

What Are They and How Do I Use Them?

**A Toolkit to
Increase and Improve Filing of the Federal
Hope and Lifetime Learning Education Tax Credits
by Low-Income Filers**

Created by FutureWorks

For the Annie E. Casey Foundation

December 2006

Memo

To: *Free Tax Preparation Sites*

From: *FutureWorks*

Date: *December 2006*

Re: *Tools to increase and improve filing of the Hope and Lifetime Learning Tax Credits for Low-Income Filers*

This toolkit grew out of an “action research” project funded by the Annie E. Casey Foundation in 2005 and 2006. FutureWorks’ report, *What Are They and How Do I Use Them: Strategies and Tools to Increase and Improve Filing of the Federal Hope and Lifetime Learning Education Tax Credits by Low-Income Filers*, presents the findings of the research and background information on the attached tools. This toolkit includes several tools to increase awareness of the education tax credits by free tax assistance clients and preparers. It also includes worksheets and guidance on how to correctly file for the credits. Please feel free to use and adapt these materials to fit your needs. We hope you find them useful.

Attachments:

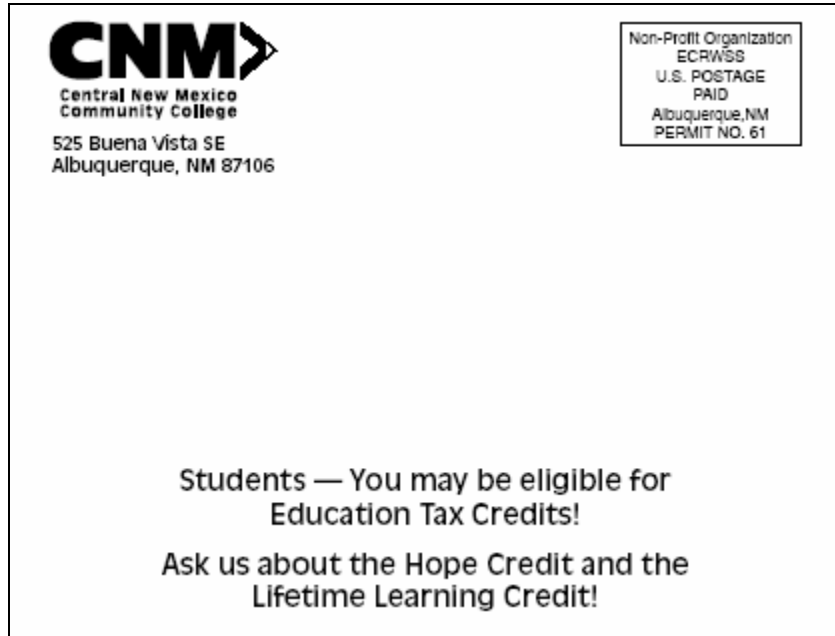
	<u>Page</u>
A: Central New Mexico Community College Education Tax Credits Postcard	3
<ul style="list-style-type: none">• <i>Central New Mexico Community College (CNM) has an extensive free tax preparation program for its low-income students and community members. This is one of its outreach materials.</i>	
B: Central New Mexico Community College and Tax Help New Mexico Flyers	4
<ul style="list-style-type: none">• <i>This is a “base” flyer for CNM’s tax assistance outreach. The college customizes it for students by affixing a shiny metallic sticker that says: “Attention Students: You Might Be Eligible for Education Tax Credits! Ask Us About the Hope and Lifetime Learning Tax Credits.”</i>• <i>Note that the flyer is in English and Spanish.</i>	
C: Help Your Tax Clients Claim An Education Tax Credit: Information on the Hope and Lifetime Learning Tax Credits	6
<ul style="list-style-type: none">• <i>This two-pager was created for the project to provide volunteer tax preparers a quick overview of the education tax credits.</i>• <i>For another example of a two-page informational overview, see the Center on Budget and Policy Priorities’ 2007 Earned Income Credit and Child Tax Credit Outreach Kit: http://www.cbpp.org/eic2007/</i>	

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D: Tax Counseling Project, Center for Economic Progress (CEP) Client Intake Sheet	8
<ul style="list-style-type: none"> Note the question about anyone in the family attending college or vocational school in 2005 at the bottom of page 1. CEP has been successful with the wording of this question. Our thanks go to CEP for sharing this form. 	
E: IRS Form 13614 Intake and Interview Sheet	10
<ul style="list-style-type: none"> Note how the question about education expenses is asked by a certified volunteer – this may help to get more accurate information about tuition and fees paid by the filer. 	
F: IRS Form 8863 – Education Credits	12
<ul style="list-style-type: none"> This is the form used for claiming the education tax credits. 	
G: Quick Reference Guide: Filing for the Hope and Lifetime Learning Tax Credits	13
<ul style="list-style-type: none"> This guide was created for this project to help volunteers answer three questions: <ul style="list-style-type: none"> (1) Is the student an eligible student? (2) Is the institution an eligible institution? (3) How do I calculate “qualified expenses?” Please note that the flowcharts are from <u>2005</u> IRS publications. Updated publications were not available at the time of the report release. Please use updated flowcharts for the 2006 tax year from updated publications (www.irs.gov → Most requested forms and publications → More forms and publications) This guide was piloted by free tax assistance sites in spring 2006. It is not an official IRS publication, but has been reviewed by IRS Office of Stakeholder Partnerships, Education and Communication (SPEC) staff for accuracy.¹ 	
H: 1098-T and Education Benefits	19
<ul style="list-style-type: none"> We thank the Community Tax Center at the Foundation Communities in Austin, Texas, for their guide sheet on filing for the education tax credits. 	

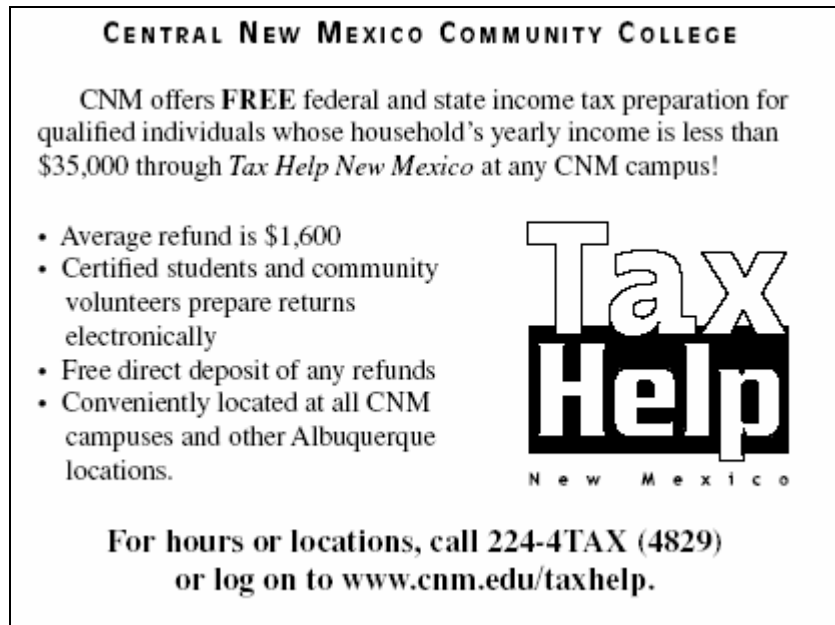
¹ Our thanks to Don Dill and Oksana Stowbunenko, both of the IRS SPEC office, for multiple reviews of this document.

**Attachment A:
Central New Mexico Community College Education Tax Credits Postcard**

Front:



Back:



**Attachment B:
Central New Mexico Community College and
Tax Help New Mexico Education Tax Credits Flyers (Base)**

Welcome to

Tax Help New Mexico

Free tax preparation help for low-income and working families

Get your refund faster!

Did you know? If you file electronically and choose to have your refund sent via Direct Deposit, you can receive your money in **7-10** days vs. **more than 14** days when you file a paper return and wait for a mailed check!

In order for us to complete your income tax return you need the following items:

- Social Security cards for yourself, your spouse, and all dependents.
- Birth dates for yourself, spouse and all dependents.
- Form W-2 Wage and Tax Statements from your employer and from your spouse's employer, if filing jointly. You need a W-2 form from every employer you (and your spouse if applicable) worked for in 2004, if the income was taxable.
- Form W-2G Certain Gambling Winnings, if applicable.
- SSA-1099 Social Security Benefits Statement, if applicable.
- Records of all other income received.
- If you would like to use direct deposit to receive your refund, you must have a check or bank document showing the bank routing number and account number for your account.
- If you are claiming child and dependent care expenses, you need the amount you paid for child care, and the care provider name, address, and tax number.
- If you are itemizing your deductions (instead of taking the standard deduction), you will need a list of all deductible expenses. If you are deducting your mortgage interest, you will need the interest statement your mortgage company sent you.

It may be helpful to have the following materials as well:

- A copy of last year's Federal and State return.
- Current year tax package, if received.
- Records to confirm any other item you may want to include on the tax return.

Your spouse must be present

Important: If you are married and filing jointly, your spouse must accompany you so that he or she can also sign the tax form before it is submitted to the IRS. You cannot take the form home to obtain a signature and bring it back later.

WHAT TAX CREDITS DO YOU QUALIFY FOR?

Most New Mexicans qualify for some type of tax credit – see which ones apply to you!

Tax credit	Maximum benefit	Qualifying factors	Additional information
Earned income tax credit	Up to \$4,300 (for families with qualifying children)	Income less than \$34,458 with 2 or more qualifying children, \$30,338 with one child.	People with no qualifying children may qualify if their income is less than \$11,490.
Child tax credit	Up to \$1,000 per qualifying child	Most parents, single or married, qualify for this tax credit.	Ask your tax preparer whether your children "qualify" under IRS rules. This credit may be refundable.
Dependent care tax credit	\$2,100 for 2 or more dependents, \$1,050 for 1 dependent	If your adjusted gross income is under \$43,000, you may be eligible to receive credit for between 35 and 21 percent of qualifying expenses.	Besides children, the cost of care for parents who live with you may be eligible.
NM Child Day Care credit	Between \$480 and \$1,200, depending on the number of qualifying children	Income must be less than \$21,424.	
NM Low Income Comprehensive Tax Rebate	Up to \$450 depending on family size	Income must be less than \$22,000.	Social Security Income and Temporary Assistance for Needy Families recipients usually qualify.

For locations and hours...

- In Albuquerque call 224-4TAX.
- Outside Albuquerque call 888-453-1304.

Sponsored by



Bienvenidos a

Tax Help New Mexico

Ayuda gratis para preparar la declaración de impuestos para familias trabajadoras con ingresos bajos.

¡Consiga su reembolso más rápido!

¿Ya lo sabía? Si se registra electrónicamente y elige que su reembolso se le envíe como depósito directo, puede recibir su dinero de **7 a 10 días**, ¡nada comparado con los **14 días que hay que esperar** para recibir un cheque por correo con las declaraciones convencionales!

Para completar su devolución de impuestos necesita la siguiente documentación:

- Su tarjeta de seguridad social, de su cónyuge y otros dependientes.
- Su fecha de nacimiento, la de su cónyuge y otros dependientes.
- La forma W-2 Wage y los estados de cuenta fiscales de su empleador y del empleador de su cónyuge, si se registran juntos. Es necesaria una forma W-2 por cada empleador que haya tenido usted o su cónyuge durante el año 2004, si los ingresos eran gravables.
- La forma W-2G Certain Gambling Winnings (ciertas ganancias del juego), si aplica.
- El SSA-1099, estado de cuenta de los beneficios de la Seguridad Social, si aplica.
- El registro del resto de ingresos percibidos.
- Si quiere recibir el reembolso mediante depósito directo, debe proporcionar un cheque o documento bancario con el número de enrutamiento y el número de cuenta.
- Si esta reclamando gastos de manutención de hijos o dependientes económicos, debe comprobar los gastos realizados, el nombre del proveedor, la dirección y el número de impuesto.

- Si especifica sus deducciones (en lugar de la deducción estándar), necesitará una lista de todos los gastos deducibles. En caso de que deduzca el interés de su hipoteca, será necesario el estado de cuenta que le envía su compañía hipotecaria.

Puede ser beneficiario presentar la siguiente documentación:

- Una copia de la devolución federal y estatal del año pasado.
- El paquete de impuestos anual actualizado en caso de que ya lo haya recibido.
- Comprobantes de cualquier otro gasto que quiera incluir en la devolución de impuestos.

Su cónyuge debe estar presente.

Importante: si está casado/casada y declaran juntos, su cónyuge debe acompañarle para que también firme la declaración de impuestos antes de que sea enviado al IRS. No puede llevar el documento a su casa para que sea firmado y regresarlo.

¿QUÉ CRÉDITOS PUEDE OPTAR?

La mayoría de los nuevo mexicanos califican para algún tipo de crédito fiscal- ¡averigüe cuál es el suyo!

Créditos fiscales	Beneficio máximo	Condiciones para calificar	Información adicional
Créditos fiscales por ingreso	Hasta \$4,300 dólares (para familias con hijos que califiquen)	Ingresos menores a \$34,458 dólares con 2 o más hijos que califiquen, \$30,338 por un hijo que califique.	Las personas con hijos que no califiquen pueden optar a este crédito si sus ingresos son menores a \$11,490 dólares.
Crédito fiscales para hijos	Hasta \$1,000 dólares por hijo que califique	La mayor parte de los padres, solteros o casados, califican para este crédito fiscal.	Consulte a su consejero fiscal si sus hijos califican según las reglas IRS. Este crédito puede ser reembolsable.
Crédito fiscales para dependientes económicos	\$2,100 dólares para 2 o más dependientes, \$1,050 dólares para 1 dependiente	Si sus ingresos brutos son menores a \$43,000 dólares, puede optar a un crédito que cubra del 35 al 21 por ciento de los gastos que califiquen.	Además de los hijos, el costo de las personas mayores que hay a su cargo también puede optar a crédito.
Crédito fiscal para guardería infantil	Entre \$480 y \$1,200 dólares dependiendo de el número de hijos que califique	Los ingresos deben ser menores a \$21,424 dólares.	
Descuento fiscal para familias de ingresos bajos	Up to \$450 depending on family size	Los ingresos deben ser menores a \$22,000 dólares.	El costo de la seguridad social y de la asistencia temporal para los integrantes de familias necesitadas también suelen calificar.

Sucursales y horarios...

- En Albuquerque llame al 224-4TAX.
- Fuera de Albuquerque llame al 888-453-1304.

Patrocinado por



Attachment C:



Help Your Tax Clients Claim An Education Tax Credit

Information on the Hope and Lifetime Learning Tax Credits



Questions to ask when scheduling an appointment or on intake form:

- Did you or anyone in your family attend college or vocational school in 2006? If so, please write the name of the school(s): _____ (and bring in the forms listed below)
- Did you or anyone in your household receive student financial aid for this education? (bring in the forms listed below)

Forms the client should bring to tax assistance session:

- 1098-T Tuition Statement (filer should have received it from the school, college, or university)
- A bill or receipt from the school, college, or university that shows how much the student paid in tuition and fees or paperwork showing how many credits the student took and the tuition and fees for each credit. ****This information may be on the 1098-T, but often is not and may not be correct.****
- Financial aid statement from the school, college, or university showing the student's estimated cost of attendance for tuition and fees and how much financial aid the student received.

Forms the volunteer tax preparer should complete:

- IRS Form 1040 or 1040A (education tax credits found in the "Tax and Credits" section). *Note: filer cannot use the 1040EZ to claim an education tax credit.*
- IRS Form 8863: Education Credits (Hope and Lifetime Learning Credits)

Publications to find more information:

- Instructions for forms 1040 and 1040A, specifically sections on the education tax credits
- IRS Publication 970: *Tax Benefits for Education*, specifically sections 2 and 3

Tips to keep in mind:

- Claim the Hope Credit if:
 - Student attended college at least half-time (usually 6 credit hours or more, but specifically defined by the school or college) in a program leading to an undergraduate degree, certificate, or other recognized educational credential; and
 - Student was in the first two years of the program (usually freshman or sophomore); and
 - Student has not claimed the Hope credit in any two earlier tax years (or had it claimed on his or her behalf); and
 - Student was free of any federal or state felony conviction for possessing or distributing a controlled substance as of last year.
- Claim the Lifetime Learning Tax Credit if:
 - Student attended college for any number of credit hours; and
 - Student does not qualify for a Hope Credit.
 - Non-credit education counts as long as it is at an eligible institution and is taken to improve job skills; see table below.
- Preparers should compare the tax benefit received by filing an education tax credit to that received by filing for the tuition and fees deduction. This can be done by entering the two scenarios separately in TaxWise and comparing the results. Do this at the end of the session after you have determined the client has a tax liability that can be reduced by a credit or deduction.

- On IRS form 8863, tax preparers and clients must calculate the “qualified expenses.” Remember:
 - The credits can be taken **ONLY** for tuition and required fees; claimants **CANNOT** include any other expenses such as room, board, books, supplies, equipment, childcare, transportation, etc., **UNLESS** these expenses must be paid to the institution as a condition of enrollment or attendance.
 - The credit can be claimed only for tuition and required fees the student paid **AFTER** all **TAX-FREE** student aid is subtracted, including Pell Grants, scholarships, employer-provided tuition assistance, and Veterans’ educational assistance. The tuition and fees students paid for with a loan **CAN** be used to claim the credit.
- To be efficient, volunteers should complete the forms related to these credits toward the end of the tax preparation session. Because these are non-refundable credits, they apply only if a client owes taxes. If a client still has a tax liability after completing all other tax forms, the volunteer should file for the education tax credits.
- See the *Quick Reference Guide: Filing for the Hope and Lifetime Learning Tax Credits*

Summary

	Hope Scholarship Tax Credit (Hope)	Lifetime Learning Tax Credit (LLTC)
Amount	<ul style="list-style-type: none"> • 100% for the first \$1,100 of qualified expenses; 50% on the second \$1,100 (up to \$1,650 credit <i>per eligible student</i>) 	<ul style="list-style-type: none"> • 20% for the first \$10,000 of qualified expenses (up to \$2,000 credit <i>per return</i>)
Targeted Group	<ul style="list-style-type: none"> • Students in their first two years of undergraduate postsecondary education 	<ul style="list-style-type: none"> • College juniors and seniors • Graduate and professional degree students • Adults upgrading skills or changing careers
Recipient Eligibility	<ul style="list-style-type: none"> • Available for the first two academic years’ worth of postsecondary education and only for two tax years • Must pursue a recognized credential • Must be enrolled at least half-time • Must not have a felony drug conviction 	<ul style="list-style-type: none"> • Available for any postsecondary education to acquire or improve job skills (including non-credit) • Available for an unlimited number of years • Do not need to pursue a recognized credential • Available for one or more courses • Felony drug conviction rule does not apply
Claimant	<ul style="list-style-type: none"> • Taxpayers may claim a credit for their own tuition/fee expenses or those of their spouse or dependents. The credit is calculated on a per-eligible student basis, and there is no limit on the number of eligible students. 	<ul style="list-style-type: none"> • Taxpayers may claim a credit for their own tuition expenses or those of their spouse or dependents. Maximum credit is determined on a per-return (family) basis, regardless of the number of post-secondary students in the family.
Expenses Covered	<ul style="list-style-type: none"> • “Net tuition and fees” - Tuition and required fees paid to a postsecondary educational institution required for enrollment or attendance <u>minus</u> grants, scholarships, and other tax-free educational assistance (including Pell Grants, employer-provided education assistance, and Veteran’s educational assistance) • Note: The expenses covered do not include the cost of books, supplies, equipment, insurance, medical expenses (including student health fees), room and board, transportation, or other living expenses unless they must be paid to the institution as a condition of enrollment or attendance. 	
Eligible Institutions	<ul style="list-style-type: none"> • Any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Includes virtually all accredited, public, non-profit, and proprietary postsecondary institutions. 	
Income Eligibility	<ul style="list-style-type: none"> • Phased out for joint filers with \$90,000 to \$110,000 of modified AGI (tax year 2006) • Phased out for single filers with \$45,000 to \$55,000 modified AGI (tax year 2006) • Married couples must file a joint return to claim a benefit (married filing separately is not eligible) • Individuals must modify their AGI to include income earned abroad 	
Other Details	<ul style="list-style-type: none"> • Families are able to claim the Lifetime Learning tax credit for some members and Hope credit for others in the same year. However, the same student cannot take both credits. • Neither credit can be claimed by those who are “married, but filing separately.” 	

Note: Summarized from Internal Revenue Service Publication 970, Tax Benefits for Higher Education (2005 tax year). Updated amounts for 2006 tax year.

**Attachment D:
Tax Counseling Project, CEP Client Intake Sheet**

CLIENT INTAKE SHEET 2006 Tax Counseling Project



YOUR INFORMATION:

First Name M.I. Last Name Social Security Number / ITIN

SPOUSE INFORMATION:

First Name M.I. Last Name (if different) Social Security Number / ITIN

ADDRESS:

Street Apt City State Zip

EMAIL ADDRESS: _____

Telephone Numbers:	YOU	SPOUSE	OCCUPATION	
Daytime	_____	_____	_____	_____
Evening	_____	_____	Your Occupation	# Jobs in 2005
Date of Birth:	_____	_____	_____	_____
Age:	_____	_____	Spouse Occupation	# Jobs in 2005

MARITAL STATUS:

Single Married Divorced Widowed Married, living separate since (when) _____

FAMILY INFORMATION - Do not include yourself or your spouse. Please list everyone who lived in your home during 2005. Also list anyone who did not live with you that you supported. Please circle yes or no to show if the person provided his/her own support.						
Name	Age as of 12/31/05	Birthdate	Social Security Number/ITIN	Relationship	Months lived with you in 2005	Self Support?
						Yes No
						Yes No
						Yes No
						Yes No
						Yes No

Did you live in the Hurricane Katrina disaster area on August 28, 2005? Yes No

Can your parents or someone else claim you or your spouse as a dependent? Yes No

Did you or anyone in your family have income in 2005 that was not reported on a W-2? Yes No

Did you or anyone in your family attend college or vocational school in 2005? Yes No

Did you pay for child care in 2005? Yes No

Did you receive Social Security payments in 2005? Yes No

Did you receive unemployment payments in 2005? Yes No

Do you own your home? Yes No

Have you received a letter from the IRS? Yes No

CLIENT INTAKE SHEET 2006

Tax Counseling Project



GENERAL INFORMATION: (Please circle the appropriate answer)

(1) **What is your ethnicity?** AA-African American AS-Asian/Pacific Islander CA-Caucasian
 LA-Latino NA-Native American OT-Other 99-

(2) **Do you have a bank account?** CH-Checking SA-Savings BO-Both, Checking and Savings
 NB-No, but would like one NO-Not Interested DQ-No, Don't qualify OS-Opened at Site 99-
Do you want to use Direct Deposit to get a faster refund? Yes No

(3) **What is your native language?** EN-English SP-Spanish RS-Russian CH-Chinese
 PO-Polish OT-Other 99-

(4) **How did you have your taxes done last year?** 1-Here 2-Another free place like this
 3-Did my own 4-Family or Friend (free) 5-Paid someone and received an instant refund
 6-Paid someone without instant refund 7-Did not file 99-

(5) **Do you care for a foster or adopted child?**
 1-Foster Child 2-Adopted Child 3-Both, Foster and Adopted Children 4-None

(6) **If you think you are getting a refund, how do you plan to use your money? (circle only one)**
 1-Food or clothing for my family 6-Child care or other children's expenses
 2-Catch up on bills (utilities, etc) 7-Savings
 3-Rent, home repair, mortgage 8-Pay for transportation: buy or repair a car or other vehicle
 4-Pay doctor or other medical bills 9-Spend it on something else
 5-Buy books; pay tuition; or other education expenses 99-Don't know, not getting refund, or don't want to answer

The information contained in this client intake sheet is true and correct. I understand that the Center for Economic Progress will retain this information for tax preparation purposes. I realize that the Center will also use this information to improve tax assistance services to me, speed preparation of tax returns, and offer other services. Personal information is not shared with or sold to any other organization or company. Contact the Center for Economic Progress for a copy of our Privacy Policy or to request the Project not use your information.

Client Signature: _____ Date: _____

DISPOSITION AND CHECKLIST: (This section is completed by a Tax Counseling Project volunteer.)

- (7) **Client would be appropriate for an interview, media contact, or photo.** 1-Yes 2-No 3-Don't use info
- Run and Print Diagnostics.
 - Comments entered in client diary on TaxWise.
 - Complete review and assembly using Quality Assurance checklist or send client to Quality Assurance Coordinator

PRINT Volunteer Name: _____ Date: _____

THIS INTAKE SHEET AND TAX RETURN HAS BEEN REVIEWED FOR COMPLETENESS AND ACCURACY:

Site Manager: _____ Date: _____

Make sure this section is complete. Site manager must sign and date the form before the client leaves.

Attachment E: IRS Form 13614 Intake and Interview Sheet

Form 13614 Rev. August 2006	Department of the Treasury – Internal Revenue Service Intake and Interview Sheet	OMB # 1545-1964
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You (and Spouse) will need:

- Proof of Identity
- Copies of ALL W-2, 1098, 1099 forms
- Social Security (SSN) or Individual Tax Identification Number (ITIN) for all individuals to be listed on the return
- Child care providers' identification number
- Taxpayers' banking information (voided check and/or savings deposit slip) for refund deposits
- Estimated tax payments made, etc.
- Amounts of other income

Part I: Taxpayer Information

1. Your First Name	M.I.	Last Name	2. SSN or ITIN
3. Date of Birth (mm/dd/yyyy)	4. Job Title		
5. Spouse's First Name	M.I.	Last Name	6. SSN or ITIN
7. Date of Birth (mm/dd/yyyy)	8. Job Title		
9. Address	Apt #	City	State Zip Code
10. Phone Numbers: Daytime	Evening	Cell	
11. Are you a U.S. Citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No		12. Is your Spouse a U.S. Citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No	
13. Can your parents or someone else claim you or your spouse as a dependent on their tax return? <input type="checkbox"/> Yes <input type="checkbox"/> No			
14. Did you pay more than half the cost of keeping up the home? <input type="checkbox"/> Yes <input type="checkbox"/> No			
15. Check if Legally Blind: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse			
16. Check if Permanently and Totally Disabled: <input type="checkbox"/> Taxpayer <input type="checkbox"/> Spouse			
17. On December 31st 2006: Were you: <input type="checkbox"/> Single <input type="checkbox"/> Legally Married <input type="checkbox"/> Separated <input type="checkbox"/> Divorced a. If married, were you living apart from your spouse during the last 6 months of the year? <input type="checkbox"/> Yes <input type="checkbox"/> No			
18. Was your spouse deceased? If yes, provide the date of death. _____ (mm/dd/yyyy)			

Part II. Family and Dependent Information – Do not include you or your spouse.

Print the name of everyone who lived in your home and outside your home that you supported during the year.

Name	Date of Birth mm/dd/yyyy	Social Security Number or ITIN	Relationship (son, daughter, etc.)	Months person lived with you in 2006	US Citizen, Resident of US, Canada or Mexico? (f)	Is the dependent a full time student? (yes or no) (g)
(a)	(b)	(c)	(d)	(e)	(f)	(g)

Paperwork Reduction Act Notice

The Paperwork Reduction Act requires that the IRS display an OMB control number on all public information requests. The OMB Control Number for this study is 1545-1964. Also, if you have any comments regarding the time estimates associated with this study or suggestions on making this process simpler, please write to the: Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, Washington, DC 20224.

Catalog Number 38836A

Form **13614** (Rev. 8-2006)

STOP Page 2 TO BE COMPLETED BY CERTIFIED VOLUNTEER

Part III. Filing Status & Dependency Determination

Volunteers: In order to conduct a thorough interview, please use the decision trees, interview tips and informational charts in Publications 4012 and/or 17 in addition to this intake sheet. This intake sheet does not constitute a complete interview.

Filing Status Determination – Use Publications 4012 and/or 17 to determine filing status.

1. Based on the interview, the filing status of the taxpayer is: Single MFJ MFS* HH Qualifying Widow(er)

*Spouse Name _____ Social Security Number _____

Dependency Determination – Use Publications 4012 and/or 17 to determine dependency exemptions.

- Yes No 2. Did the taxpayer provide more than 50% of the support for the dependents claimed?
 Yes No 3. Is there a signed Form 8332 or a divorce decree that allows someone else to claim the dependent(s)?
 Yes No 4. Is the dependent permanently and totally disabled?
5. Based on the interview, how many individuals qualify as dependents for this return? _____
-

COMMONLY USED INCOME AND EXPENSES

Volunteers: Please use Publication 17, *Your Federal Income Tax for Individuals* and Publication 4012, *Volunteer Resource Guide* while discussing the questions below with the taxpayer.

Part IV. Income – In 2006, did you receive:

- Yes No 1. Wages or Salary (Include W-2s for all jobs worked during the year)
 Yes No 2. Disability income
 Yes No 3. Interest from: checking or savings account, bonds, dividends, CD, or brokerage account
 Yes No 4. State tax refund (may be taxable if you itemized last year)
 Yes No 5. Alimony income
 Yes No 6. Tip income
 Yes No 7. Pension and/or IRA distribution
 Yes No 8. Unemployment
 Yes No 9. Social Security or Railroad Retirement
 Yes No 10. Self Employment
 Yes No 11. Other Income such as gambling winnings, awards, prizes and Jury duty
-

Part V. Adjustment – Did you have 2006 expenses for:

- Yes No 1. IRA or other retirement account
 Yes No 2. Alimony payments paid (If yes, you must provide the name and SSN of the recipient)
 Yes No 3. Education related expenses
-

Part VI. Itemized Deductions – Did you have 2006 expenses for:

- Yes No 1. Un-reimbursed medical expenses
 Yes No 2. Home mortgage payments (interest and taxes – see Form 1098)
 Yes No 3. Charitable contributions
-

Part VII. Credits – In 2006, did you have:

- Yes No 1. Child/dependent care expenses that allow you (and your spouse-if MFJ) to work
 Yes No 2. Educational expenses for you or your dependents
 Yes No 3. Retirement Savings Contribution
-

Part VIII. Earned Income Tax Credit Determination – EITC Eligibility

- Yes No 1. Was EITC previously disallowed (if yes taxpayer may not be eligible for EITC)
 Yes No 2. Based on the interview, is the taxpayer qualified for EITC?
-

Attachment G: Quick Reference Guide Filing for the Hope and Lifetime Learning Tax Credits

About this Guide

This Quick Reference Guide has been prepared to assist community-based organizations providing free or low-cost tax assistance in helping clients claim the Hope and Lifetime Learning Tax Credits. It is meant to aid in the completion of IRS Form 8863 on the education credits. Most of the Form 8863 is form is self-explanatory; however, there are three key aspects that must be completed prior to completing it – these are covered below.² Two IRS documents will be helpful in completing Form 8863, and tax preparers should have both available for reference:

- IRS Publication 17 *Your Federal Income Tax For Individuals* for the current tax year
- IRS Publication 970 *Tax Benefits for Education* for the current tax year

Tip: To be efficient, volunteer preparers should complete Form 8863 toward the end of the tax preparation session. Because this is a non-refundable credit, it only applies if a tax filer has an outstanding tax liability (owes taxes after all deductions and other credits are taken). Therefore, we recommend the volunteer complete everything except the education tax credits forms. IF the client still has a tax liability, then complete the Form 8863.

Tip: Filers have the option of claiming an education tax credit or a tuition and fees deduction of up to \$4,000. Volunteer preparers should compare the tax benefits of claiming a credit versus claiming a deduction by trying each scenario separately in TaxWise. See IRS Publication 970 for instruction on claiming the deduction.

1. Determining Who is an “Eligible Student”

A key clue to whether a student is eligible to claim an education tax credit is whether they received a 1098-T form. Whether or not they received it, it is recommended to check student eligibility using an IRS eligibility chart. The IRS has published four flowcharts to determine if someone is an eligible student for the education tax credits. Tax preparers can use just two to determine student eligibility.

First, go through the chart, “Figure 35-A Can You Claim an Education Credit for 2005?” in IRS Publication 17 (see next page). This will determine if the student can claim a credit. Note: tax preparers should use the flowchart for the current tax year. The chart for the 2005 tax year is provided as an example only; the chart for 2006 was not available at the release of this guide.

If the flowchart assessment indicates that a student is eligible to claim a credit, you should determine which credit – the Hope or the Lifetime Learning. To determine if the student is eligible for the Hope Credit, go through the chart, **“Figure 2-1 Who is an Eligible Student for the Hope Credit?”** in IRS Publication 970 (again, this is an example from tax year 2005; please use an updated version for the current tax year). This flowchart is on page 3 of this guide. If the student is eligible for a credit, but not for the Hope Credit, it is likely s/he should claim the Lifetime Learning Tax Credit. Remember that the Hope and Lifetime credits cannot be claimed for the same student. See the overview of these credits in the document, *Help Your Tax Clients Claim An Education Tax Credit: Information on the Hope and Lifetime Learning Tax Credits*.

² This IS NOT an official IRS document. However, it has been reviewed by IRS SPEC staff and free tax site practitioners for accuracy. It also was piloted by two free tax sites in spring 2006. It has been prepared by FutureWorks, LLC, for the Annie E. Casey Foundation in October 2006.

Figure 35-A. Can You Claim an Education Credit for 2005?

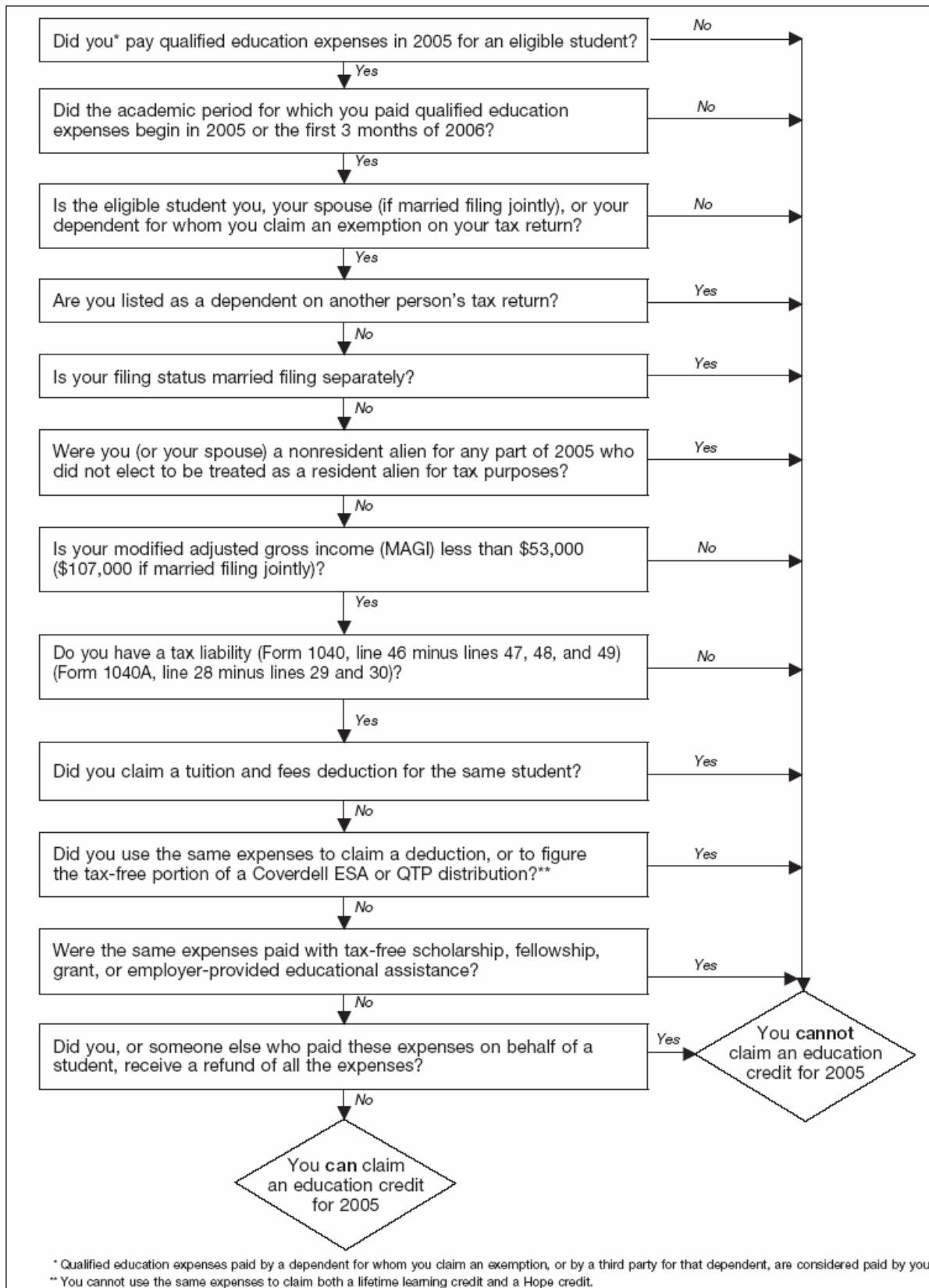
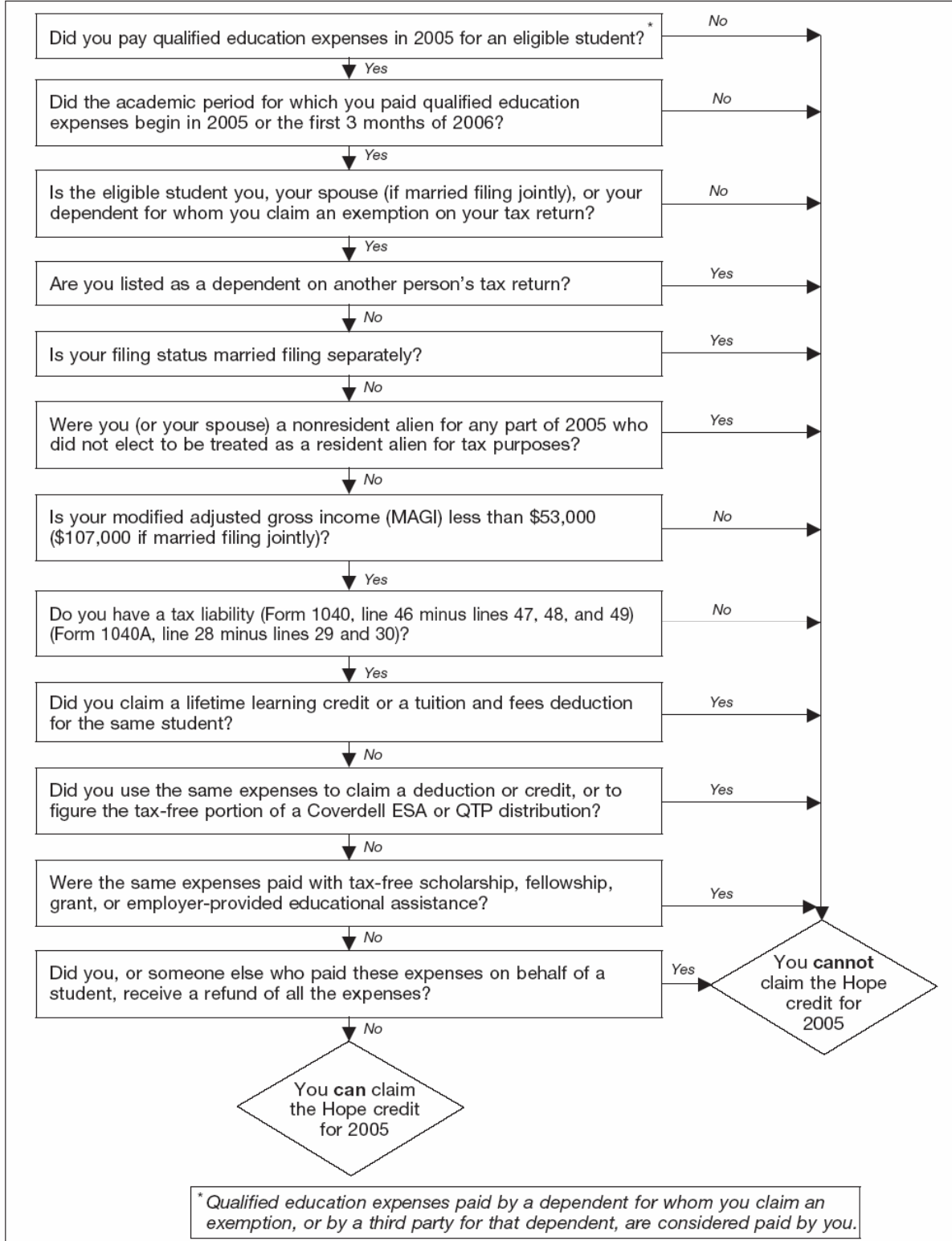


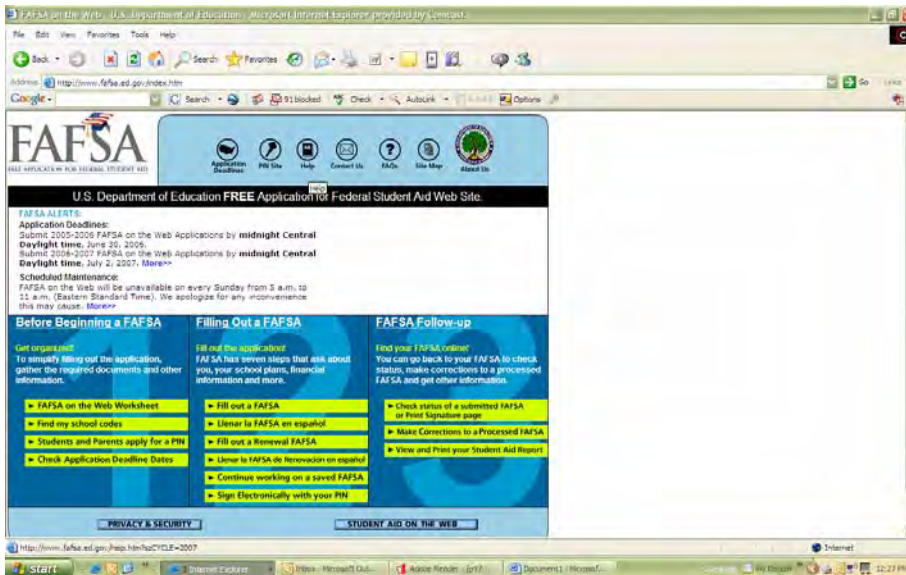
Figure 2-2. Can You Claim the Hope Credit for 2005?



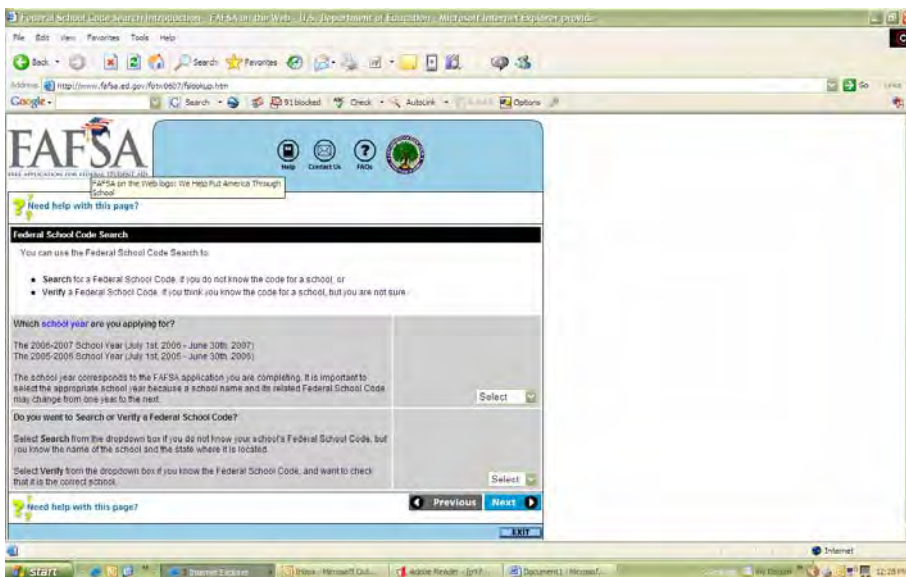
2. Determining an “Eligible Institution”

It is likely that if a student received a Form 1098-T from his/her postsecondary educational institution, that institution is an “eligible institution”; however, a quick on-line check is a good idea. Also, a student may not have a 1098-T but still paid eligible expenses, in which case, this check is useful to determine “eligible institution.” This check can be done through the Free Application for Federal Student Aid (FAFSA) website.

1. Go to www.fafsa.ed.gov and click on “Find my school codes” in the left column

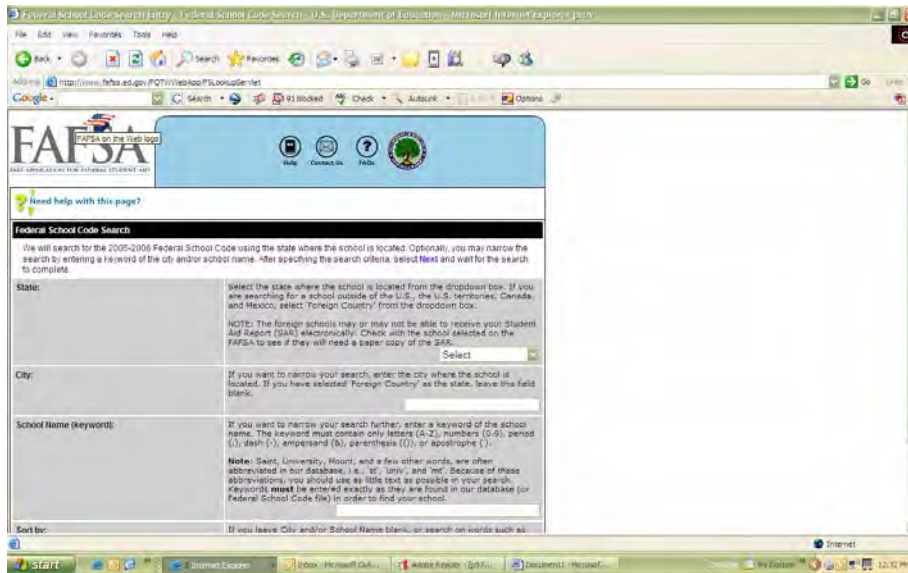


2. In the first drop-down menu, select the current school year. In the second drop-down menu, select “search” (note: it is very important to **not** select “verify”). Click on “Next” at the bottom of the page.



3. In the first drop-down menu, enter the state in which the student attended school. In the second one, enter the city in which the student attended school. In the third one, enter the name of the school or part of the name of the school, i.e., community college. Entering part of the name will bring up a list of schools in that city and state with those words in it. This may help with identifying the school. All of this information should be on the 1098-T. Click on “Next.”

Note: The “state” is the only required information on this page. If you enter just the state, you will get a listing of all of the schools in that state eligible to participate in the federal student financial aid program.



The next page should include the name of the school, the address, and the federal (student aid) school code. If the school is listed on this page with a school code, it is an “eligible institution.” If it is not listed here, it is not an “eligible institution” and the student cannot claim an education tax credit.

3. Calculating “Qualified Expenses”

Use this worksheet to calculate the qualified expenses for *each student* claimed on Form 8863.³

1. Total tuition and fees paid in 2005 and the first three months of 2006 for this student 1. _____

- Sources for information: 1098-T (lines 1 and 2), bill sent to student from school, student aid statement. *Note: Educational institutions are required to send 1098-T forms on each student to the IRS and to the student. They are not required to report on students’ qualified tuition and related expenses, scholarships and grants. Consequently, a U.S. Government Accounting Office study found that just 13% of all 1098-T forms had this information. Do not be surprised if this information is not on the form. Also, some sites have found that the information is incorrect, so volunteers and site coordinators should double check all information with the student (preferably referencing other documentation from the school).*
- Do include any tuition, fees, and expenses that the student **paid to the school as a condition of enrollment or attendance**. Include expenses paid to school for course-related books, supplies, and equipment only if they are required for enrollment or attendance.
- Do **not** include any amounts that have been claimed for any other educational tax benefit, i.e., a deduction.
- Do **not** include tuition and fees for any courses from which the student withdrew (even if s/he was not refunded).

2. Total **tax-free** educational assistance received by student, including scholarships, fellowships, Pell Grants, and other grant aid 2. _____

- Do **not** include any wages, i.e., student work-study; loans (federal student loans, personal loans, or other types of loans); gifts; inheritance; withdrawal from personal savings; or any **taxable** educational assistance.
- For a worksheet to calculate **taxable** educational assistance, see page 5 in IRS Publication 970.

3. Total amount of educational refunds student received or expects to receive from any source, i.e., employer reimbursement 3. _____

4. Add lines 2 and 3 4. _____

5. Subtract line 4 from line 1 5. _____

Enter amount from line 5 in “qualified expenses” for the student under either Part I on the Hope Credit or Part II on the Lifetime Learning Credit. Do not enter more than \$2,000 for each student claiming a Hope Credit. Do not enter more than \$10,000 per return under the Lifetime Learning Credit.

For more information and examples, see IRS Publication 17, Chapter 35 on the Education Credits and IRS Publication 970, *Tax Benefits for Education*, chapters 1 and 2 on the Hope Credit and Lifetime Learning Credit, respectively.

³ Prior to the 2006 tax year, tax filers could deduct tuition and fee expenses from their taxable income in lieu of claiming an education tax credit. However, this provision expired at the end of the 2005 tax year. Volunteers do not need to make a determination as to whether an education tax credit or a tuition deduction is better for their clients,

**Attachment H:
Community Tax Center, Foundation Communities, Austin, Texas**

1098-T and Education Benefits

8383 VOID CORRECTED

FILER'S name, street address, city, state, ZIP code, and telephone number		1 Payments received for qualified tuition and related expenses \$ \$4,500	OMB No. 1545-1574 2005 Form 1098-T	Tuition Statement
		2 Amounts billed for qualified tuition and related expenses \$		
FILER'S Federal identification no.	STUDENT'S social security number	3 Adjustments made for a prior year \$	4 Scholarships or grants \$ \$7,580	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2005 General Instructions for Forms 1099, 1098, 5498, and W-2G.
STUDENT'S name		5 Adjustments to scholarships or grants for a prior year \$		
Street address (including apt. no.)		6 Check this box if the amount in box 1 or 2 includes amounts for an academic period beginning January-March 2006 <input type="checkbox"/>	7 Reimbursements or refunds of qualified tuition and related expenses from an insurance contract \$	
City, state, and ZIP code		8 Check if at least half-time student <input checked="" type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instructions)				

Form **1098-T** Cat. No. 25087J Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page Do Not Cut or Separate Forms on This Page

- Issue:** 1) Client received \$7,850 in scholarships/grants.
2) Qualified tuition paid to the institution was \$4,500 and client confirms that amount.

How to handle in Taxwise:

- Since the amount of scholarships/grants is MORE than the qualified tuition amount, client does NOT qualify for an education credit or a tuition deduction on their tax return.
- Subtract the qualified tuition amount from scholarship/grants. That amount (\$7850-\$4500=\$3350) is **taxable income**.
Enter that amount (\$3350) on line 7 of the 1040 by "Scholarship income not reported on W-2."

What if the client has the reverse situation?

- \$4,500 in scholarships and grants
- \$7850 in qualified tuition that was paid in 2995

How to handle in Taxwise:

- Since the amount of scholarships/grants is LESS than the qualified tuition amount, the difference between the scholarship/grant amount and the tuition amount can be used for either an education credit or a tuition deduction on their tax return. See the handout in the Volunteer Resource Guide on how to determine which one is best.
- Note that only the tuition amount above the scholarship amount (\$3350) can be applied to an education credit or tuition deduction!**
- Also, only qualified charges that were actually PAID in 2005 can be claimed for the deduction or credit.
- Since all the scholarship and grant money was spent on qualified tuition expenses, there is no taxable income.

Warning: Schools can choose if they report amounts in Box 1 or Box 2. On Form 1098-T, there is no guarantee that the amount in Box 1 or Box 2 was the amount actually paid during the tax year for qualified tuition and fees. Whatever amount the client says he paid for qualified expenses during the tax year should be treated as if it were the amount paid. Explain to client that s/he should have documentation of the amount and date paid.

If the qualified tuition expenses are greater than the scholarship/grant amount, then the difference (\$3,350) can be either an education credit on Form 8863 or an Adjustment to income.

Below is what Form 8863 would look like if client qualified for the **Hope Credit**:

Part I: Hope Credit

The Hope Credit is available for two taxable years only. Those two years must be the first two years of postsecondary education, generally the freshman and sophomore years of college.

* For each student who attended an eligible institution in the Gulf Opportunity Zone, check the box in the GO ZONE column. You can enter up to \$4,000 in column c.

1	(a) Student's name as shown on page 1 of this tax return. First name and last name	(b) Student's social security number	(c) * Qualified expenses but not more than \$2,000, \$4,000 GOZ per student	GO ZONE	(d) Smaller of column c or \$1,000, \$2,000 GOZ	(e) Add column c and column d	(f) One-half of the amount in column e
	Student name	999-99-9999	3,350.	<input type="checkbox"/>	1,000.	3,000.	1,500.
			0.	<input type="checkbox"/>	0.	0.	0.
			0.	<input type="checkbox"/>	0.	0.	0.
2	Add amounts in column (f)						1,500.

Hope Credit and Lifetime Learning Credit

The **Hope Credit** is available **only for the first two years** of pursuing a degree at a post-secondary institution. The student must be:

- (1) enrolled at least half-time for at least one semester,
- (2) must be in his/her first two years of school,
- (3) must be pursuing a degree, and
- (4) cannot have been convicted of a felony for possession or distribution of a controlled substance.

The credit is 100% of the first \$1,000 of qualified tuition and fees and 50% of the next \$1,000 of qualified tuition and fees for a maximum credit of \$1,500. The Hope credit may be claimed only **twice** for each student.

The **Lifetime Learning Credit** is available for **any year** of post-secondary education and for non-degree courses, such as classes to acquire or improve job skills. You may NOT claim both credits for the same student for the same year. In order to claim the Lifetime Learning credit,

the student must be enrolled in a course or courses that give or improve job skills including courses taken toward obtaining a degree at a qualified institution. The amount of the credit is 20% of the first \$10,000 of qualified tuition and fees for a maximum credit of \$2,000 per tax return for 2005. This credit is per tax return, not per student.

MORE ON THE 1098-T

ADJUSTMENTS TO PRIOR YEAR: BOXES 3 AND 5

Colleges are required to report adjustments to prior year qualified tuition and fees and scholarships if those adjustments occurred during 2005. Any adjustments that would have increased your prior year qualified tuition and fees or scholarships are included with the current year reporting in boxes 2 and 4 and should be included with your current year tax credit calculation.

However, any adjustments that would have decreased your prior year qualified tuition and fees or scholarships are reported in boxes 3 and 5. *These adjustments require a recalculation of your prior year tax credit with the difference in the tax being included on your current year tax Form 1040, line 44 or Form 1040A, line added to your current year tax liability.* Next to the line, write ECR to alert the IRS that you have a prior year education credit adjustment.

QUALIFIED EXPENSES

Qualified tuition and related expenses are tuition and fees a student **must** pay to be enrolled at or attend an eligible educational institution.

Examples: Resident and Non-resident tuition
 Graduate and Undergraduate Program Fees

NOT qualified tuition and related expenses:

- Amounts paid for any course or other education involving sports, games, or hobbies unless the course or other education is part of the student's degree program or is taken to acquire or improve job skills.
- Charges and fees associated with room and board, parking, student activities, athletics (unless the course is part of the student's degree program), insurance, equipment, transportation and similar personal living or family expenses are not qualified expenses.
- User fees such as for musical instruments and theater arts equipment use.
- The cost of books and equipment are generally NOT qualified expenses because eligible educational institutions usually do not require that fees for such books or equipment be paid to the institution as a condition of the student's enrollment or attendance at the institution.