

SAVEFIRST

Helpful Tips
for

Out of Scope Topics
on the
2014 IRS Basic
Certification Exam



HELPFUL TIPS FOR OUT OF SCOPE TOPICS ON 2014 IRS BASIC CERTIFICATION EXAM

(Out Of Scope For Savefirst Basic Volunteer Preparation At Site)

Some topics on the IRS's VITA Volunteer Basic Certification will remain **out of scope** for SaveFirst Basic volunteers.

The certification exam is open-book and open-note. You should consult the information below to aid you in responding to questions and scenarios in the IRS Basic Certification exam.

As a reminder, a SaveFirst Intermediate or Advanced certified volunteer or Impact Alabama Staff member will prepare the topics below at the SaveFirst tax sites.

RETIREMENT INCOME: IRAS AND PENSIONS

Taxpayers who received income during the tax year from a retirement account (IRA, pension, etc.) will receive a Form 1099-R to report on their tax return. Most taxpayers receive this after they retire, but some taxpayers may have made an early withdrawal from a retirement account.

How to enter into TaxWise:

Enter all information in TaxWise exactly as it appears on the taxpayer's 1099-R.

- From Form 1040, link from Line 16 Pension to a Form 1099-R
- Enter the following information (if provided on the taxpayer's 1099-R form) into the 1099-R on TaxWise
 - Gross Distribution
 - Taxable Amount
 - Boxes in line 2b (check in TaxWise if checked on taxpayer form)
 - Taxable Amount Not Determined
 - Total Distribution
 - Federal Income Tax Withheld
 - Distribution Code(s)
 - Total Employee Contributions
- > Check on the 1040 in TaxWise to make sure that the amount pulled through to Line 16.

Form W4-P: Withholding Certificate for Pension or Annuity Payments. The form allows taxpayers to tell payers the correct amount of federal income tax to withhold from payments.

Additional Tax on IRAs, Other Qualified Retirement Plans, etc. can be found in the Other Taxes section of the Form 1040, Page 2 on Line 59. A taxpayer who makes an early withdrawal from a 401(k) may have an additional tax penalty that will appear here.

Practice Exercise 1: Sarah Brown

Sarah Brown is single with no dependents. In December 2013, she lost her job. Since she was unemployed, Sarah cashed in her 401(k) savings from her previous employer and used the money for household expenses. She received the following 1099-R. Since she is before retirement age, this is considered an early distribution, indicated by the Code 1 in Box 7 of the 1099-R. Sarah does not qualify for any exception to the additional tax on early distributions.

Enter the basic taxpayer information into TaxWise and create the 1099-R for Sarah.

PAYER'S name, street address, country, and ZIP or foreign post					OM			Distributions From ensions, Annuities, Retirement or Profit-Sharing	
BEST RETIREMENT CO	, ,	\$	\$ 1,500						
1352 MONEY BOULEVA YOUR CITY, STATE ZIP	ARD	2a ¢	1,500	unt		Form 1099-R		Plans, IRAs Insuranc Contracts, etc	
	,	2b	Taxable amou			Total distributio	n 🗙	Copy I Report thi	
PAYER'S federal identification number	RECIPIENT'S identification number	3	Capital gain (in in box 2a)	ncluded	4	Federal income withheld	tax	income on you federal ta	
38-2XXXXXX	259-XX-XXXX	\$			\$	300		return. If thi form show federal incom	
SARAH BROWN		5	Employee contributions /Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		tax withheld in box 4, attach this copy to your return.		
Street address (including apt. no 28 MERRY ROAD APT 3A	p.)	7	Distribution code(s)	IRA/ SEP/ SIMPLE	8 Other	%	This information is being furnished to		
City or town, province or state, co	untry, and ZIP or foreign postal code	9a			9b Total employee contr \$ 1,200		tributions	the interna	
10 Amount allocable to IRR within 5 years	11 1st year of desig. Roth contrib.	\$	State tax withh	eld	13	State/Payer's st	ate no.	14 State distribution \$	
\$		\$			16 Name of locality		\$		
Account number (see instructions)	15	Local tax withh	1010			у	17 Local distribution \$	
		\$						\$	

Practice Questions for Exercise 1 Sarah Brown Scenario:

- What is the amount that appears on Form 1040 Line 16b Taxable Amount? 1.1)
- 1.2) What is the amount of Total Earned Income on Form 1040 page 1? _____
- 1.3) What is the amount of Total Income on Form 1040 Line 22?
- What is the amount of additional tax on IRAs, other qualified retirement plans, etc. on Form 1040 1.4)
- 1.5) What is the amount of Federal income tax withheld on Form 1040 Line 64?
- 1.6) Sarah must pay a 10% additional tax on the distribution from her 401(k) because she is under 59 $\frac{1}{2}$ years old and does not qualify for an exception.

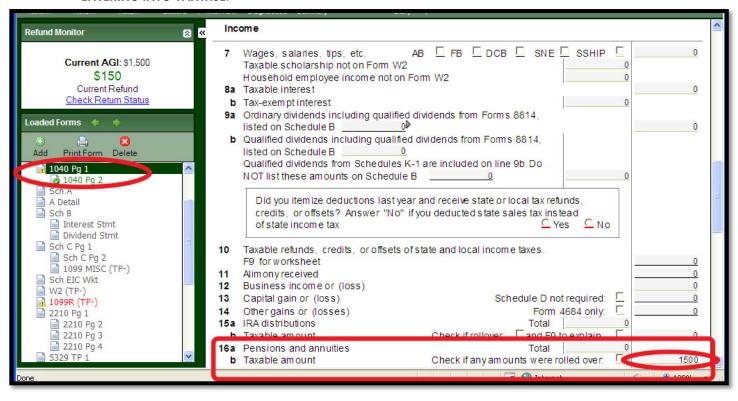
Circle one: True or False

Additional Practice Exercise for 1099-R Review:

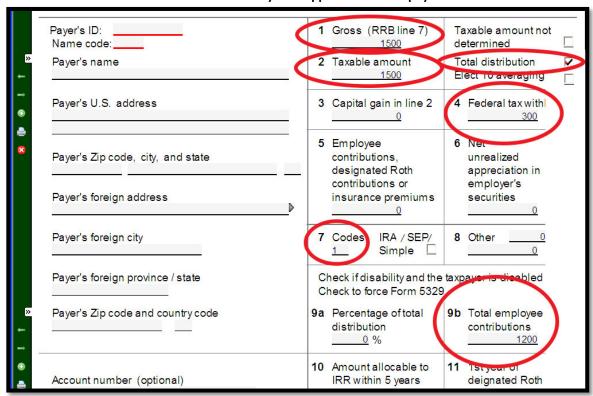
2.1) Sarah's sister, Kerry, receives an annual distribution from her retirement account but does not have any tax withheld so she always has a balance due every year. Kerry can submit a Form W4-P to have tax withheld on her pension.

Circle one: True or False

ENTERING INTO TAXWISE:



Form 1040 → Line 16 → Link to Form 1099-R Enter information into 1099-R in TaxWise exactly as it appears on the taxpayer's 1099-R form.



ITEMIZED DEDUCTIONS

The following items are eligible as part of an itemized deduction. You should include these on the taxpayer's return if they choose to itemize.

- Unreimbursed doctor bills for the taxpayer, spouse, and dependents
- Unreimbursed prescription drugs for the taxpayer, spouse, and dependents
- Donations to a church or eligible nonprofit
- The fair market value (FMV) of non-cash items donated to charity
- Home mortgage interest from a Form 1098
- Real estate taxes from a Form 1098

The following items are not eligible as part of an itemized deduction. You cannot include these on the tax return if a taxpayer chooses to itemize.

- Medical expenses that have already been reimbursed
- Donations to political candidates
- Homeowner's insurance

HIGHER EDUCATION EXPENSES: EDUCATION CREDITS AND TUITION & FEES DEDUCTION

Taxpayers with higher education expenses (POST-high school only) may be eligible for either a deduction of their tuition and fees or one of two education credits.

- A taxpayer may only claim one of these tax benefits (Lifetime Learning Credit or American Opportunity Credit)
- Only out-of-pocket expenses can be claimed as eligible expenses.
 - Amounts paid with scholarships and grants are \underline{not} eligible expenses (since the taxpayer is not actually paying those expenses).
 - Expenses paid with loans or savings do count as out-of-pocket expenses.
- Room and board are not eligible expenses for any of these benefits
- If not required for course enrollment, a parking permit is not an eligible expense for any of these

American Opportunity Credit	Lifetime Learning Credit
Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
Available for the 1st 4 years of college	Available for all years
Student must be pursuing a degree or recognized education credential	Student does <u>not</u> need to be pursuing a degree or credential
Student must be enrolled at least half time	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction does not factor
Expenses include tuition, fees, and required course materials (includes required books)	Expenses include only tuition and fees (no books)

Practice Exercise 2: Marsha Brady Scenario

Interview Notes

- Marsha is single and employed as a clerk.
- Marsha earned \$35,000 in wages, and had no other income.
- In 2014, she took a computer class at the community college to improve her job skills.
- She has receipts showing she paid \$1,250 for tuition, \$250 for a course book, and \$75 for a parking permit. Marsha paid all expenses from her savings. She did not receive any assistance or reimbursement. She received a Form 1098-T showing \$1,250 in box 1.
- She ordered her course book from an online bookseller.
- The parking permit was not a requirement of enrollment.
- Marsha does not have enough deductions to itemize.
- Marsha is a U.S. citizen with a valid social security number.

Practice Exercise 2: Marsha Brady Scenario Questions

- 2.1) Which education benefit is Marsha eligible to take?
 - American opportunity credit
 - b. Lifetime learning credit
 - Both the American opportunity credit and lifetime learning credit с.
 - She does not qualify for any education benefit
- 2.2) Which of the following are Marsha's qualified educational expenses for the lifetime learning credit?
 - а. \$1,250 in tuition
 - b. \$250 for course book
 - с. \$75 parking permit
 - \$1,500 for tuition and course book

Practice Exercise 3: Ewan McGregor Scenario

Interview Notes

- Ewan McGregor's wife moved out in 2013. Ewan will not file a joint return with his wife.
- Ewan has paid all the costs of keeping up the home. His son, Carl, did not work and provided less than 50% of his own support.
- Ewan has never taken a distribution from a retirement account and is not a student.
- In 2014, Carl was a first year student at Brown College, an eligible educational institution. He is pursuing a degree in Computer Science. Carl used the proceeds of a student loan to purchase course-related books for \$1,500, pay \$9,000 for room and board, and pay the \$1,000 tuition not covered by his scholarship. Carl does not have a felony drug conviction.
- Carl lived in a dorm on campus during the school year. Carl lived with Ewan before he started attending college and during school breaks.
- The terms of Carl's scholarship state that it must be used to pay qualified tuition.
- Ewan wants to know if he has enough deductions to itemize. He gives you receipts and statements for the following items he would like to deduct:
 - O Unreimbursed doctor bills for Ewan: \$600
 - O Unreimbursed prescription drugs: \$1,100
 - A statement received through his church showing donations made throughout the year totaling \$1,450
 - Receipt for donation of furniture in good, used condition to Goodwill. The estimated fair market value is \$270
 - Online receipt for a \$150 donation to the local candidate for governor
 - Ewan paid \$1,400 for homeowner's insurance
 - Home mortgage interest (on Form 1098)
 - Real estate taxes (on Form 1098)
- Ewan is repaying a student loan from his technical school education. The loan was for qualified education expenses at an eligible institution.
- Ewan and Carl were covered all year under a health care plan through Ewan's employer.
- Ewan did not itemize deductions last year.

(October 2014)		Inte	Jek ske/Ini	tervie	The Ireas	Department of the Treasury - Internal Revenue Service Interview & Quality Review	Kevenue 3 y Rev	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	reet			OMB Number 1545-1964	mber 964
You will need: • Tax Information such as Forms W-2, 1099, 1098. • Social security cards or ITIN letters for all persons on your tax return. • Picture ID (such as valid driver's license) for you and your spouse.	Forms W-2 TIN letters driver's lice	, 1099, 1098. for all perso ense) for you	ns on you	ur tax re Ir spous	sturn.	Please You are comple If you h	complet e respon te and a nave que	Please complete pages 1-3 of this for You are responsible for the information. complete and accurate information. If you have questions, please ask the	 Please complete pages 1-3 of this form. You are responsible for the information on your return. Please provide complete and accurate information. If you have questions, please ask the IRS certified volunteer preparer. 	rm. ion on yo	ur return. P	lease prov	ide er.
Part I – Your Personal Information	tion												
1. Your first name Ewan			_	.I.	Last name McGregor	. e					Are you	Are you a U.S. citizen? ▼ Yes	en? No
2. Your spouse's first name				 	Last name	9					ls your a	ls your spouse a U	a U.S. citizen?
3. Mailing address 847 Mesa Ave						Apt # C	City Birmingham	 =			State AL	35	ZIP code 35205
4. Telephone number(s) (205) 9	(205) 901-0322				mail add	Email address (optional)	nal)						
te of Birth	6. Your job title	itle		7	. Last ye	7. Last year, were you:	Ju:			a. Full t	Full time student	t Yes	S No
08/10/1962	Electrician			ם	. Totally	b. Totally and permanently disabled	nently di		→ Yes	No C. L	c. Legally blind	I Yes	S No
8. Your spouse's Date of Birth	9. Your spot	9. Your spouse's job title			0. Last y	10. Last year, was your spouse:	our spou			l <u></u>	Full time student		
Craitor yet their an enione and their to the form		tor yet riod t		م م	. Totally a		manently di		☐ Yes	No o. L	c. Legally blind	l Yes	S No
12. Have voluer volus spouse:	o penode in	a Been a victim of identity theft?	m of ident	ity theff;				b. Adonted	Adopted a child?	\ \	S S		
Part II – Marital Status and Household I	Household	Information	<u>۔</u> اعا										
 As of December 31 of last year, 			ciudes reç	jistered	domestic	; parmersn	lbs, civil	unions, or i	omer tormal	relationsn	ips under st	tate law)	
were you:	\(\sigma\)	Married a.	Did you li	ve with	your spou	use during	any part	of the last	a. Did you live with your spouse during any part of the last six months of 2014?	of 2014?	□ Yes		
		ė.	Was your	. marriaç	je recogn	ized unde	r the law	s of the sta	b. Was your marriage recognized under the laws of the state(s) you are filing in?	e filing in?		% □	☐ Unsure
	□ >	Divorced or Legally Separated Widowed Year of spouse's d	Legally Separated [Year of spouse's death	arated use's de	Date c	of final dec	ree or se	sparate ma	Date of final decree or separate maintenance agreement	greement	01/20/2013	013	
2. List the names below of:	100	4,						If add	If additional space is needed check here and list on page	is needed	d check her	e 🗌 and lis	t on page 3
 everyone with lived with you last year (butter trial) you or anyone you supported but did not live with you last year 	idstyear (did not live w	other than you or your spouse) ith you last year	u or your : ear	(asnods					To be cor	npleted b	To be completed by a Certified Volunteer Preparer	d Voluntee	r Preparer
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	^		US Citizen (yes/no)	. 0	Single or Married as of 12/31/14 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone	Did this person provide more than	_	Did the taxpayer(s) provide more than 50% of	Did the taxpayer(s) pay more than half the cost of
(a)	æ	parent, none, etc) (c)	last year	(0)	last year (yes/no) (f)	(0)	(9	else as a dependent on their retum?	50% of their own support?	of income? s (yes/no) tt	support for this person? (yes/no)	maintaining a home for this person?
Carl McGregor	66,	Son	12	Yes	Yes	S	Yes	No	(2000)				(Suppl)
	Volunteers To report une	Volunteers are trained to provide high quality service and uphold the highest ethical standards. To report unethical behavior to the IRS, email us at wi.voltax@irs.gov or call toll free 1-877-330-1205	d to prov avior to t	ide higl he IRS,	n quality email us	service a	nd upho tax@irs.	ld the high	are trained to provide high quality service and uphold the highest ethical standards. thical behavior to the IRS, email us at <u>wi.voltaχ@irs.gov</u> or call toll free 1-877-330-12	standard: 877-330-1	s. 205		
	•			•)	,					

Form 13614-C (Rev. 10-2014)	VOD STI WWWW	7 6 6 6 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	N	Catalog Number 52121E
	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?		*	
	(B) Make estimat		*	
	8. (B) Pay any student loan interest? (Form 1098-E)		*	
	7. (A) Receive the First Time Homebuyers Credit in 2008?		*	
	6. (B) Live in an area that was affected by a natural disaster? If yes, where?		*	
	č		*	
ı	4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year?		*	
	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)		*	
199-C, 1099-A)	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)		*	
	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)		*	
	-	Life Events		Part V
	11. (A) Expenses related to self-employment income or any other income you received?		*	
	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?		*	
	9. (B) Child or dependent care expenses such as daycare?		*	
	8. (B) Charitable contributions?			*
	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)			*
	6. (B) Home mortgage interest? (Form 1098)			*
	5. (B) Medical expenses? (including health insurance premiums)			*
	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)		*	
	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)			*
Roth IRA (B) Other	2. Contributions to a retirement account? IRA (A) x 401K (B)			*
	1. (B) Alimony? If yes, do you have the recipient's SSN? \Box Yes \Box No		*	
	s – Last Year, Did You (or Your Spouse) Pay	Expenses	IV – E	Part IV -
	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify		*	
	14. (M) Income (or loss) from Rental Property?		*	
	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)		*	
	12. (B) Unemployment compensation? (Form 1099-G)		*	
	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)		*	
V-2)	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)		*	
₃ -S,1099-B)	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S,1099-B)		*	
	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?		*	
	7. (A) Self-Employment income? (Form 1099-MISC, cash)		*	
	6. (B) Alimony income?		*	
	5. (B) Refund of state/local income taxes? (Form 1099-G)		*	
(AIG-66	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)		*	
	3. (B) Scholarships? (Forms W-2, 1098-T)		*	
	2. (A) Tip Income?		*	
	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year?			>
	Part III – Income – Last Year, Did You <i>(or Your Spouse)</i> Receive	ncome –	<u>-</u>	Part

						Page 3
alth Care	Coverage (includes CHIP, Medicare, Medicaid, Employer	ver-Sponsored Ins	urance Indiv	idual Health Ins	urance. efc.)	
In the second of the seco	1 Last year did vou have health care coverage for you your source and all qualifying dependents? (Forms W-2 1099 SSA and Form 1095 series)	our spouse and a	Il qualifying del	pendents? (Forn	1s W-2, 1099 St	SA and Form 1095 series)
	2. Last year, did you or your spouse receive an advance payment from the Marketplace to help you pay for your monthly health care payments? (Form 1095A)	payment from the N	Marketplace to	help you pay for	your monthly h	lealth care payments?
Visit http://www.healthcare.gov/ or call 1-800-318-2596 for more information on health insurance coverage options and assistance.	1-800-318-2596 for more information	on on health insu	rance coverac	e options and	assistance.	
If you're receiving advance payments of the premium tax credit to help pay for your health insurance coverage, you should report life changes, such as income, marital status or family size changes, to your marketplace. Reporting changes will help to make sure you are getting the proper amount of advapayments.	s of the premium tax credit to help pay for your health insurance coverage, you should report life changes, such as changes, to your marketplace. Reporting changes will help to make sure you are getting the proper amount of advance	ty for your health rting changes will	insurance covelp to make	/erage, you sho sure you are g	ould report life etting the prop	changes, such as ber amount of advance
To be completed by a Certified Volunteer Preparer (Use Publication 4012 and check the appropriate box(es) indicating the health care coverage status for everyone listed on the return)	reparer (Use Publication 4012 and check	the appropriate box	(es) indicating th	e health care cove	erage status for e	veryone listed on the return)
Had Health Care Coverage	(B) For the Entire year		(B) For part of the year (Less than 12 months)	(B) No Health Care Coverage at all	alth Care	(B) Qualify for an exemption
Taxpayer						
Spouse						
Dependent number 1 (page 1)						
Dependent number 2 (page 1)						
Dependent number 3 (page 1)						
Dependent number 4 (page 1)						
Part VII - Additional Information and Qu	Questions Related to the Preparation of Your Return	of Your Return				
	you check a box, your tax or refund	will not change)	[
Check nere if you, of your spouse if filing jointly, want \$3 to go to this fund	g jointly, want \$3 to go to this fund	L You	esnode			
If you are due a refund, would you like:a. Direct deposit	b. To purchase U.S. Savings Bonds	avings Bonds		c. To split your	refund betweer	c. To split your refund between different accounts
☐ Yes №	□ Yes ■	0		□ Yes	8 8	
3. If you have a balance due, would you lik	like to make a payment directly from your bank account?	our bank account?	□ Yes	% *		
Many free tax preparation sites operate by receiving grant money. The data from the following questions may be used by this site to apply for these grants. Your answers will be used only for statistical purposes.	by receiving grant money. The dat istical purposes.	a from the followi	ng questions	may be used b	y this site to ap	pply for these grants.
4. Other than English, what language is spoken in your home? None	oken in your home? None					Prefer not to answer
5. Are you or a member of your household considered disabled?	considered disabled? Yes	N **	☐ Prefer not to answer	to answer		
Additional comments						
Catalog Number 52121E	ww	www.irs.gov			LĒ.	Form 13614-C (Rev. 10-2014)



a Employee	s's social security number -0196	OMB No. 1545		Safe, accurate, FAST! Use	IRS P	file		e IRS website at s.gov/efile
b Employer identification number (EIN) 37-5555555			1 Wag	ges, tips, other com \$30,000.0	•	2 Federa	al income t \$2,65	ax withheld 53.00
c Employer's name, address, and ZIP code Pace Construction			3 Soc	sial security wages		4 Social	security ta	x withheld 97.00
3604 Forrest Trail Birmingham, AL 35205			5 Me	dicare wages and \$32,000.0		6 Medic	are tax wit	
			7 Soc	cial security tips		8 Alloca	ited tips	
d Control number			9			10 Deper	ndent care	benefits
e Employee's first name and initial Last name	е	Suff.	11 No	nqualified plans				for box 12
Ewan McGregor						° D	\$1,8	300.00
847 Mesa Ave Birmingham, AL 35205			13 Statu	utory Retirement plan	Third-party sick pay	12b	\$3,7	' 58
			14 Oth	er		12c		
						12d	ı	
f Employee's address and ZIP code						e		
15 State Employer's state ID number	16 State wages, tips, etc.	17 State incom		18 Local wages,	tips, etc.	19 Local inco	ome tax	20 Locality name
AL 37-555555	\$30,000.00	\$1,60	u.00					
Form W-2 Wage and Tax Statement		01	 	De	partment of	the Treasury	y—Internal	Revenue Service

	☐ CORRE	CTED			
FILER'S name, street address, city or town, s foreign postal code, and telephone number	state or province, country, ZIP or	Payments received for qualified tuition and related expenses	OMB No. 1545-1574		
Brown College		\$ 6,000.00	2014		Tuition
10 College Ave Birmingham, AL 35205		2 Amounts billed for qualified tuition and related expenses			Statement
		\$	Form 1098-T		
1	DENT'S social security number	3 If this box is checked, your ed			Copy B
25-7777688	209-xx-xxxx	has changed its reporting me	thod for 2014		For Student
STUDENT'S name		4 Adjustments made for a	5 Scholarships or gran	ıts	
Carl McGregor		prior year			
g		\$	\$ 5000.00		This is important
Street address (including apt. no.)		6 Adjustments to	7 Checked if the amou	nt in	tax information
347 Mesa Ave		scholarships or grants for a prior year	box 1 or 2 includes amounts for an acad	and is being furnished to the	
City or town, state or province, country, and	ZIP or foreign postal code	. Tor a prior year	period beginning Jan		Internal Revenue
Birmingham, AL 35205		\$	March 2015 ►		Service.
Service Provider/Acct. No. (see instr.)	8 Check if at least	9 Checked if a graduate	10 Ins. contract reimb./	refund/	
	half-time student	student	\$		
Form 1098-T (keep for	r your records)	www.irs.gov/form1098t	Department of the Tr	reasury -	Internal Revenue Service

		_				
	CORRE	.CT	ΓED (if checked)			
RECIPIENT'S/LENDER'S name, street ad			Caution: The amount shown ay not be fully deductible by you.	OMB No. 1545-0901	1	
country, ZIP or foreign postal code, and t	· '	Lim	nits based on the loan amount	1	1	Mortgage
Highland Mortgage Company 2140 11th Ave S		1	d the cost and value of the cured property may apply. Also,	2014	1	Interest
Birmingham, AL 35205		you	u may only deduct interest to	ZW 🖛	1	Statement
, 		acti	e extent it was incurred by you, tually paid by you, and not	'	1	Otatoine
		reir	mbursed by another person.	Form 1098	L	
RECIPIENT'S federal identification no.	PAYER'S social security number	1	Mortgage interest received f	from payer(s)/borrower((s)*	Copy B
23-4445555	208-xx-xxxx	\$	\$6,552.00			For Payer/Borrower
PAYER'S/BORROWER'S name		2	Points paid on purchase of		The information in boxes 1,	
Ewan McGregor						2, 3, and 4 is important tax information and is being
Ewali McGregor		\$				furnished to the Internal Revenue Service. If you are
Street address (including apt. no.)		3 Refund of overpaid interest				required to file a return, a negligence penalty or other
347 Mesa Ave		\$			sanction may be imposed on you if the IRS determines	
City or town, state or province, country	y, and ZIP or foreign postal code	4				that an underpayment of tax results because you
Birmingham, AL 35205						overstated a deduction for this mortgage interest or for
Account number (see instructions)	-	5	Real estate taxes			these points or because you did not report this refund of
1			\$1,954.00			interest on your return.
Form 1098 (keep for	r your records) www.irs.	.go	ov/form1098	Department of the T	reasury -	- Internal Revenue Service

	☐ CORRE	CTED (if checked)			
RECIPIENT'S/LENDER'S name, addre country, ZIP or foreign postal code, ar FINANCIAL AID PARTNE 655 LINCOLN STREET BIRMINGHAM, AL 35205	nd telephone number		OMB No. 1545-1576 2014 Form 1098-E		Student Loan Interest Statement
RECIPIENT'S federal identification no.	BORROWER'S social security number	1 Student loan interest receiver \$ 800			Copy B For Borrower
BORROWER'S name					This is important tax
EWAN MCGREGOR					information and is being furnished to the Internal Revenue Service. If you are required to file a
Street address (including apt. no.) 847 MESA AVE					return, a negligence penalty or other
City or town, state or province, countr BIRMINGHAM, AL 35205					sanction may be imposed on you if the IRS determines that an underpayment of tax
Account number (see instructions)		2 If checked, box 1 does not in fees and/or capitalized intere September 1, 2004	st for loans made before	'е	results because you overstated a deduction for student loan interest.
Form 1098-E (ke	eep for your records)	www.irs.gov/form1098e	Department of the T	reasury	- Internal Revenue Service

First, enter the taxpayer information in the Interview section; answer questions on the Schedule EIC and Dependents worksheet; and enter all income from Ewan during the year.

Carl's Higher Education Expenses:

- Since Carl is Ewan's Qualifying Child, Ewan can claim the educational expenses paid for Carl at Brown College.
- Carl is attending an eligible institution, is enrolled at least half-time, is in his first year of college, is
 pursuing a degree, and does not have a felony conviction. Thus, Ewan can claim the American
 Opportunity Credit for Carl's qualifying expenses.

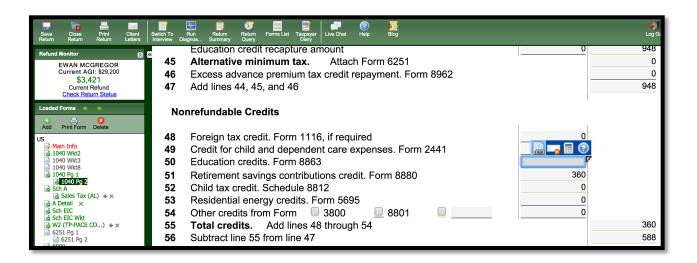
Which of Carl's expenses are qualifying expenses for the American Opportunity Credit?

- Course-Related Books: \$1,500
- Room and Board: \$9,000
- Tuition and Fees from Form 1098-T: \$6,000
 - Carl received scholarship or grant money. You must subtract the scholarship/grant amount from the tuition and fees amount to determine how much was paid **out of pocket**.
 - o \$6,000 \$5,000 = \$1,000
 - Out of Pocket Tuition and Fees: \$1,000 qualifying expense for Education Credit

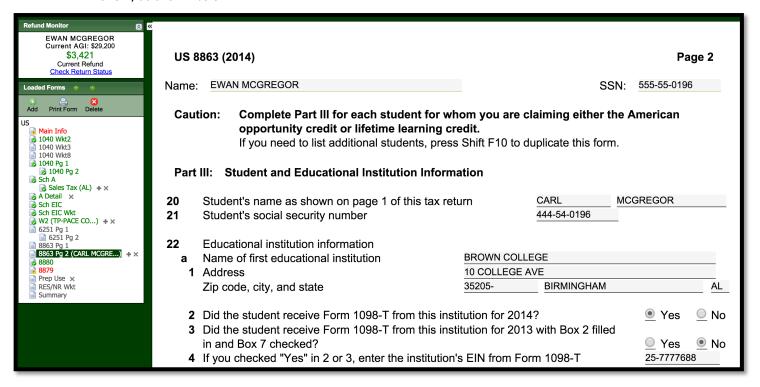
Add up Carl's total qualified expenses for the American Opportunity Credit:

Entering Information for American Opportunity Credit into TaxWise:

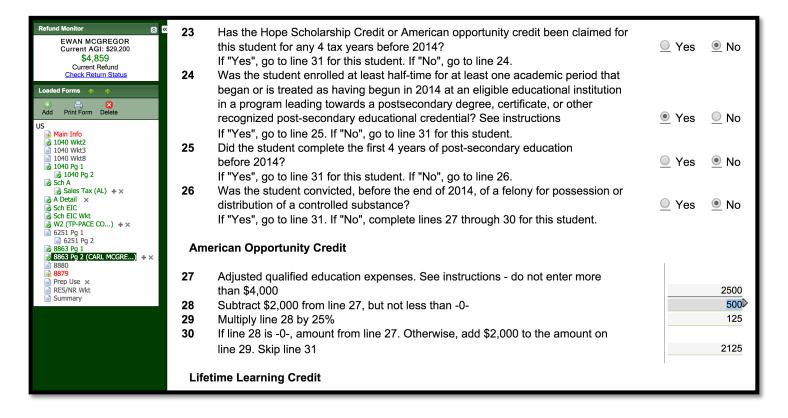
Link from 1040 Page 2, Line 50 Education Credits → Form 8863



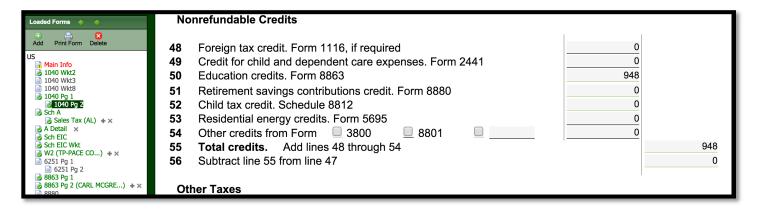
Go to Page 2 of the 8863 and complete the student and educational institution information from the 1098-T, as shown below.



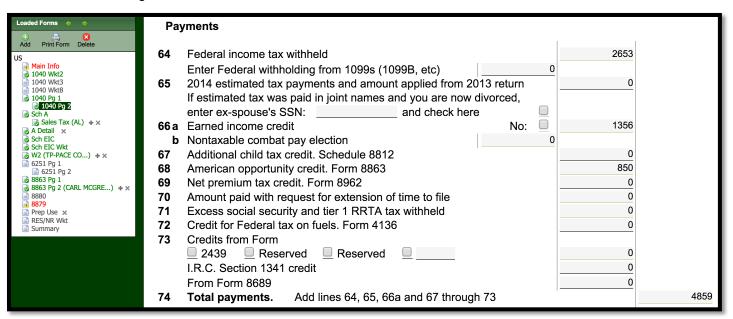
Answer questions 23 through 26. In Line 27, enter the total qualified expenses (as we calculated above in our notes.) TaxWise will now calculate everything else automatically.



Return to the 1040 Page 2 and see where TaxWise calculated the Nonrefundable portion of the Education credit on Line 50.

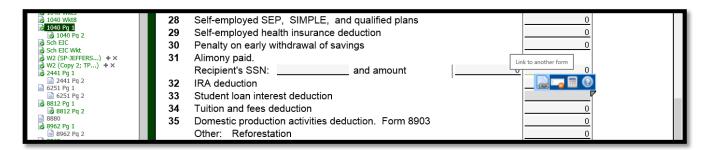


And then scroll down to see the refundable portion of the education credit in the Payments section of the 1040 Page 2 on Line 68.

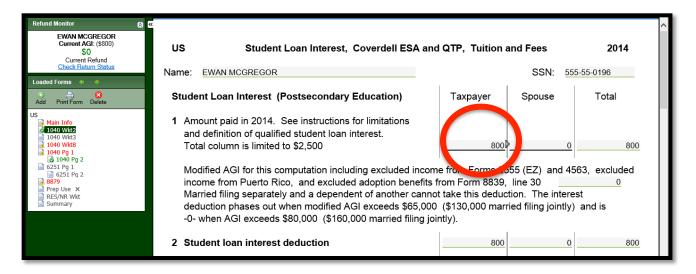


Ewan is also paying a student loan for qualified education expenses at an eligible institution, found on his 1098-E. This amount can be taken as an adjustment to income

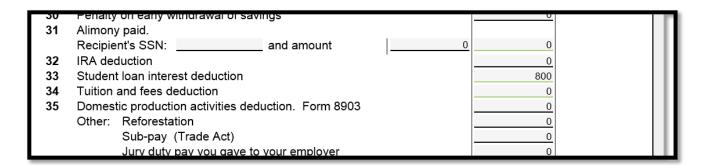
Link From 1040 Pg. 1, Line 33 Student loan interest deduction → 1040 Wkt2



In the first section, Student Loan Interest (Postsecondary Education), enter \$800 (from box 1 of Ewan's 1098-E) on line 1 in the Taxpayer column.



Return to the Form 1040 Pg 1 and scroll down to line 33 to see the student loan interest adjustment on line 33.



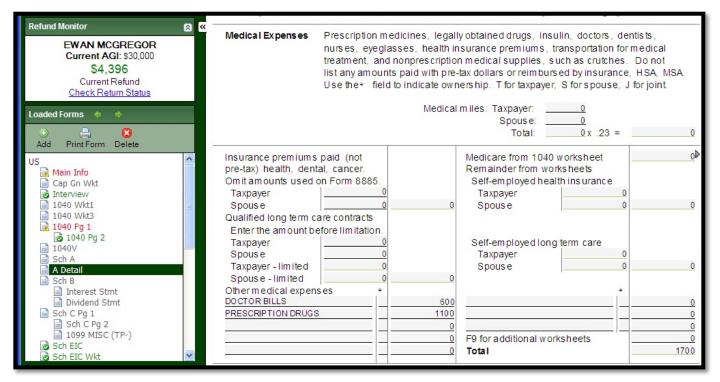
Now, let's enter Ewan's Itemized Deductions.

Which of the following can Ewan itemize?

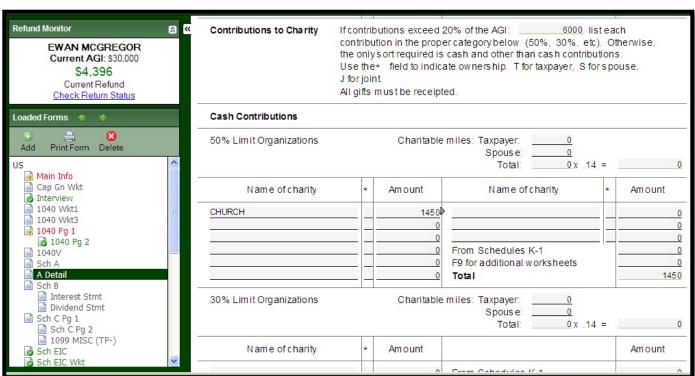
- Unreimbursed doctor bills for Ewan: \$600
- Unreimbursed prescription drugs: \$1,100
- A statement received through his church showing donations made throughout the year totaling \$1,450
- Receipt for donation of furniture in good, used condition to Goodwill. The estimated fair market value is \$270
- Online receipt for a \$150 donation to the local candidate for governor
- Ewan paid \$1,400 for homeowner's insurance
- Mortgage Interest from Form 1098: \$6,552
- Real estate taxes from Form 1098: \$1,954

To Enter Itemization in TaxWise, go to "A Detail" on the left-hand navigator.

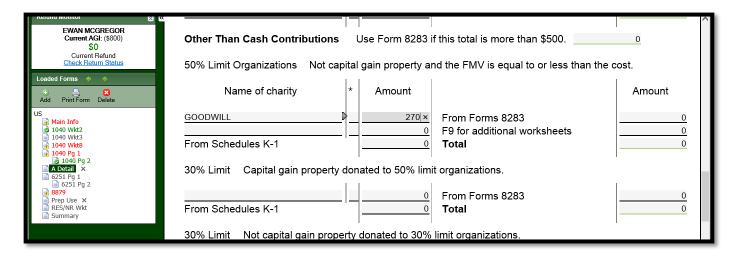
Here you will enter qualified medical expenses.



Then scroll down to enter qualified charitable cash contributions.

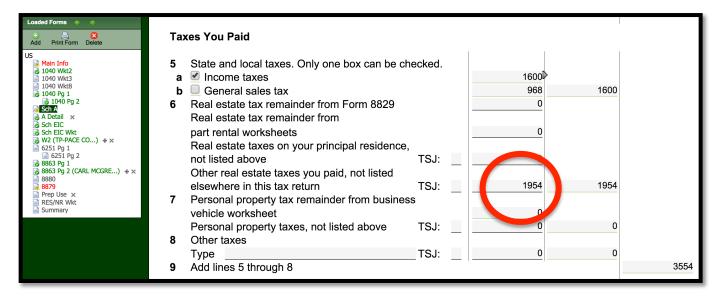


Then scroll down further to enter qualified NON-cash contributions (in the Other Than Cash Contributions section)

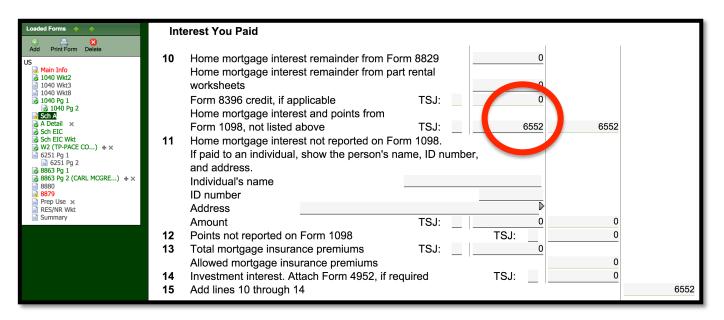


Now, go to "Sch A" on the left-hand navigator.

Here, we will enter real estate taxes from Form 1098. Scroll to the "Taxes You Paid" section and enter on line 6.



Now, scroll down to the "Interest You Paid" section, and enter home mortgage interest from Form 1098 on line 10.



Exercise 3 Questions for Ewan McGregor Scenario

- 3.1) What is Ewan's total tax deduction on Schedule A, line 9? \$_____
- 3.2) What is Ewan's total deduction for charitable contributions on Schedule A, line 19? \$______.
- 3.3) To compute the American opportunity credit, which of Carl's following expenses qualify?
 - a. Tuition and fees paid by the scholarship
 - b. Room and board
 - c. Course-related books
 - d. All of the above
- 3.4) What is the amount of Evan's student loan interest deduction from Form 1040, page 1? \$______