-	Blank, not applicable to this taxpayer
Line 33-	MACRS – 200 DB 20%
Line 36-	\$2,960

Complete returns for the following scenarios.

2. Charles M. Carpenter, (SSN 423-45-6789) age 43, DOB: 4/26/66, is single and lives at 1429 Paxton Ave., Your City, Your State – Your Zip. He does not wish to designate \$3 of his taxes for the Presidential Campaign Fund.

He is employed as an outside salesman. His employer’s home office is located 175 miles from Charles’ residence. He maintains an office in one room of his apartment for the convenience of his employer. He completes administrative paper work in his home office. The apartment has 960 square feet and the room that he uses for the office is 150 square feet.

His 2008 state refund was \$235 (he itemized in 2008). Charles did not receive an economic stimulus payment in 2009. Other financial data follows.

Expenses:

Electric	\$ 998	Health insurance	\$1,529
Dr. Brown	\$ 650	(not pre-tax)	
Renters insurance	\$ 390	Dentures	\$1,255
Per. Prop. Tax	\$ 296	Apt. rent	\$9,900
Business tolls	\$ 68	Business meals	\$ 845
1 st Baptist Church	\$2,500	Car loan interest	\$3,286
Dr. Alonzo	\$ 225	Dr. Neblett	\$ 325
Glasses	\$ 225	Tax prep fee	\$ 435
Business expenses	\$ 725	Medical miles	600 miles
Travel expenses	\$1,280	Dr. Lawton	\$ 100
(away from home)			

Charles elected to use the standard mileage rate for his auto. He placed the car in service 2/8/2009 and drove it 36,850 miles. His business mileage was 36,850. There were no commuting miles. He keeps a written record of his mileage. He owns another vehicle which he uses for personal use. He was reimbursed \$1,200 that was not included in his wages. None of this was for meals.

What forms are necessary to complete Mr. Carpenter’s return?

Can Mr. Carpenter take an office-in-home deduction?

1 Wages, tips, other comp. 61315.00		2 Federal income tax withheld 7357.80	
3 Social security wages 66220.00		4 Social security tax withheld 4105.64	
5 Medicare wages and tips 34794.00		6 Medicare tax withheld 960.19	
d Control number	Dept.	Corp.	Employer use only
c Employer's name, address and ZIP code Jobs Inc. 22 Waters Ln. Your City, Your State – Your ZIP			
b Employer's FED ID number 53-6231161		a Employee's SSA number 423-45-6789	
7 Social security tips		8 Allocated tips	
9 Advance EIC payment		10 Dependent care benefits	
11 Nonqualified plans		12a See instructions for box 12 D 4905.00	
14 Other		12b	
		12c	
		12d	
		13	Stat. emp.	Ret. plan X	3rd party sick pay
e/f Employee's name, address and ZIP code Charles Carpenter 1429 Paxton Ave. Your City, Your State – Your ZIP			
15 State YS	Employer's state ID no. 53-6231161	16 State wages, tips, etc. 66220.00	
17 State income tax 3311.70		18 Local wages, tips, etc.	
19 Local income tax		20 Locality name	
<p>Federal Filing Copy</p> <p>W-2 Wage and Tax Statement 2009</p> <p>OMB No. 1545-0008</p> <p>Copy B to be filed with employee's Federal Income Tax Return</p>			

NATIONSBANK of VA

Combined Tax Information



If you have any questions regarding this information, please contact your *NATIONSBANK of VA* Representative at toll free 1-800-555-5527.

Recipient Information:

CHARLES CARPENTER
1429 PAXTON AVE
Your City, Your State – Your Zip

423-45-6789

THIS IMPORTANT TAX INFORMATION IS BEING FURNISHED TO THE IRS. IF YOU ARE REQUIRED TO FILE A RETURN, A NEGLIGENCE PENALTY OR OTHER SANCTION MAY BE IMPOSED ON YOU IF THIS ITEM(S) IS REQUIRED TO BE REPORTED AND THE IRS DETERMINES THAT IT HAS NOT BEEN REPORTED.

<u>1099-INT TYPE</u>	<u>ACCOUNT NUMBER</u>	
1099-INT Type Money Market Box 1	850079667 INTEREST INCOME	\$867.15
CD Box 1	8500741674 INTEREST INCOME	\$840.60
	TOTAL INTEREST	\$1,707.75
INTEREST REPORTED TO THE IRS		\$1,707.75

ADDITIONAL TAX INFORMATION MAY FOLLOW IF YOU HAVE INVESTMENT ACCOUNTS, TRUST ACCOUNTS, OR COLLECTION NOTES WITH *NATIONSBANK of VA*. YOUR TAX INFORMATION WILL BE REPORTED ONCE TO THE IRS FOR EACH ACCOUNT.

FEIN- 16-6953321
2009 SUBSTITUTE 1099-INT

3. Reuben (SSN: 663-42-7815; age 44, DOB 2/2/65) and Deborah Goldstein, (SSN: 433-62-5612; age 48, DOB 8/15/61) are married and live at 3548 Sunflower Lane, Your City, Your State – Your Zip. Their daughter Lilith (SSN: 478-52-1466; age 16, DOB 6/24/93) lives with them. Reuben and Deborah did not receive an economic stimulus payment in 2009.

Reuben does not wish to designate \$3 of his taxes for the Presidential Campaign Fund, but Deborah does.

Reuben is a teacher at the local high school and spent \$652 toward supplies for his classroom. Deborah works for a company as a medical transcriptionist from home because the company does not have enough office space for all of its employees. She uses a room in their apartment as her office. The apartment has 1,240 square feet and the room that she uses for the office is 168 square feet.

Reuben has a part-time job on the weekends as a courier. He uses his own vehicle and had 6,254 business miles. He drove the car a total of 19,640 miles and 440 miles were for commuting, 11 miles per day. Reuben put his car into service on June 15, 2008 and chose to use the standard mileage rate for his vehicle. He keeps a written record of his mileage. They have another car which they can also use.

Expenses:

Electric	\$ 348	Water/sewer	\$ 195
Gas heat for apartment	\$ 720	Office supplies (Deborah)	\$ 372
Renters insurance	\$ 624	Eyeglasses	\$ 426
Personal Property Tax	\$ 328	Apartment rent	\$12,600
Road tolls (Reuben - courier)	\$ 72	Contact lenses	\$ 368
Shalom Synagogue	\$3,200	Car loan interest	\$ 3,286
Tax prep fee	\$ 275	Doctors	\$ 725
Second phone line for office	\$ 329	Dentist	\$ 580
Medical miles	400 miles		

Department of Taxation P.O. Box 1000 Your City, Your State – Your ZIP Federal I.D. #54-6005523		← PAYER'S name, address, ZIP code and federal identifying number	OMB No. 1545-0120 OMB No. 1545-0112 Statement for Recipients of Certain Government Payments Including Interest Income	2009 Copy B For Recipient
Recipient's Identifying Number 663-42-7815	1. Income Tax Overpayment and/or Refund \$324.00		2. Interest Paid on Tax Refund \$	3. Taxable Year 2009
REUBEN AND DEBORAH GOLDSTEIN 3548 SUNFLOWER LANE YOUR CITY, YOUR STATE – YOUR ZIP This information is being furnished to the Internal Revenue Service.			THIS FORM TAKES THE PLACE OF FEDERAL FORMS 1099-G AND 1099-INT	
THIS IS NOT A BILL Box 1 – Shows TOTAL OVERPAYMENT before credits, refunds, contributions, consumer's use tax payments and offsets of state and local income tax for a previous tax year. Any refund or overpayment for this amount should have previously been issued or credited to our account. If there is an entry in this box, that amount may be taxable on your federal return if you deducted the tax paid as an itemized deduction for that year. See the instructions for Forms 1040 or 1040-A for more information. Box 2 – Amount of interest paid on tax refunds. This amount should be reported on your federal return. Box 3 – This identifies the tax year of the refund shown in Box 1. Instructions to 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.				

a Control number	1 Wages, tips, other compensation \$44754.00	2 Federal income tax withheld \$4922.94	
OMB No. 1545-0008	3 Social security wages \$48654.00	4 Social security tax withheld \$3016.55	
b Employer identification number 52-4517615	5 Medicare wages and tips \$48654.00	6 Medicare tax withheld \$705.48	
c Employer's name address and ZIP code Charles County Public Schools 2100 St. Croix Blvd Your City, Your State – Your ZIP			
e Employee's first name and initial Reuben		Last name Goldstein Suff.	
3548 Sunflower Lane Your City, Your State – Your ZIP			
f Employee's address and ZIP code			
d Employee's SSN 663-42-7815	7 Social Security tips	8 Allocated tips	
9 Advance EIC payment	10 Dependent care benefits	11 Nonqualified plans	
12a D	\$3900.00	14	
12b			
12c			
12d			
13 Statuary employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	
15 State YS	Employer's state ID number 52-4517615	16 State wages, tips, etc. \$44754.00	17 State income tax \$2919.24
18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
Form W-2 Wage and Tax Statement 2009 Copy B to be filed with employee's Federal Income Tax Return			
This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			

a Control Number		OMB No.1545-0008					
b Employer Identification Number 53-0658111			1 Wages, tips, other compensation 40935.00			2 Federal Income Tax Withheld 4502.85	
c Employer's name, address, and zip code MT Professionals P.O. Box 6283 Your City, Your State – Your Zip			3 Social Security wages 43680.00			4 Social Security tax withheld 2708.16	
			5 Medicare wages and tips 43680.00			6 Medicare tax withheld 633.36	
			7 Social Security tips			8 Allocated tips	
d Employee's Social Security Number 433-62-5612			9 Advanced EIC payments			10 Dependent care benefits	
e Employee's first name and initial Deborah		Last name Goldstein	11 Nonqualified plans			12 a See instructions for box 12 D \$2745.00	
f Employee's address and ZIP code 3548 Sunflower Lane Your City, Your State – Your Zip			Statutory employee	Retirement plans X	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 53-0658111		16 State wages, tips, etc. 40935.00	17 State income tax 1637.40	18 Local wages, tips, etc.		19 Local income tax	20 Locality name

Form W-2 Wage and Tax Statement 2009 Copy B To Be Filed with Employee's FEDERAL Tax Return

a Control Number		OMB No.1545-0008					
b Employer Identification Number 43-0425658			1 Wages, tips, other compensation 5880.00			2 Federal Income Tax Withheld 646.80	
c Employer's name, address, and zip code Ace Courier Services 8400 Shenandoah Drive Your City, Your State – Your Zip			3 Social Security wages 5880.00			4 Social Security tax withheld 364.56	
			5 Medicare wages and tips 5880.00			6 Medicare tax withheld 85.26	
			7 Social Security tips			8 Allocated tips	
d Employee's Social Security Number 663-42-7815			9 Advanced EIC payments			10 Dependent care benefits	
e Employee's first name and initial Reuben		Last name Goldstein	11 Nonqualified plans			12 a See instructions for box 12	
f Employee's address and ZIP code 3548 Sunflower Lane Your City, Your State – Your Zip			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 43-0425658		16 State wages, tips, etc. 5880.00	17 State income tax 117.60	18 Local wages, tips, etc.		19 Local income tax	20 Locality name

Form W-2 Wage and Tax Statement 2009 Copy B To Be Filed with Employee's FEDERAL Tax Return

PAYER'S name, street address, city, state, ZIP code, and telephone no. FIDELITY CLEARINGHOUSE 657 W. MAIN ST. Your City, Your State – Your Zip		1a Ordinary dividends \$ 654.28	OMB No. 1545-0110 2009 Form 1099-DIV	Dividends and Distributions
		1b. Qualified dividends \$		
		2a. Total capital gain distr. \$	2b. Unrecap. Sec. 1250 gain . \$	Copy B For Recipient
PAYER'S Federal identification number 12-2611473	RECIPIENT'S identification number 663-42-7815			
RECIPIENT'S name Reuben Goldstein Street address (including apt. no.) 3548 Sunflower Lane City, state, ZIP code Your City, Your State – Your Zip		2c Section 1202 gain \$	2d. Collectibles (28%) gain \$	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.
		3. Nontaxable distributions \$	4. Federal income tax withheld \$	
			5. Investment expenses \$	
		6. Foreign tax paid \$	7. Foreign country or U.S. possession \$	
Account number (optional)		8. Cash liquidation distributions \$	9. Noncash liquidation distributions \$	

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. First City Bank P.O. Box 300 Your City, Your State – Your ZIP		Payer's RTN (optional)	OMB No. 1545-0115 2009 Form 1099-INT	Interest Income
		1 Interest income \$ 83.27		
		2 Early withdrawal penalty \$		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.
PAYER'S federal identification number 66-5000682	RECIPIENT'S identification number 663-42-7815	3 Interest on U.S. Savings bonds and Treas. Obligations \$		
RECIPIENT'S name Reuben and Deborah Goldstein Street address (including apt. no.) 3548 Sunflower Lane 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	
Account number (see instructions)		8 Tax-exempt interest \$	9 Specified private activity bond interest \$	

Chapter 1: Learning Activity Questions

1. Answer the following question based on the scenario for Mary Warden and Form 2106:

If you choose to use the Actual Expenses for Mary's car, select her vehicle expense from Part II Section C Line 29?

- A) \$ 5,624
- B) \$ 3,157
- C) \$13,665

2. Answer the following question based on the scenario for Mary Warden and Form 2106:

If you choose to use the Standard Mileage Rate for Mary's car, select her vehicle expense from Part II Section B Line 22c?

- A) \$ 5,624
- B) \$12,625
- C) \$13,750

3. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select Mary's total expenses on Line 6 Column A:

- A) \$14,802
- B) \$13,665
- C) \$14,677

4. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select Mary's meals from Line 9 Column B?

- A) \$238
- B) \$380
- C) \$475

5. Answer the following question based on the scenario for Mary Warden and Form 2106:

Select the total amount of employee business expenses which should be transferred to Form 1040 Schedule A:

- A) \$13,805
- B) \$14,092
- C) \$13,940

6. Answer the following question based on the tax return you prepared for Charles Carpenter:

Which form did you use to file the Carpenter return?

- A) 1040
- B) 1040A
- C) 1040EZ

7. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select total wages:

- A) \$63,023
- B) \$63,258
- C) \$61,315

8. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select total income:

- A) \$63,258
- B) \$61,315
- C) \$63,023

9. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the Adjusted Gross Income (AGI):

- A) \$63,258
- B) \$61,315
- C) \$63,023

10. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the standard/itemized deductions:

- A) \$28,310
- B) \$28,183
- C) \$27,664

11. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total taxable income:

- A) \$34,948
- B) \$31,298
- C) \$31,289

12. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the tax from the Tax Tables:

- A) \$4,247
- B) \$4,919
- C) \$4,274

13. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total tax:

- A) \$4,247
- B) \$4,919
- C) \$4,274

14. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the total tax withheld:

- A) \$7,758
- B) **\$7,358**
- C) \$6,958

15. Answer the following question based on the tax return you prepared for Charles Carpenter:

Select the refund:

- A) **\$3,484**
- B) \$3,084
- C) \$3,884

16. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Which form did you use to file the Goldstein return?

- A) 1040
- B) 1040A
- C) 1040EZ

17. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select total wages:

- A) \$91,569
- B) \$92,630
- C) \$85,689

18. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select total income:

- A) \$91,569
- B) \$92,630
- C) \$92,306

19. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the Adjusted Gross Income (AGI):

- A) \$92,630
- B) \$92,380
- C) \$91,978

20. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the standard/itemized deductions:

- A) \$10,900
- B) \$12,747
- C) \$12,805

21. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total taxable income:

- A) \$70,980
- B) **\$68,625**
- C) \$69,133

22. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the tax from the Tax Tables:

- A) \$ 9,531
- B) \$10,431
- C) \$ 9,969

23. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total tax:

- A) \$8,831
- B) \$9,531
- C) \$9,869

24. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the total tax withheld:

- A) \$ 9,426
- B) \$10,873
- C) \$10,073

25. Answer the following question based on the tax return you prepared for Reuben and Deborah Goldstein:

Select the refund:

- A) \$1,542
- B) \$2,342
- C) \$3,142

APPENDIX



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF PROFESSIONAL RESPONSIBILITY

MAR - 9 2009

Peoples Income Tax, Inc., DBA The Income Tax School
Attn: Sheila A. Clark, Director of Operations
1801 Libbie Avenue, Suite 100
Richmond, VA 23226

Dear Ms. Clark:

We have approved your request for renewal of your agreement to be a qualified sponsor of continuing professional education for Enrolled Agents. Your agreement is effective through September 30, 2011. You must reapply for renewal between May 1, and July 31, 2011.

You have been assigned a sponsor number which appears in the upper right-hand corner of your sponsor agreement (Form 8498). Please provide this number to individuals participating in your program or who are interested in participating. You should also refer to this number when corresponding with the Office of Professional Responsibility. This agreement will cover all of your programs through September 30, 2011.

The Office of Professional Responsibility may review the continuing education records of qualified sponsors to determine compliance with the requirements and standards for renewal of enrollment, as provided for in Section 10.6(g) of Treasury Department Circular No. 230. It is your responsibility to ensure that the material meets the requirements of Cir. 230.

We hope you will continue to help us in maintaining the high standards of tax practice established by this program. If you should have any questions, please contact Mike Hahn at (202) 622-6750.

Sincerely,

Nadine F. McPhail
Chief, Case Development & Licensure Branch
Office of Professional Responsibility

Enclosure



January 27, 2010

Sheila Clark
Peoples Income Tax School
1801 Libbie Avenue, Suite 100
Richmond, VA 23226

Peoples Income Tax School has been approved for the following delivery method(s): Group Live, Self-Study. Your registration is effective: October 01, 2009 - September 30, 2010. Your sponsor identification number is: **103388**. Thank you for your continued participation as a sponsor on the National Registry of CPE Sponsors (Registry).

Your approval is based upon the material submitted during your renewal process. It is imperative that your organization makes every effort to comply with the standards and requirements of the National Registry of CPE Sponsors. Failure to implement the corrections may prevent your organization from future registration.

Your status as a registered sponsor affirms your commitment to adhere to standards for the delivery of high quality continuing professional education. You are not required to provide us with any additional program information during your registration period, unless the amount of programs you offer exceeds your approved limit of **25** programs.

It is important for you to keep us informed of any significant changes to your organization. Sponsors are required to notify the NASBA Registry, in writing, of any changes in address, telephone/fax numbers, contact person and the organization's name or status no later than 30 days after such changes occur.

As a registered sponsor, your name and address ^{Complete for worksheet purposes only.} will be listed on a registry that is distributed to state boards of accountancy and made available to licensed accountants across the country. Your Web site address can appear with your listing on the Registry on NASBA's homepage by submitting the enclosed form with a one-time \$100.00 connection fee.

Sponsors may also register and list individual courses on our CPE course marketing website: www.cpemarket.com which is a one-stop resource offering the following benefits:

- Provides a search-engine for CPAs to find specific CPE courses;
- Identifies NASBA-approved sponsors;
- Discounted rates for available for current Sponsors;

If you have any questions or concerns, please contact any member of the CPE department at (866) 627-2286.

Sincerely,

Carla Blake, CPA
Compliance Manager, Sponsor Services



August 4, 2008

Sheila Clark
Peoples Income Tax, Inc.
1801 Libbie Avenue, Suite 100
Richmond, VA 23226

To Ms. Clark:

We have received and reviewed your provider application submitted for periodic review. In accordance with the standards, guidelines and procedures of the California Tax Education Council (CTEC) and based on the information in your application, the curriculum reviewer has recommended:

Approval of the application, as a contact, distance and interactive learning courses Qualifying & Continuing Education.

- Your CTEC Provider number is **1071**.
- You are authorized to offer **Qualifying & Continuing Education (all formats)**.
- This approval automatically expires on **June 30, 2011**.

You will receive notification 30 days prior to your next periodic review. Thank you for maintaining high standards for education.

Maintaining your status as an approved provider is dependent upon you conforming to the policies, procedures and standards of the California Tax Education Council, including Chapter 14 (Sections 22250-22259) of the California Business and Professions Code, which can be found on our website.

You must submit a course report form and student list within 45 days of the conclusion of each course you offer. You can submit this information by completing the appropriate forms or electronically on our website.

If you have any questions not covered in this mailing, please contact us. We look forward to working with you to implement, enhance and enforce meaningful guidelines for the education of tax preparers.

Sincerely,

Frank Cabrera
Curriculum Provider Standards Committee, Chair
The California Tax Education Council



Career School License

Oregon Department of Education

This is to certify that

The Income Tax School
1801 Libbie Ave, Suite 100
Richmond, VA 23226

has been duly licensed as provided by Chapter ORS 345
to conduct a private career school for one year.

Beginning: 6/1/2009

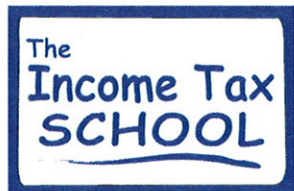
Ending: 6/1/2010

and to offer to teach and train students in the following programs:

Oregon Comprehensive Income Tax Course

This license does not constitute endorsement by
the Oregon Department of Education.

This license may be suspended or revoked at any time for cause.



Company/ School Name
Company/ School Address

Certificate of Completion

This certificate is presented to

Student's Name

for successfully completing

The Comprehensive Income Tax Course

Field of Study: Taxation

Number of hours: 60 Date of Completion: _____

Instructional delivery method: Online

Instructor