



4491X

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

2012 RETURNS



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



Publication 4491X – 2012 Supplement

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Introduction

This supplement contains pen and ink changes to the:

- Training Guide (Publication 4491)
- Problems and Exercises (Publication 4491W)
- Volunteer Resource Guide (Publication 4012)
- Volunteer Site Coordinator's Handbook (Publication 1084)
- Instructor Guide (Publication 4555E)
- Volunteer Assistor's Test/Retest (Form 6744)
- Link & Learn Taxes (L<)

These are the same changes that were included in the 2011 Publication 4491-X. This supplement also contains tax law updates for 2012 that were known as of January 4, 2013.

These changes impact all of the VITA/TCE courses. VITA/TCE tax preparers must review this supplement before assisting taxpayers with tax law questions or preparing their returns. Quality reviewers must also review this document before performing quality reviews.

TIP

The answers to the comprehensive problems and exercises in Publication 4491W can be accessed under Other Technical Resources and Training Products on the Volunteer Training Resources page on www.irs.gov.

TIP

Blank forms are no longer printed in the training publications. Blank forms can be accessed at www.irs.gov/formspubs.

Pen and Ink Changes to the Printed Publications

Product	Page	Pen and Ink Changes
Technical Changes		
4491 4942 L< L<	10-9 1-9 Lesson 10, slide 37 COD, slide 24	The sample Form 8949 codes and explanations in the table published in the VITA/TCE training materials were from the DRAFT Instructions for Schedule D (and Form 8949). Changes were made to these codes and explanations. For a complete listing of the FINAL codes and explanations, see pages 30-31 of this supplement.
4491 L<	15-3 Lesson 15, slide 8	Replace the paragraph right above the tip box with the following: Be sure to note that the definition of qualified education expenses is different for the various education benefits. Qualified education expenses for ESAs and QTPs are summarized in Appendix B in the back of Publication 970. The details are outlined in the text of that publication.
4491W	124	Interview notes: add taxable social security benefits for prior years 2008–\$4,126; 2009–\$4,166; 2010–\$4,197
Non-technical Changes		
4491 L<	1-3 Lesson 1, slide 64	Under the heading “What other resources are available to help me learn?” add the following information: Finalized tax year 2012 blank forms can be accessed at: www.irs.gov/formspubs . Draft forms can be accessed at: www.irs.gov/app/picklist/list/draftTaxForms.html

Product	Page	Pen and Ink Changes
4491 L<	10-13 Lesson 10, slide 56	Under the heading “Who must report the sale of a home?” last bullet: delete the words “has a loss and”
4491	15-3	Under the heading “State Agency Payments for Child Care,” change the word “grandparents” to “family caregivers” in each instance.
4491	17-11	Second bullet, replace the words “It was” with “The qualified higher education expenses were”
4491 L<	20-10 Lesson 20, slides 37-38	Under the heading “Noncash contributions less than \$250,” delete the word “each” in the first sentence and replace with the word “any.” Under the heading “Noncash contributions of at least \$250 but not more than \$500,” delete the word “each” in the first sentence and replace with the word “any.”
4491	20-10	Under the heading “Noncash contributions of more than \$500,” delete the existing sentence, replace with: Taxpayers with more than \$500 in total noncash contributions must file Form 8283 and should be referred to a professional tax preparer.
4491	23-3	Under the heading “Are any amounts excluded from qualified expenses?” at the end of the second paragraph, add: See Publication 970, examples 1 and 2 under the heading Adjustments to Qualified Education Expenses.
4491	27-7	Under the heading “Summary” second bullet, delete the words “and Medicare taxes.”
4491W	11	Form W-2 box 4 should read \$1,340.41.
4491W	42	Change the name from Colby to Alma under line 74a.
4491W	50	Form W-2 amount on 12-D should be 2,058.
4491W	64	Form W-2 amount on Hawthorn General line 6 should be \$545.52.
4491W	82	Form W-2 amount on Hayden Family Restaurant line 4 should be \$189.94.
4491W	87	Change: The amount in box 5 of Form CSA 1099-R was for an insurance premium.
4491W	91	Line 50, add “if applicable” to Complete Form 8880.
6744 4961	S-7 7	Under Volunteer Standards of Conduct number 5, 2nd paragraph, 2nd sentence, delete the words “for permanent residence” and “or not authorized to work in the United States under federal immigration law.” The sentence should read: An “unauthorized alien” is defined as an alien not lawfully admitted in the United States.
6744 4961	S-22 22	Form 13615, page 2 Under heading “Volunteer,” delete last sentence. Under heading “Privacy Act Notice,” add the following sentence to the end of the 2nd paragraph: Please note: Sponsoring organizations may perform background checks on their volunteers.

Product	Page	Pen and Ink Changes
6744	2-3	Interview notes, 5th bullet. Add the following: Noah received a scholarship from the college. The terms of the scholarship state that it must be used to pay qualified tuition.
L<	Lesson 6, student landing page	Make the following change to skill check question 4: 4. The member of household or relationship test must be met for a qualifying relative. A. True B. False
3189	11	Position Description, second paragraph. Delete first two sentences. FY13 Quality Updates removed the requirement to have Publication 3189 at the site.
L<	Foreign Student Course, Comprehensive Practice, slide 27	The feedback to the student on this slide indicates that \$3,700 is the standard deduction. This is incorrect. The \$3,700 is the personal exemption.
L<	Foreign Student Course, Residency Status Module, slide 17	The slide currently says: "Residency for a taxpayer who meets the 183-day substantial presence test begins the first day of the tax year the taxpayer was present in the U.S. and met the substantial presence test." Change to: "...the first day the taxpayer was present..." by removing the words "of the tax year."
4012 4555E	5 4	On the Scope of Service chart, change line 23 from "Reserved" to "Educator Expenses" and check boxes for Intermediate, Advanced, Military, and International.
4012 4555E	5 5	On the Scope of Service chart, change line 34 from "Reserved" to "Tuition and Fees" and check boxes for Intermediate, Advanced, Military, and International.
4012 4555E	5 5	On the Scope of Service chart, add line 52 "Residential Energy Credits" and check boxes for Intermediate, Advanced, Military, and International. Add Note 7: Limitation: Form 5695 Part II, Nonbusiness Energy Property Credit is in scope. Part I is out of scope.
4012	F-8	In step 4, add state and local general sales taxes to the list of taxes.
4012	F-9	In step 8, add the following: Select YES if you paid premiums in 2012 for qualified mortgage insurance for a home acquisition debt that was issued after 2006.
4012	G-6	Delete the information in the sixth bullet near the bottom of this page. Replace with the following: Distributions from a military retirement plan do not reduce the taxpayer's Qualified Retirement Savings Contributions.

Product	Page	Pen and Ink Changes
4012	2-18	In Instructions for Line 2, delete "(Expired – may be extended)."
4012	4-3	Delete "sales tax" under Schedule A Nondeductible Items.
4012	5-1	Insert the following: Form 5695, Residential Energy Credits. Link to Form 5695, complete Part II. Maximum credit is limited to \$500 claimed for all taxable years. Part I is out of scope.
4012	5-5	In the "Note" in the middle of this page, replace "2008" with "2009."
1084	21	Replace the first sentence in the last paragraph with: Partners are required to provide to their local SPEC Territory Office the completed Form 13206, or similar document containing the same information, by the third business day after the end of the month for all volunteers that worked at your site(s). However, Site Coordinators must have a process for validating every volunteer's certification levels.
1084	22	In QSR #6, this reference is incorrect: Publication 4146, Modernized e-File (MeF) Guide for Software Developers and Transmitters. The correct publication number is 4164.



Important Tax Law Changes for 2012

Due Date of Return

The due date for the US Individual Income Tax Return for Tax Year 2012 is April 15, 2013.

Wage Threshold for Household Employees

For 2012, the social security and Medicare wage threshold for household employees increases by \$100 to \$1,800. This means that taxpayers who paid a household employee cash wages of less than \$1,800 in 2012 do not have to report and pay social security and Medicare taxes on that employee's 2012 wages.

Income Limits Increased for Excluding Education Savings Bond Interest

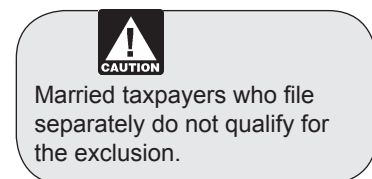
For 2012, the amount of the interest exclusion is phased out for Married Filing Jointly taxpayers or Qualifying Widow(er) taxpayers whose modified AGI is between \$109,250 and \$139,250. If the modified AGI is \$139,250 or more, no deduction is allowed.

For Single and Head of Household filing statuses, the interest exclusion is phased out for taxpayers whose modified AGI is between \$72,850 and \$87,850. If the modified AGI is \$87,850 or more, no deduction is allowed.

Standard Deduction Increases

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2012 are:

- \$11,900 – Married Filing Jointly or Qualifying Widow(er)
- \$8,700 – Head of Household
- \$5,950 – Single or Married Filing Separately



Taxpayers who are 65 and Older or are Blind

For 2012, the standard deduction for these taxpayers remains the same as last year:

- \$1,150 - Married Filing Jointly, Married Filing Separately, or Qualifying Widow(er)
- \$1,450 - Single or Head of Household

Extension of Temporary Decrease in Employee's Share of Payroll Tax

For 2012, social security tax is withheld from an employee's wages at the rate of 4.2% (down from 6.2%) up to the social security wage limit of \$110,100. There is no change to Medicare withholding.

The same reduction applies to net earnings from self-employment – the temporary rate is 10.4% (down from 12.4%) up to the social security wage limit of \$110,100. The method of figuring the deductible part of self-employment tax for adjusted gross income changed slightly.

Exemption Amount

The amount a taxpayer can deduct for each exemption increased to \$3,800 for 2012.

Retirement Savings Contribution Credit Income Limits Increased

In order to claim this credit, your MAGI must not be more than \$28,750 (\$57,500 if Married Filing Jointly; \$43,125 if Head of Household).

Earned Income Credit (EIC)

Amount of Credit Increased

For 2012, the maximum credit is:

- \$5,891 with three or more qualifying children
- \$5,236 with two qualifying children
- \$3,169 with one qualifying child
- \$475 with no qualifying child

Earned Income Amount Increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least \$1 but less than:

- \$45,060 (\$50,270 if Married Filing Jointly) with three or more qualifying children
- \$41,952 (\$47,162 if Married Filing Jointly) with two qualifying children
- \$36,920 (\$42,130 if Married Filing Jointly) with one qualifying child
- \$13,980 (\$19,190 if Married Filing Jointly) with no qualifying child

Investment Income

Taxpayers whose investment income is more than \$3,200 cannot claim the EIC.

Adoption Credit or Exclusion

The maximum adoption credit or exclusion for employer-provided adoption benefits has decreased to \$12,650 for 2012. To claim either the credit or exclusion, the taxpayer's MAGI must be less than \$229,710. For years beginning after 2011, the adoption credit is no longer refundable. This credit is outside the scope of the VITA/TCE Program.



Standard Mileage Rate

For 2012, the following rates are in effect:

- 55.5 cents per mile for business miles driven
- 23 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

Modified Adjusted Gross Income (AGI) Limit for Traditional IRA Contributions Increased

For 2012, if a taxpayer is covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than \$92,000 but less than \$112,000 for a married couple filing a joint return or a qualifying widow(er),
- More than \$58,000 but less than \$68,000 for a single individual or head of household, or
- Less than \$10,000 for a married individual filing a separate return

If only one spouse is covered by a retirement plan at work, and the taxpayers live together or file a joint return, the deduction is phased out if the modified AGI is more than \$173,000 but less than \$183,000. If the modified AGI is \$183,000 or more, no deduction for contributions to a traditional IRA is allowed.

Deduction for Student Loan Interest

For 2012, the \$2,500 maximum deduction for interest paid on qualified education loans phases out for taxpayers with MAGI in excess of \$60,000 (\$125,000 for joint returns) and is completely phased out for taxpayers with MAGI of \$75,000 or more (\$155,000 or more for joint returns).

Deductible Long-Term Care Premium Limits Increased

For 2012, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040) Itemized Deductions.

- \$350: age 40 or under
- \$660: age 41 to 50
- \$1,310: age 51 to 60
- \$3,500: age 61 to 70
- \$4,370: age 71 and over

A black square with the word "TIP" in white capital letters.

The limit on premiums is for each person.

Lifetime Learning Credit Income Limits Increased

The MAGI threshold at which the lifetime learning credit begins to phase out is \$52,000 (\$104,000 for Married Filing Jointly). To claim the credit, the taxpayer's MAGI must be less than \$62,000 (\$124,000 for Married Filing Jointly).

Social Security and Medicare Taxes

The maximum amount of wages subject to the social security tax for 2012 is \$110,100. There is no limit on the amount of wages subject to the Medicare tax.

Self-Employment Tax

Self-employment tax consists of two parts: social security and Medicare. The maximum amount of net earnings subject to the social security part of the self-employment tax for tax years beginning in 2012 is \$110,100. All net earnings of at least \$400 are subject to the Medicare part of the tax.



Foreign Earned Income and Housing Exclusions

For 2012, the maximum Foreign Earned Income Exclusion increased to \$95,100. The base housing amount increased to \$41.57 per day or \$15,216 for the entire calendar year.

Tax Forms and Schedules



Form W-2

The cost of employer-sponsored health coverage must be reported in box 12 using code DD. However, transitional relief applies to certain employers and certain types of plans. For 2012, this requirement is optional for smaller employers filing fewer than 250 Forms W-2. The amount reported with code DD is not taxable.

Schedule 8812

Form 8812, Additional Child Tax Credit, is obsolete. It has been replaced by Schedule 8812, Child Tax Credit. The new Schedule 8812 incorporates new questions in Part I for certain filers who have child dependents with an ITIN.



Form 8863

Form 8863, Education Credits, has been revised. Parts II and IV moved to page 1 and are renumbered as Parts I and II, and the old Part I is now Part III on page 2. Part III is for information regarding the student, the student's eligibility for a credit, and the educational institution(s). The form now requests additional information on page 2 for each student, in order to reduce invalid credit claims. After completing Part III for each qualified student, the credit calculation is completed on page 1, Parts I and II.



Form 8949

Changes have been made to Form 8949. The code column is now next to the adjustment column and a column for gain or loss has been added.

Link & Learn Taxes – Optional Courses

Health Savings Account (HSA) Deduction

The annual limit on deductions for HSAs has been increased to \$3,100 for self-only coverage and \$6,250 for family coverage.

Qualified HSA Distributions

Qualified HSA distributions, a one-time distribution from a flexible spending arrangement (FSA) or health reimbursement arrangement (HRA) of employer contributions to the HSA, are not allowed after December 31, 2011.





Lesson 1: Course Introduction

Identity Theft

This topic follows the text on page 1-5 and is also added to L<, slide 52, topic “Overview of the Identity Theft Program.”

Nationwide, identity theft continues to grow at an alarming rate. In 2004, the IRS developed a strategy to address the problem of identity theft-related tax administration issues. The IRS strategy continues to evolve, but is focused on three priorities that are fundamental to addressing this challenge: victim assistance, outreach, and prevention.

- Victim assistance: The IRS is working to speed up case resolution and provide more training for employees who assist victims of identity theft.
- Outreach: The IRS is educating taxpayers so they can prevent and resolve tax-related identity theft issues quickly.
- Prevention: The IRS is implementing new processes for handling returns, new filters to detect fraud, new initiatives to partner with stakeholders, and a continued commitment to investigate the criminals who perpetrate these crimes.

Refer to the IRS Identity Protection Home Page at <http://www.irs.gov/uac/Identity-Protection> to stay current on IRS efforts to combat this growing problem. A wide range of information on identity theft is presented, ranging from how to contact the IRS with a case of identity theft to tips for keeping taxpayer records safe.

How to assist taxpayers who may be victims of identity theft at VITA/TCE sites

Being sensitive towards victims of identity theft is critical to assisting taxpayers through a confusing and frustrating situation. Remember victims of identity theft are:

- Victimized by identity thieves – mostly through no fault of their own and
- Trying to comply with tax laws – file tax return and pay their fair share of taxes

Use the table below for guidance when assisting taxpayers who are victims or may be victims of identity theft at VITA/TCE site.

If...	Then...
IP PIN was issued to primary taxpayer	Ensure the IP PIN is input correctly on the tax return.
Taxpayer received an IP PIN but did not bring it with them.	<ol style="list-style-type: none"> 1. Complete tax return for the taxpayer. 2. Provide taxpayer with a complete copy of the tax return. (Provide two copies if the taxpayer will mail the tax return.) 3. If taxpayer wants to e-file, arrange for the taxpayer to provide the IP PIN by returning to the site or via telephone.
Taxpayer received an IP PIN but misplaced or lost it.	<ol style="list-style-type: none"> 1. Complete tax return for the taxpayer. 2. Provide taxpayer with a complete copy of the tax return. (Provide two copies if the taxpayer will mail the tax return.) 3. Advise the taxpayer to call the ID Theft Toll-free Hotline (800-908-4490). 4. If the taxpayer receives a replacement IP PIN and wants to e-file, arrange for the taxpayer to provide the IP PIN by returning to the site or via telephone.
Taxpayer did not receive IP PIN but IRS rejected the e-filed tax return because the IP PIN was not input.	<ol style="list-style-type: none"> 1. Advise the taxpayer to call the ID Theft Toll-free Hotline (800-908-4490). 2. Provide taxpayer with two complete copies of the tax return. 3. If IPSU provides the taxpayer the IP PIN and taxpayer wants to e-file, advise the taxpayer to provide the IP PIN by returning to the site or via telephone. 4. If IPSU don't provide the IP PIN, advise taxpayer to follow IPSU instructions in mailing the tax return. There may be processing delays as IRS verifies the taxpayer's identity.
IP PIN was not issued to the taxpayer but IRS rejected the taxpayer's tax return because the taxpayer's primary/secondary SSN was previously used.	<ol style="list-style-type: none"> 1. Advise the taxpayer to contact the IPSU for assistance. If required, the IPSU will advise the taxpayer to complete Form 14039 and to mail it with their tax return to the IRS. 2. Provide the taxpayers two copies of their tax return.

Note: If IPSU can validate the identity of the taxpayer, IPSU will issue a replacement IP PIN while the taxpayer is on the telephone. The replacement IP PIN will allow the tax return to be electronically filed. Since returns filed with a replacement IP PIN will be subject to a manual review, there may be a slight delay in the issuance of the refund.

Taxpayer Civil Rights

This topic follows the text on page 1-6, under the heading “How do I maintain the taxpayer’s trust?” and is also added to L<, slide 58, topic “Taxpayer Civil Rights.”

Under no circumstances will the Internal Revenue Service tolerate discriminatory treatment of taxpayers by individuals who volunteer at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites. No taxpayer shall be subject to discrimination based on race, color, national origin, reprisal, disability, or age in programs or activities, or sex in educational programs or activities supported by the Department of the Treasury – Internal Revenue Service.

Taxpayers with a disability may require a reasonable accommodation in order to participate or receive the benefits of a program or activity supported by the Department of the Treasury – Internal Revenue Service. VITA and TCE Site Coordinators and Managers are responsible for ensuring that requests for reasonable accommodation are granted when the request is made by a qualified individual with a disability.

If a qualified individual with a disability does not receive a reasonable accommodation upon request, or if an individual believes that he or she has experienced discrimination on the basis of race, color, national origin, disability, reprisal, age, or sex, he or she may file a written complaint with a VITA or TCE Site Coordinator or Manager, or with the Department of the Treasury – Internal Revenue Service. All written complaints should be sent to:

Director, Civil Rights Division
Internal Revenue Service
1111 Constitution Avenue, NW
Room 2413
Washington, DC 20224

For all inquiries concerning taxpayer civil rights, contact us at the address referenced above, or e-mail us at eeo.external.civil.rights@irs.gov.



Lesson 3: Filing Basics

This topic is included under the heading “Who has an Individual Taxpayer Identification Number?”

The range of numbers included in the fourth and fifth digits has been extended. They now include 70-88, 90-92, and 94-99.

This topic follows the heading “What if the taxpayer does not have a SSN or ITIN?”

Change any reference to authorized acceptance agent to “Certifying Acceptance Agent.”

Add the following as a third bullet to the information on page 3-7.

- New ITINs will now expire after five years. This change will help ensure ITINs are being used for legitimate tax purposes. Taxpayers who still need an ITIN will be able to reapply at the end of the expiration period.



Lesson 8: Income – Wages, Interest, Etc.; Form 1040, Line 7-11

This topic follows the text on page 8-5 under the heading “What about income received by household employees?” and is also added to L<, slide 15, under the topic heading “Household Employees.”

Under this heading, replace \$1,700 with \$1,800. This is the wage threshold for household employees for 2012.

This topic follows the text on page 8-11 under the heading “What should be reported on Form 1040, line 10?” and is also added to L<, slide 57, under the topic heading “State and Local Refunds.”

Some states now issue only electronic Forms 1099-G. Be sure to review Form 13614-C, Intake/Interview & Quality Review Sheet. If taxpayers indicate on page 2, Part III of this form that they received a refund of state/local income taxes in 2012, they may be required to report this amount. Taxpayers who did not receive a Form 1099-G should check with the government agency that made the payments to them.

If taxpayers received a refund they are required to report, they are responsible for reporting any taxable refund they received even if they did not receive Form 1099-G.



Lesson 9: Income – Business; Form 1040, Line 12

This topic is included in the introduction to this lesson and is also added to L<, slide 1, under the topic heading “Welcome.”

Delete the reference to expenses of \$10,000 or less. For 2012, preparation of tax returns with Schedule C are in scope for VITA/TCE within Schedule C-EZ limitations.

This topic follows the text on page 9-4 under the heading “Who can use Schedule C for purposes of the VITA/TCE program?” and is also added to L<, slide 10, under the topic heading “Who can use Schedule C.”

On the second line, delete “, except taxpayers can have expenses up to \$10,000.”

This topic follows the text on page 9-5 before “What business expenses are within scope for the VITA/TCE program?” and is also added to L<, slide 14, under the topic heading “Types of Business Expenses.”

How do you clarify taxpayers’ business income and expenses?

You generally can rely on the taxpayer’s information for business income and expenses. However, when preparing a tax return with a Schedule C and the earned income credit (EIC), take additional steps to determine that the net self-employment income used to calculate the amount of, or eligibility for, EIC is correct and complete. Additional clarification or inquiries should be made if the information furnished by the taxpayer appears to be incorrect, incomplete, or inconsistent. Taxpayers sometimes want to over-report or under-report their income to qualify for or maximize the amount of EIC.

Ask sufficient questions of taxpayers claiming self-employment income to be satisfied that:

- The taxpayer actually conducts a business
- The taxpayer has records to support income and expenses, or can reasonably reconstruct income and expenses records
- All income and related expenses have been included on the taxpayer's Schedule C

Emphasize to taxpayers that in the event of an IRS audit, they would need to provide receipts to support their figures.



An IRS certified volunteer preparer must exercise due diligence when preparing or assisting in the preparation of, approving, and filing tax returns. Although a volunteer may rely in good faith without requiring certain documents from the taxpayer, the volunteer preparer may not ignore the implications of information furnished to, or actually known by, the preparer. The preparer must ask questions if the information furnished appears to be incorrect, inconsistent, or incomplete.

What Schedule C situations raise a “red flag”?

As a volunteer preparing a tax return with Schedule C, watch for examples of incorrect, incomplete, or inconsistent information, such as:

- Schedule C income in round numbers
- Schedule C cash businesses as the only income on a return claiming EIC
- Schedule C with little or no expenses when expenses would be expected
- Schedule C taxpayers with little or no records for income and expenses
- Any Schedule C income that brings the taxpayer to the maximum EIC
- Schedule C without a Form 1099

Taxpayer Interview and Tax Law Application

A taxpayer, Dana, comes in to have her tax return prepared. She tells you she runs her own babysitting business and wants to claim the EIC.

To assist the taxpayer in completing an accurate return, you need to ask more questions to determine if Dana did incur allowable business expenses and that the income she reported is correct.

SAMPLE INTERVIEW

VOLUNTEER SAYS...

DANA RESPONDS...

Tell me about your business, and were you the sole owner?

I have a babysitting service that I handle all by myself.

Do you have a record of your business income and expenses for last year?

Well, I'm not very good at keeping records, but I can tell you that I made \$14,000 over the course of the year. I didn't have any expenses.

How did you determine that you made a net profit of \$14,000?

I based my income on deposits to my checking account.

SAMPLE INTERVIEW (continued)

VOLUNTEER SAYS...	DANA RESPONDS...
<i>I see. We may be able to reconstruct your business income based on your deposits. Did you bring any bank statements or your checkbook record with you today?</i>	No, I'm sorry.
<i>How many children did you care for, and was this a full-time or part-time job for you?</i>	Babysitting is just part time. I watch several of my neighbors' children along with my own kids who are 8 and 10 years old.
<i>What is your fee for babysitting?</i>	It averages about \$10 an hour.
<i>Do you have a calendar or schedule of the children present each day?</i>	No, but I may be able to come up with one.
<i>Do you have a business license or permit, and do you watch the children in your own home or in a daycare facility or in the client's home?</i>	My home and sometimes at my neighbors' homes. I don't need a permit.
<i>Do you buy any supplies such as food, diapers, toys, or other items necessary for the business?</i>	Sometimes I need to buy supplies. But I didn't bring receipts with me.
<i>Did you intend to deduct expenses for the business use of your home?</i>	No, I don't think so.
<i>Be aware that the IRS requires that you report all income and allowable expenses on your tax return. In the event of an IRS audit, you will be responsible for providing support for the income and expenses claimed on your return. Before we can proceed, you'll need to gather some additional facts and records. I'll write down a list of items that could help us more accurately calculate your net profit from your business.</i>	OK – thanks. I'll see what I can pull together.

The information provided by the taxpayer appears to be both inconsistent and incomplete, because it is unlikely that someone who operates this type of business:

1. Has no business expense. Most businesses have expenses, even if it is just a few dollars here and there.
2. Has annual gross receipts from the business that are an exact round dollar amount, and that amount maximizes EIC.

The volunteer cannot complete a return based on information provided, but gives Dana the chance to gather materials to document her business.

This topic follows the text on page 9-7 under the heading “How do I complete Schedule C-EZ?” after the two NEW icons - Line F and Line G.

In general, taxpayers who seek assistance through the VITA/TCE program may be required to file Form 1099-MISC for payments in the amount of \$600 or more for services performed for a trade or business by people not treated as its employees. An example is for subcontractors who are nonemployees. For a complete listing of Forms 1099 and the requirements for issuance, refer to the chart in the Form 1099 General Instructions.

If the taxpayer responds yes to Question F on Schedule C-EZ, the income tax return and any related Form 1099 preparation are both out of scope for the VITA/TCE program. The Form 1040 must still be

referred to a professional tax preparer even if taxpayers indicate they have already filed the Forms 1099. If the response to Question F is yes, there is no need to proceed to Question G.

This topic follows the text on page 9-8 under the heading “Part III: Information on Vehicles” and is also added to L<, slide 22, under the topic heading “Business Mileage.”

The standard mileage rate for 2012 for business purposes is 55.5 cents per mile.

This topic follows the text on page 9-9 under the heading “How do I complete Schedule C?” after the two NEW icons - Line I and Line J.

In general, taxpayers who seek assistance through the VITA/TCE program may be required to file Form 1099-MISC for payments in the amount of \$600 or more for services performed for a trade or business by people not treated as its employees. An example is for subcontractors who are nonemployees. For a complete listing of Forms 1099 and the requirements for issuance, refer to the chart in the General Form 1099 Instructions.

If the taxpayer responds yes to Question I on Schedule C, the income tax return and any related Form 1099 preparation are both out of scope for the VITA/TCE program. The Form 1040 must still be referred to a professional tax preparer even if the taxpayer indicates they have already filed the Forms 1099.

If the response to Question I is yes, there is no need to proceed to Question J.

This topic follows the text on page 9-11 after “Supporting documents” and is also added to L<, slide 15, under the topic heading “Supporting Documents.”

Reconstructing records

Make adequate inquiries to be satisfied that the taxpayer is carrying on a business and that the income and expenses reported on the tax return are substantially correct and complete.

You may help a taxpayer with simple record reconstruction. Assisting the taxpayer in reconstruction will help teach the taxpayer about recordkeeping. Extensive record reconstruction should be performed by the taxpayer or a paid preparer. If you are not satisfied with the accuracy of the reconstructed records, you have the right to decline to prepare the return. See your Site Coordinator for guidance.

The goal of record reconstruction is to use available documentation to develop a sound and reasonable estimate of the taxpayer’s business income and expenses to support the Schedule C prepared. When reconstructing records, you can use such tools as:

- Appointment books or calendars
- Online map tools
- IRS standard allowances
- Checkbooks
- Canceled checks
- Bank or credit card statements
- Lists of regular clients
- Partial receipts or sales tax records
- Cell phone records, call history, or computer logs
- Prior year returns

This topic follows the text on page 9-12 under the heading “What situations are out of scope for the VITA/TCE program?”

If the taxpayer responds yes to Question F on Schedule C-EZ or Question I on Schedule C, indicating there is a requirement to file Forms 1099, the preparation of the Form 1040 is out of scope for the volunteer program.



Lesson 10: Income – Capital Gain or Loss; Form 1040, Line 13

This topic follows the text on page 10-8 under the heading “How do I enter data on Form 8949 and Schedule D?” and is also added to L<, slide 36, under the topic heading “Form 8949, Sales and Other Dispositions of Capital Assets.”

Form 8949 has been revised for 2012. Column (b) is now used to record the date acquired. Column (f) is used to indicate the code for any adjustments to the gain or loss. Column (g) indicates the amount of adjustment. A new column (h) is used to identify the gain or (loss) for each transaction. Some of the codes for column (g) have also changed. See the updated chart on pages 30-31 of this supplement.



Lesson 11: Income – Retirement Income; Form 1040, Lines 15-16

This topic follows the heading on page 11-6 “What if the distribution is used for charitable purposes?” and is also added to L<, slide 29, under the topic heading “Qualified Charitable Distributions (QCDs).”

This provision was extended and will not apply to distributions made in taxable years beginning after December 31, 2013.

The American Taxpayer Relief Act of 2012 included special rules for treatment of distributions made in taxable years beginning after December 31, 2011. At the election of the taxpayer:

- Any qualified charitable distribution made after December 31, 2012 and before February 1, 2013 shall be deemed to have been made on December 31, 2012, and
- Any portion of a distribution from an individual retirement account to the taxpayer made after November 30, 2012 and before January 1, 2013 may be treated as a qualified charitable distribution to the extent that:
 1. Such portion is transferred in cash after the distribution to a qualified organization before February 1, 2013, and
 2. Such portion is part of a distribution that would meet the requirements of a qualified charitable distribution but for the fact that the distribution was not transferred directly to the qualified organization.



Lesson 12: Income – Rental and Schedules K-1

This topic is in the Introduction on page 12-1 and is also added to L<, slide 1, under the topic heading “Welcome.”

Volunteers must certify at the Military level to prepare a Schedule E with rental income and expenses. However, taxpayers who are in the business of renting properties must be referred to a professional tax preparer.

Income reported on a Schedule K-1 for interest, dividend, capital gains or losses, and royalties with no associated expenses is in scope for volunteers with Advanced, Military, or International certification.

This topic follows the text on page 12-3 under the heading “What is rental income?” after the NEW icon for Question A and Question B.

In general, taxpayers that seek assistance through the VITA/TCE program may be required to file Form 1099-MISC for payments in the amount of \$600 or more for services performed for a trade or business by people not treated as its employees. An example is for subcontractors who are nonemployees. For a complete listing of Forms 1099 and the requirements for issuance, refer to the chart in the Form 1099 General Instructions.

If the taxpayer responds yes to Question A on Schedule E, the income tax return and any related Form 1099 preparation are both out of scope for the VITA/TCE program. The Form 1040 must still be referred to a professional tax preparer even if taxpayers indicate they have already filed the Forms 1099.

If the response to Question A is yes, there is no need to proceed to Question B.

This topic follows the text on page 12-17 under the heading “What situations are out of scope for the VITA/TCE program?”

If the answer to question A on Schedule E is yes, indicating the taxpayer has a Form 1099 filing requirement, preparation of the Form 1040 and any related Forms 1099 are out of scope for the VITA/TCE program.



Lesson 13: Income – Unemployment Compensation; Form 1040, Line 19

This topic follows the heading on page 13-1 “Where can I get unemployment compensation information?” and is also added to L<, slide 4, under the topic heading “Intake and Interview Process.”

Some states now issue only electronic Forms 1099-G. Be sure to review Form 13614-C, Intake/Interview & Quality Review Sheet. If taxpayers indicate on page 2, Part III of this form that they received unemployment compensation in 2012, they are generally required to report this amount. Taxpayers who did not receive a Form 1099-G should check with the government agency that made the payments to them.

If taxpayers received unemployment compensation, they are responsible for reporting the amount they received on their tax return even if they did not receive Form 1099-G.



Lesson 15: Income – Other Income; Form 1040, Line 21

This topic follows the heading on page 15-7 “What is the foreign earned income exclusion?” and is also added to L<, slide 28, under the topic heading “Description.”

For 2012, the maximum foreign earned income exclusion is \$95,100.



Lesson 17: Adjustments to Income

This topic follows the heading on page 17-2 “How do I handle educator expenses?” and is also added to L<, slide 4, under the topic heading “Eligibility.”

The American Taxpayer Relief Act of 2012 extended this provision for taxable years beginning in 2012 and 2013.

This topic follows the heading on page 17-13 “How do I handle tuition and fees?” and is also added to L<, slide 68, under the topic heading “Tuition and Fees Deduction.”

This provision was extended for tax years 2012 and 2013. It will not apply to tax years beginning after December 31, 2013.



Lesson 18: Military Moving Expenses

This topic follows the heading on page 18-4 “Taxpayer Interview and Tax Law Application” Change this amount in the TIP on L<, slide 7, throughout the Topic Activity on slides 10-13, and in the Sample Interview on slide 19.

The standard mileage rate for 2012 is 23 cents per mile for moving purposes.



Lesson 20: Itemized Deductions

This topic follows the heading on page 20-4 “What taxes may be deductible?” and is also added to L<, slide 15, under the topic heading “Which Taxes are Deductible?”

The itemized deduction for state and local sales taxes in lieu of the itemized deduction for state and local income taxes was extended to taxes paid before January 1, 2014.

This topic follows the heading on page 20-7 “What about qualified mortgage insurance premiums?” and is also added to L<, slide 25, under the topic heading “Qualified Mortgage Insurance Premiums.”

This provision was extended for tax years 2012 and 2013. It is not applicable to amounts paid or accrued after December 31, 2013.

Deducting Qualified Mortgage Insurance Premiums

The American Taxpayer Relief Act of 2012 reinstated this deduction as of 1/1/2012 (reported on 2012 Form 1040, Schedule A, line 13 for 2012), however, the words “mortgage insurance premium” have been removed from the 2012 Form 1098.

This deduction was scheduled to expire on December 31, 2011, and mortgage companies may not be reporting this information in Box 4 of the Form 1098.

Volunteers need to be aware that this potential deduction may not be reported on Form 1098. Ask homeowners with a mortgage if they paid mortgage insurance premiums in 2012. Failure to ask this information could result in a substantial deduction loss for taxpayers filing Schedule A.

The taxpayers will need to contact the mortgage company for this amount if they file a Schedule A. Having a copy of a taxpayer’s 2011 tax return would be most valuable to review. Advise the taxpayer to keep a copy of a document detailing how much in mortgage insurance premiums they paid in 2012 with their records.



Lesson 21: Military Employee Business Expenses

This topic follows the heading on page 21-5 “What is the 100-mile rule for reservists?” and is also added to L<, slide 30, under the topic heading “Reservists’ Expenses - 100 Mile Rule.”

The standard mileage rate for 2012 is 55.5 cents per mile for business.



Lesson 23: Education Credits

This topic follows the heading on page 23-6 “How do I determine the amount of the credit?” and is also added to L<, slide 47, under the topic heading “Figuring the Credit.”

Form 8863 has been revised. Part III on page 2 requests information about the student, the student’s eligibility for the credit, and the educational institution(s). Taxpayers must complete Part III for each eligible student for whom they are claiming an education credit *before* completing Parts I and II on the Form.



Lesson 25: Child Tax Credit

This topic follows the heading on page 25-5 “How do I calculate the additional child tax credit?” and is also added to L<, slide 22, under the topic heading “Calculating the Credit.”

Form 8812 has been replaced by Schedule 8812, Child Tax Credit. On the new Schedule 8812, taxpayers must use Part I to document each child for whom an IRS Individual Taxpayer Identification Number (ITIN) was entered on the return.



Lesson 26: Miscellaneous Credits

This topic follows the heading on page 26-2 “What is the modified AGI limit?” and is also added to L<, slide 4, under the topic heading “Eligibility Requirements.”

For 2012, taxpayers may be able to claim the retirement savings contributions credit if their modified AGI is not more than:

- \$57,500 for Married Filing Jointly
- \$43,125 for Head of Household
- \$28,750 for Single, Married Filing Separately, or Qualifying Widow(er)

This topic follows the heading on page 26-7 “What is the nonbusiness energy property credit?” and is also added to L<, slide 24, under the topic heading “Nonbusiness Energy Property Credit.”

The credit for nonbusiness energy property that meets the requirements for qualified energy efficiency improvements and residential energy property expenditures (such as furnaces, central air conditioners, water heaters, certain heat pumps, biomass stoves) was extended. The credit will not be available for property placed in service after December 31, 2013.



Lesson 27: Other Taxes

This topic follows the heading on page 27-2 “What is self-employment tax?” and is also added to L<, slide 4, under the topic heading “What is Self-Employment Tax?”

The temporary decrease in the employee’s share of payroll tax was extended for 2012. The social security tax is withheld from an employee’s wages at the rate of 4.2% up to the 2012 social security wage limit of \$110,100. This same reduction applies to net earnings from self-employment.



Lesson 28: Payments

This topic follows the heading on page 28-4 “What is important to know about the first-time homebuyer credit?” and is also added to L< slide 15, under the heading “First-Time Homebuyer Tax Credit.”

The first-time homebuyer credit for individuals on qualified official extended duty outside the United States expired April 30, 2011.



Lesson 29: Earned Income Credit

Replace the TIP on page 29-3 and L<, slide 14, with a Caution and include the text below.

An IRS certified volunteer preparer must exercise due diligence when preparing or assisting in the preparation of, approving, and filing tax returns. Although a volunteer may rely in good faith without requiring certain documents from the taxpayer, the volunteer preparer may not ignore the implications of information furnished to, or actually known by, the preparer. The preparer must ask questions if the information furnished appears to be incorrect, inconsistent, or incomplete.



Lesson 31: Quality Review of the Tax Return

This topic follows the heading on page 31-1 “How is a quality review of a return completed?” and is also added to L<, slide 3, under the topic heading “Three Methods.”

For 2012, there are only two approved methods of quality review. Volunteer sites are no longer permitted to use the self-review method of quality review.



Lesson 32: Concluding the Interview

This topic follows the heading on page 32-1 “Objectives” and is also added to L<, slide 2, under the topic heading “Objectives.”

The Refund Cycle Chart is not in use for 2012. Delete this item from the Objectives list.



Publication 4942, VITA/TCE Specialty Courses

Replace the example of Form 8949 on page 1-10 of Publication 4942 with the following.

Part II Long-Term. Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

You must check Box A, B, or C below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Long-term transactions reported on Form(s) 1099-B showing basis **was** reported to the IRS
 (B) Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
 (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Main home Form 1099-A Foreclosure	05/15/2002	10/01/2012	\$200,000	\$300,000	L	\$100,000	\$0

4 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8** (if **Box A** above is checked), **line 9** (if **Box B** above is checked), or **line 10** (if **Box C** above is checked) ▶

\$200,000 \$300,000 \$100,000 \$0

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2012)

Replace the example of Form 8949 on page 1-11 of Publication 4942 with the following.

Part II Long-Term. Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

You must check Box A, B, or C below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Long-term transactions reported on Form(s) 1099-B showing basis **was** reported to the IRS
 (B) Long-term transactions reported on Form(s) 1099-B showing basis was **not** reported to the IRS
 (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Main home Form 1099-A	05/15/2002	10/01/2012	\$200,000	\$125,000	H	(\$75,000)	\$0

4 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8** (if **Box A** above is checked), **line 9** (if **Box B** above is checked), or **line 10** (if **Box C** above is checked) ▶

\$200,000 \$125,000 (\$75,000) \$0

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2012)

Replace the example of Form 8949 on page 1-12 of Publication 4942 with the following.

Part II Long-Term. Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

You must check Box A, B, or C below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Long-term transactions reported on Form(s) 1099-B showing basis **was** reported to the IRS
 (B) Long-term transactions reported on Form(s) 1099-B showing basis **was not** reported to the IRS
 (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Main home Form 1099-A	04/20/1970	11/30/2012	\$350,000	\$50,000	H	(\$250,000)	\$0

4 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8 (if Box A above is checked), line 9 (if Box B above is checked), or line 10 (if Box C above is checked) ▶				\$350,000	\$50,000		(\$250,000)	\$0
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Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2012)

Replace the example of Form 8949 on page 1-14 of Publication 4942 with the following.

Part II Long-Term. Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

You must check Box A, B, or C below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Long-term transactions reported on Form(s) 1099-B showing basis **was** reported to the IRS
 (B) Long-term transactions reported on Form(s) 1099-B showing basis **was not** reported to the IRS
 (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Main home Form 1099-A	05/14/2003	06/25/2012	\$125,000	\$200,000	L	\$75,000	\$0

4 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8 (if Box A above is checked), line 9 (if Box B above is checked), or line 10 (if Box C above is checked) ▶				\$125,000	\$200,000		\$75,000	\$0
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Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2012)

In the Health Savings Accounts (HSAs) Course: This topic follows the text on page 2-13,
under “Distributions for Qualified Medical Expenses.”
Add the following sentence at the end of the last paragraph.

However, taxpayers who have taken HSA distributions must provide Form 1099-SA before the return can
be completed.

Insert the following information in the Cancellation of Debt (COD) Course.
This screening sheet is also available in Publication 4012.



Publication 4731

Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt

NOTE: Only volunteers with a **Cancellation of Debt Certification** may assist taxpayers with Form(s) 1099-A and 1099-C issues.



Instructions: Use this Screening Sheet to assist in identifying taxpayers with cancellation of debt issues that are within the scope of the VITA/TCE Program.

- Use Part I for taxpayers with Form 1099-A for a foreclosure or abandonment of their principal residence.
- Use Part II for taxpayers with Form 1099-C, and/or Forms 1099-A and 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Part III for taxpayers with Form 1099-C resulting from cancellation of credit card debt.

Part I – Home Mortgage Loan

step 1	Did the taxpayer receive Form 1099-A, Acquisition or Abandonment of Secured Property, from their home mortgage lender?	YES – Go to Step 2 NO – Advise the taxpayer to get the documentation from the home mortgage lender.
step 2	Did the taxpayer ever use the home in a trade or business or as rental property?	YES – Go to Step 6 NO – Go to Step 3
step 3	Is box 5 of Form 1099-A checked indicating a recourse loan in which the taxpayer is personally liable?	YES – The sales price is the lesser of box 2 (Balance of principal outstanding) or box 4 (Fair Market Value of Property) on Form 1099-A. NO – The sales price is the amount in box 2 (Balance of principal outstanding) on Form 1099-A. The taxpayer is not personally liable (non-recourse loan).
step 4	Ask the taxpayer for the cost or basis of the home. Refer to Publication 523, Selling your Home, for further information, if needed.	
step 5	Report the sale of the personal residence on Form 8949 and Schedule D. If the disposition of the property results in a: Gain – The taxpayer may qualify for the Section 121 exclusion (\$250,000 or \$500,000 if Married Filing Jointly) for a gain on the sale of a principal residence, if all requirements are met. Loss – The taxpayer cannot claim a loss on the sale or disposition of a principal residence. Refer to Publication 4012 (Tab 2), TaxWise Income “Examples: Capital Loss on Foreclosure,” for further information.	
step 6	These tax issues are outside the scope of the volunteer program. Refer the taxpayer to: <ul style="list-style-type: none">• www.irs.gov for the most up-to-date information.• An IRS Representative: 1-800-829-1040.• An IRS Taxpayer Assistance Center (TAC).• The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels.• A professional tax preparer.	Additional Resources: <ul style="list-style-type: none">• Publication 523, Selling your Home• Publication 525, Taxable and Nontaxable Income• Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments



Publication 4731

Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt



NOTE: Only volunteers with a **Cancellation of Debt Certification** may assist taxpayers with Form(s) 1099-A and 1099-C issues.

Instructions: Use this Screening Sheet to assist in identifying taxpayers with cancellation of debt issues that are within the scope of the VITA/TCE Program.

- Use Part I for taxpayers with Form 1099-A for a foreclosure or abandonment of their principal residence.
- Use Part II for taxpayers with Form 1099-C, and/or Forms 1099-A and 1099-C resulting from cancellation of debt on a home mortgage loan.
- Use Part III for taxpayers with Form 1099-C resulting from cancellation of credit card debt.

Part II – Home Mortgage Loan

step 1	Did the taxpayer receive Form 1099-C, Cancellation of Debt, from their home mortgage lender and is the information shown on the form correct? Note: Answer “yes” if the taxpayer has received a Form 1099-A and Form 1099-C.	YES – Go to Step 2 NO – Go to Step 6
step 2	Did the taxpayer ever use the home in a trade or business or as rental property?	YES – Go to Step 6 NO – Go to Step 3
step 3	Does box 3 of Form 1099-C show any interest or does box 6 show code A indicating bankruptcy? Note: If box 6 is not marked with code A but the taxpayer has subsequently filed bankruptcy, answer “yes.”	YES – Go to Step 6 NO – Go to Step 4
step 4	Ask the following questions to determine if the discharged debt is “qualified principal residence indebtedness:” a. Was the mortgage taken out to buy, build, or substantially improve the taxpayer’s principal residence? (Note: A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at any one time.) b. Was the mortgage secured by the taxpayer’s principal residence? c. Was any part of the mortgage used to pay off credit cards, purchase a car, pay for tuition, pay for a vacation, pay medical/dental expenses, or used for any other purpose other than to buy, build, or substantially improve the principal residence? d. Was the mortgage amount more than \$2 million (\$1 million if Married Filing Separately)?	a. YES – Go to Step 4b NO – Go to Step 6 b. YES – Go to Step 4c NO – Go to Step 6 c. YES – Go to Step 6 NO – Go to Step 4d d. YES – Go to Step 6 NO – Go to Step 5
step 5	The discharged debt is “qualified principal residence indebtedness.” The Mortgage Forgiveness Debt Relief Act of 2007, as extended in the Emergency Economic Stabilization Act of 2008, allows individuals to exclude from gross income any discharges of “qualified principal residence indebtedness” made after 2006 and before 2013. The volunteer should complete the applicable lines on Form 982, and file it with the taxpayer’s return. If the residence was disposed of, the taxpayer also may be required to report the disposition (sale) on Form 8949 and Schedule D.	
step 6	These tax issues are outside the scope of the volunteer program. The taxpayer may qualify to exclude all or some of the discharged debt. However, the rules involved in the mortgage debt relief exclusions are complex. Refer the taxpayer to: <ul style="list-style-type: none"> • www.irs.gov for the most up-to-date information. • The Interactive Tax Assistance (ITA) on www.irs.gov to answer tax law questions. Type “ITA” in the key word search box. • An IRS Representative: 1-800-829-1040. • An IRS Taxpayer Assistance Center (TAC). • The Taxpayer Advocate Service (TAS): 1-877-777-4778, TTY/TDD 1-800-829-4059. TAS may help if the problem cannot be resolved through normal IRS channels. • A professional tax preparer. 	Additional Resources: <ul style="list-style-type: none"> • Publication 523, Selling your Home • Publication 525, Taxable and Nontaxable Income • Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments • Publication 4705, Overview of Mortgage Debt Forgiveness • Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) and Instructions

Publication 4012, Volunteer Resource Guide

Insert the following chart on page E-3 of Publication 4012.

Tuition and Fees Deduction at a Glance

Do not rely on this table alone. Refer to the text for complete details.

Question	Answer
What is the maximum benefit?	You can reduce your income subject to tax by up to \$4,000.
Limit on modified adjusted gross income (MAGI)	\$160,000 if married filing joint return; \$80,000 if single, head of household, or qualifying widow(er)
Where is the deduction taken?	As an adjustment to income on Form 1040.
For whom must the expenses be paid?	A student enrolled in an eligible educational institution who is either: <ul style="list-style-type: none">• you,• your spouse, or• your dependent for whom you claim an exemption.
What tuition and fees are deductible?	Tuition and fees required for enrollment or attendance at an eligible postsecondary educational institution, but no including personal, living or family expenses, such as room and board.



Residential Energy Credits

Part II, Form 5695 - Key points about the Nonbusiness Energy Property Credit:

- Nonbusiness energy property credit is extended for tax years 2012 and 2013.
- A total combined credit limit of \$500 (\$200 limit for windows) for all tax years after 2005.
- The maximum credit for residential energy property costs is \$50 for any advanced main air circulating fan; \$150 for any qualified natural gas, propane, or oil furnace, or hot water boiler; and \$300 for any item of energy-efficient building property.
- The credit applies to:
 - Qualified energy efficiency improvements such as adding insulation, energy-efficient exterior windows and doors, and qualifying metal or asphalt roofs (**does not include labor costs for onsite preparation, assembly or installation**)
 - Qualified residential energy property improvements such as energy-efficient heating and air conditioning systems. For a complete list of items see Form 5695 (**includes labor costs for onsite preparation, assembly, or original installation**).
- The improvements must be made to the taxpayer's principal residence located in the United States (must be existing home).
- Qualifying improvements must be placed into service by the taxpayer during the tax year.
- Expenditures which are made from subsidized energy financing cannot be used to figure the credit.
- The credit is taken on Part II, Form 5695. See Form 5695 and Instructions for more information.
- If the total of nonbusiness energy property credits the taxpayer has taken in previous years (after 2005) is more than \$500, the taxpayer cannot take the credit in 2012.

Part I, Form 5695 - Key points about the Residential Energy Efficient Property Credit:

- This information is provided as awareness in order that volunteers can identify when the issue is out of scope.
- This credit is taken on Part I, Form 5695. This part of the form is out of scope for return preparation in the volunteer program. Taxpayers that have expenses for the following items should be referred to a professional tax preparer.
- The credit is available to help individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, geothermal heat pumps and wind turbines.

Please note, not all ENERGY STAR products qualify for a tax credit. For detailed information about qualifying improvements, visit the U.S. Department of Energy's [EnergyStar web site](#) and the [EnergyStar Frequently Asked Questions site](#).

Manufacturers must certify that their products meet new standards and they must provide a written statement to the taxpayer such as with the product packaging or in a printable format on the manufacturers' Web site. Taxpayers should keep a copy of the manufacturer's certification statement and receipts with their other important tax records.

How To Complete Form 8949, Columns (f) and (g)

For most transactions, you do not need to complete columns (f) and (g) and can leave them blank. You may need to complete columns (f) and (g) if you got a Form 1099-B or 1099-S (or substitute statement) that is incorrect, if you are excluding or postponing a capital gain, if you have a disallowed loss, or in certain other situations. Details are in the table below. If you enter more than one code in column (f), see *More than one code* in the instructions for column (g).

IF...	THEN enter this code in column (f)...	AND...
You received a Form 1099-B (or substitute statement) and the basis shown in box 3 is incorrect...	B	<ul style="list-style-type: none"> If box B is checked at the top of Part I or II, enter the correct basis in column (e), and enter -0- in column (g). If box A is checked at the top of Part I or II, enter the basis shown on Form 1099-B (or substitute statement) in column (e), even though that basis is incorrect. Correct the error by entering an adjustment in column (g). To figure the adjustment needed, see the <i>Worksheet for Basis Adjustments in Column (g)</i>. Also see <i>Example 4—adjustment for incorrect basis</i> in the instructions for column (h).
You received a Form 1099-B (or substitute statement) and the type of gain or loss (short term or long term) shown in box 1c is incorrect...	T	Enter -0- in column (g). Report the gain or loss in the correct Part of Form 8949.
You received a Form 1099-B or 1099-S (or substitute statement) as a nominee for the actual owner of the property...	N	Report the transaction on Form 8949 as you would if you were the actual owner, but enter any resulting gain as a negative adjustment (in parentheses) in column (g) or any resulting loss as a positive adjustment in column (g). However, if you received capital gain distributions as a nominee, report them instead as described under <i>Capital Gain Distributions</i> in the Instructions for Schedule D (Form 1040).
You sold or exchanged your main home at a gain, must report the sale or exchange on Part II of Form 8949 (as explained in <i>Sale of Your Home</i> in the Instructions for Schedule D (Form 1040)), and can exclude some or all of the gain...	H	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion. Then enter the amount of excluded (nontaxable) gain as a negative number (in parentheses) in column (g). See the example in the instructions for column (g).
You sold or exchanged qualified small business stock and can exclude part of the gain...	Q	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion and enter the amount of the exclusion as a negative number (in parentheses) in column (g). However, if the transaction is reported as an installment sale, see <i>Gain from an installment sale of QSB stock</i> in the Instructions for Schedule D (Form 1040).
You can exclude all or part of your gain under the rules explained in the Schedule D instructions for DC Zone assets or qualified community assets...	X	Report the sale or exchange on Form 8949 as you would if you were not taking the exclusion. Then enter the amount of the exclusion as a negative number (in parentheses) in column (g).
You are electing to postpone all or part of your gain under the rules explained in the Schedule D instructions for any rollover of gain (for example, rollover of gain from QSB stock or publicly traded securities)...	R	Report the sale or exchange on Form 8949 as you would if you were not making the election. Then enter the amount of postponed gain as a negative number (in parentheses) in column (g).

You have a nondeductible loss from a wash sale...	W	Report the sale or exchange on Form 8949 and enter the amount of the nondeductible loss as a positive number in column (g). See the Schedule D instructions for more information about wash sales.
You have a nondeductible loss other than a loss indicated by code W...	L	Report the sale or exchange on Form 8949 and enter the amount of the nondeductible loss as a positive number in column (g). See <i>Nondeductible Losses</i> in the Instructions for Schedule D (Form 1040).
You received a Form 1099-B or 1099-S (or substitute statement) for a transaction and there are selling expenses or option premiums that are not reflected on the form or statement by an adjustment to either the proceeds or basis shown...	E	Enter in column (d) the proceeds shown on the form or statement you received. Enter in column (e) any cost or other basis shown on Form 1099-B (or substitute statement). In column (g), enter as a negative number (in parentheses) any selling expenses and option premium that you paid (and that are not reflected on the form or statement you received) and enter as a positive number any option premium that you received (and that is not reflected on the form or statement you received). For more information about option premiums, see <i>Gain or Loss From Options</i> in the Instructions for Schedule D (Form 1040).
You had a loss from the sale, exchange, or worthlessness of small business (section 1244) stock and the total loss is more than the maximum amount that can be treated as an ordinary loss...	S	See <i>Small Business (Section 1244) Stock</i> in the Schedule D (Form 1040) instructions.
You disposed of collectibles (see the Schedule D instructions)...	C	Enter -0- in column (g). Report the disposition on Form 8949 as you would report any sale or exchange.
You report multiple transactions on a single row as described in <i>Exception to reporting each transaction on a separate row...</i>	M	See <i>Exception to reporting each transaction on a separate row</i> . Enter -0- in column (g) unless an adjustment is required because of another code.
You have an adjustment not explained above in this column...	O	Enter the appropriate adjustment amount in column (g). See the instructions for column (g).
None of the other statements in this column apply...	Leave columns (f) and (g) blank.	

Worksheet for Basis Adjustments in Column (g)

If the basis reported to you on Form 1099-B (or substitute statement) is not correct, do the following.

- If the basis was not reported to the IRS, enter the correct basis in column (e) and enter -0- in column (g) (unless you must make an adjustment for some other reason).
- If the basis was reported to the IRS, enter the reported basis shown on Form 1099-B (or substitute statement) in column (e) and use this worksheet to figure the adjustment to include in column (g).

1. Enter the cost or other basis shown on Form 1099-B (or substitute statement)	1.
2. Enter the correct cost or other basis	2.
3. If line 1 is larger than line 2, leave this line blank and go to line 4. If line 2 is larger than line 1, subtract line 1 from line 2. Enter the result here and in column (g) as a negative number (in parentheses)	3.
4. If line 1 is larger than line 2, subtract line 2 from line 1. Enter the result here and in column (g) as a positive number	4.

Replace the example of Form 8949 on page 2-15 of your Publication 4012 with the following.

Form 8949 (2012)

Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.)

Social security number or taxpayer identification number

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box A, B, or C below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

Part II Long-Term. Transactions involving capital assets you held more than one year are long term. For short-term transactions, see page 1.

You must check Box A, B, or C below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (A) Long-term transactions reported on Form(s) 1099-B showing basis **was** reported to the IRS
- (B) Long-term transactions reported on Form(s) 1099-B showing basis **was not** reported to the IRS
- (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	MAIN HOME FORM 1099-A	05/15/2002	10/10/2012	\$200,000	\$300,000	L	\$100,000	0

Name(s) shown on return. (Name and SSN or taxpayer identification no. not required if shown on other side.)

Social security number or taxpayer identification number

Most brokers issue their own substitute statement instead of using Form 1099-B. They also may provide basis information (usually your cost) to you on the statement even if it is not reported to the IRS. Before you check Box A, B, or C below, determine whether you received any statement(s) and, if so, the transactions for which basis was reported to the IRS. Brokers are required to report basis to the IRS for most stock you bought in 2011 or later.

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- (A) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS
- (B) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS
- (C) Long-term transactions not reported to you on Form 1099-B

3	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see Column (e) in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	MAIN HOME	05/15/2002	10/10/2012	\$200,000	\$125,000	H	(\$75,000)	0
4 Totals.	Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8 (if Box A above is checked), line 9 (if Box B above is checked), or line 10 (if Box C above is checked) ►			\$200,000	\$125,000		(\$75,000)	0

Note. If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Use *Where's My Refund?* to check refund status

The IRS has made many changes that will give taxpayers **personalized** information in 2013, about their refund status.



The refund time frames, previously presented by the Refund Cycle Chart were only projected dates. The improved *Where's*

My Refund? tool will give taxpayers a personalized refund date **as soon as the IRS processes the tax return and approves their refund**. By using the IRS2Go phone app or going to IRS.gov to access *Where's My Refund?*, taxpayers can begin checking on the status of their own return within 24 hours after the IRS received their e-filed return or four weeks after they mailed a paper return. Both are available 24 hours a day, 7 days a week

So, rather than setting expectations based on generic estimates, encourage taxpayers to use the improved *Where's My Refund?* tool for personalized information about their own tax return.

It's Easy!

On IRS.gov taxpayers can follow their return and refund through key points in the process with the new *Where's My Refund?* tracker which displays progress through three stages: (1) Return Received, (2) Refund Approved and (3) Refund Sent, along with narrative that provides more detail such as the approved refund amount and the date the refund will be sent. Updates to refund status are made once a day — usually at night.

The IRS issued more than 9 out of 10 refunds to taxpayers in less than 21 days last year. The same results are expected in 2013.



To use *Where's My Refund?*, taxpayers will need to have their 2012 tax return handy so they can provide their social security number, filing status, and the exact whole dollar amount of the refund.

Steps to file an accurate return and get a refund fast

- Use e-file — it's the best way to file an accurate tax return; and combining e-file with direct deposit is the fastest way to get a refund;
- Submit an error-free return;
- Verify the correct social security number or taxpayer identification number for the taxpayer, spouse, and dependents;
- Verify the taxpayer's correct mailing address; and
- Use the correct bank account and routing number for direct deposit. A refund should only be deposited directly into accounts that are in the taxpayer's own name, spouse's name, or both if it's a joint account.

Taxpayers who do not have access to the Internet or the IRS2Go app may call the Refund Hotline: 1-800-829-1954.

Reminder: Any claims by Providers concerning faster refunds by virtue of electronic filing must be consistent with the language in official IRS publications. Per the advertising standards in Publication 3112, IRS e-file Application and Participation, and Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns, providers must not use improper or misleading advertising in relation to IRS e-file, including the time frames for refunds or other financial products.

www.irs.gov

Your online resource for volunteer and taxpayer assistance

The Volunteer Resource Center

(Keyword: Community Network)

- Hot topics for volunteers and partners
- Site Coordinator's Corner
- Volunteer Tax Alerts
- Volunteer Training Resources
- EITC Information for Partners
- e-file Materials and Outreach Products

Tax Information for Individuals

(Keyword: Individuals)

- 1040 Central (What's new this filing season)
- Where's My Refund
- EITC Assistant - Available in English and Spanish
- Tax Trails for Answers to common tax questions
- Alternative Minimum Tax (AMT) Assistant
- Interactive Tax Assistant (ITA)

and much more!

Your direct link to tax information

24/7 www.irs.gov

