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VITA/TCE Specialty Courses – Cancellation of Debt (COD) and Health Savings Accounts (HSAs)
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)

2013 TEST



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.



How to Get Technical Updates?

Updates to the volunteer training materials will be contained in Publication 4491X, VITA/TCE Training Supplement. To access this publication, in the upper right hand corner of www.irs.gov, type in “Pub 4491X” in the search field.

During the tax season Volunteer Tax Alerts will be issued periodically. Type “volunteer alerts”, in the search field to access all tax alerts.

Volunteer Standards of Conduct

VITA/TCE Programs

The mission of the VITA/TCE return preparation programs is to assist eligible taxpayers in satisfying their tax responsibilities by providing **free** tax return preparation. To establish the greatest degree of public trust, volunteers are required to maintain the highest standards of ethical conduct and provide quality service.

All VITA/TCE volunteers (whether paid or unpaid workers) must complete the *Volunteer Standards of Conduct Training*, and sign Form 13615, *Volunteer Standards of Conduct Agreement*, prior to working at a VITA/TCE site. In addition, return preparers, quality reviewers, and VITA/TCE tax law instructors must certify in tax law prior to signing this form. This form is not valid until the site coordinator, sponsoring partner, instructor, or IRS contact confirms the volunteer’s identity and signs the form.

As a volunteer in the VITA/TCE Programs, you must:

1. Follow the Quality Site Requirements (QSR).
2. Not accept payment or solicit donations for federal or state tax return preparation.
3. Not solicit business from taxpayers you assist or use the knowledge you gained (their information) about them for any direct or indirect personal benefit for you or any other specific individual.
4. Not knowingly prepare false returns.
5. Not engage in criminal, infamous, dishonest, notoriously disgraceful conduct, or any other conduct deemed to have a negative effect on the VITA/TCE Programs.
6. Treat all taxpayers in a professional, courteous, and respectful manner.

Failure to comply with these standards could result in, but is not limited to, the following:

- Your removal from all VITA/TCE Programs;
- Inclusion in the IRS Volunteer Registry to bar future VITA/TCE activity indefinitely;
- Deactivation of your sponsoring partner’s site VITA/TCE EFIN (electronic filing ID number);
- Removal of all IRS products, supplies, loaned equipment, and taxpayer information from your site;
- Termination of your sponsoring organization’s partnership with the IRS;
- Termination of grant funds from the IRS to your sponsoring partner; and
- Referral of your conduct for potential TIGTA and criminal investigations.

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Confidentiality Statement:

All tax information you receive from taxpayers in your VOLUNTEER capacity is strictly confidential and should not, under any circumstances, be disclosed to unauthorized individuals.



VITA/TCE Specialty Courses – Cancellation of Debt (COD) and Health Savings Accounts (HSAs)

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Cancellation of Debt (COD)



Introduction

The Cancellation of Debt course is an optional specialty training for volunteers with an Advanced Certification. A separate certification is required for volunteers on cancellation of debt issues. Check with your Site Coordinator to determine whether you should be certified in this topic.

This course will help you recognize when you can help taxpayers who have a canceled debt and when you must refer them elsewhere for help with their tax returns.

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Define cancellation of debt
- Identify the difference between recourse and nonrecourse debt
- Identify the exceptions and exclusions to the general rule for including canceled debt as income
- Determine the requirements for the cancellation of debt on principal residence and nonbusiness credit card debt when preparing tax returns
- Determine the filing requirements for recipients of foreclosures – Form 1099-A, Acquisition or Abandonment of Secured Property
- Determine the filing requirements for recipients of Form 1099-C, Cancellation of Debt
- Determine if a taxpayer may exclude from taxable income certain debt forgiven or canceled on a principal residence
- Determine when canceled credit card debt is included in gross income on Form 1040

Cancellation of Debt – Basics

A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property. Cancellation of indebtedness can involve auto loans, credit card debt, medical care, professional services, installment purchases of furniture or other personal property, mortgages, and home equity loans. Generally, if a debt for which a taxpayer is personally liable is canceled or forgiven, the taxpayer must include the canceled amount in income. There is no income from canceled debt if the cancellation or forgiveness of debt is a gift or bequest.

Use Form 13614-C, Intake/Interview & Quality Review Sheet, to determine if the taxpayer received one or both of Forms 1099-C, Cancellation of Debt, or 1099-A, Acquisition or Abandonment of Secured Property.

What do I need?

- Form 13614-C, Intake/Interview & Quality Review Sheet
- Publication 4012, Volunteer Resource Guide
- Publication 17
- Publication 4731
- Optional**
- Publication 4491-W
- Publication 4681
- Publication 523
- Publication 525
- Publication 544
- Publication 551
- Form 982
- Form 1040
- Form 1040 Instructions
- Form 1099-A
- Forms 1099-A and 1099-C Instructions
- Form 1099-C
- Form 8949
- Schedule D
- Schedule D Instructions

TIP

Refer to Publication 4731, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt, to ensure that the tax return being prepared is within scope of the VITA/TCE programs.

In Scope for VITA/TCE Programs

Only two types of cancellation of debt issues are in scope for VITA/TCE:

- Qualified principal residence debt, and
- Nonbusiness credit card debt

Publication 4731, in Volunteer Resource Guide (Income Tab), provides step-by-step guidance for the volunteer tax return preparer to determine if the cancellation of debt is within scope.

- 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, 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



The qualified principal residence debt provision is subject to change. See the current Publication 4491X for any updates.

Taxability of Canceled Debt

Taxpayers often question the taxability of canceled debt because they did not receive money in hand. In situations where property is surrendered, such as a foreclosure, taxpayers feel that by giving up the property they are relieved from any further obligation. Explain that the benefit to the taxpayer is the relief from personal liability to pay the debt. Information in Publication 17, Your Federal Income Tax for Individuals, can assist with the explanation.

Additional resources include:

- Publication 523, Selling Your Home
- Publication 525, Taxable and Nontaxable Income
- Publication 544, Sales and Other Dispositions of Assets
- Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments
- Publication 4731, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt

Generally, when debt is canceled, the lender will issue Form 1099-C, Cancellation of Debt, which is then reported by the recipients on their tax return. There are exceptions and exclusions to the general rule that determines whether a canceled debt is included as income. This is covered in greater detail later in the course.

Recourse vs. Nonrecourse Debt

There are two types of debts: recourse and nonrecourse. A recourse debt holds the borrower personally liable. All other debt is considered nonrecourse.

In general, recourse debt (loans) allows lenders to collect what is owed for the debt even after they've taken collateral (home, credit cards). Lenders have the right to garnish wages or levy accounts in order to collect what is owed.

A nonrecourse debt (loan) does not allow the lender to pursue anything other than the collateral. For example, if a borrower defaults on a nonrecourse home loan, the bank can only foreclose on the home. The bank generally cannot take further legal action to collect the money owed on the debt. Whether a debt is recourse or nonrecourse may vary from state to state, depending on state law.

If a lender cancels a debt and issues Form 1099-C, the lender will indicate on the form if the borrower was personally liable (recourse) for repayment of the debt. Go to www.irs.gov to view Form 1099-C.



If property securing the debt was foreclosed on or abandoned, the taxpayer may need to report the disposition (sale) on Form 8949 and Schedule D. This is covered in more detail later in this course.



Generally, if taxpayers abandon property that secures debt for which they are **personally liable**, they do not have a gain or loss until the foreclosure is completed.

If taxpayers abandon property that secures debt for which they are **not personally liable**, the abandonment is treated as a sale or exchange.

For more information on abandonments see Publication 4681.

Recourse debt holds the borrower personally liable for any amount not satisfied by the surrender of *secured property*.

- If a lender forecloses on property subject to a recourse debt and cancels the portion of the debt in excess of the fair market value (FMV) of the property, the canceled portion of the debt is treated as ordinary income from cancellation of indebtedness. This amount must be included in gross income unless it qualifies for an exception or exclusion.
- In addition to this cancellation of indebtedness income, the taxpayer may realize a gain or loss on the disposition of the property; this amount is generally the difference between the FMV of the property at the time of the foreclosure and the taxpayer's basis in the property.

Nonrecourse debt is satisfied by the surrender of the *secured property* regardless of the FMV at the time of surrender, and the borrower is not personally liable for the debt.

- If property that is subject to nonrecourse debt is abandoned, foreclosed upon, subject of a short sale, or repossessed by the lender, the circumstances are treated as a sale of the property by the taxpayer.
- In determining the gain or loss on the disposition of the property, the balance of the nonrecourse debt at the time of the disposition of the property is included in the amount realized (generally the selling price). Since the borrower is not personally liable for the debt, the difference between the FMV of the property and the balance of the loan is *not* included in gross income.

	Recourse Debt	Nonrecourse Debt
Borrower is...	Personally liable	Not personally liable
Canceled portion of debt is generally...	Treated as ordinary income and included in gross income (unless it qualifies as an exception or exclusion)	Not applicable. Nonrecourse debt is satisfied by the surrender of the secured property regardless of the FMV at the time of surrender.
Gain or loss on disposition of the property	Generally determined by the difference between the FMV of the property and the adjusted basis	The amount realized includes the balance of the nonrecourse debt at the time of the disposition of the property. This is true even if the FMV of the property is less than the outstanding debt.

example

Jason lost his home to foreclosure because he could no longer make his mortgage payments. At the time of foreclosure, he owed a balance of \$170,000 to the lender and the FMV of the property was \$140,000.

If Jason is personally liable for the debt (recourse loan), the selling price would be \$140,000.

If Jason is not personally liable for the debt (nonrecourse loan), the selling price would be \$170,000.

Exceptions and Exclusions

Some canceled or forgiven debts may be *eliminated* from income by applying exceptions, or *reduced* by applying exclusions to the general rule. **Exceptions are applied before exclusions.**

Exceptions

Exceptions may allow the taxpayer to eliminate the following types of canceled debt from income:

- Amounts otherwise excluded from income (e.g., gifts and bequests)
- Certain student loans (e.g., doctors, nurses, and teachers serving in rural or low-income areas)
- Deductible debt (e.g., home mortgage interest that would have been deductible on Schedule A)
- Price reduced after purchase (e.g., debt on solvent taxpayer's property is reduced by the seller; basis of property must be reduced)

For more information on exceptions, refer to Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments.

Exclusions

There are several exclusions from the general rule for reporting canceled debt as income.

Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, must be filed with the taxpayer's return to show the amount of the canceled debt excluded.

The exclusions are:

- Discharge of debt through bankruptcy
- Discharge of debt of insolvent taxpayer
- Discharge of qualified farm indebtedness
- Discharge of qualified real property business indebtedness
- Discharge of qualified principal residence indebtedness



The issues involved in exclusions can be complex. Only cancellation of qualified principal residence indebtedness is within the scope of VITA/TCE.

Cancellation of Debt—Principal Residence

Mortgage Forgiveness Debt Relief Act 2007

Under the Mortgage Forgiveness Debt Relief Act of 2007, taxpayers may exclude from income certain debt forgiven or canceled on their principal residence. This exclusion is applicable to the discharge of “qualified principal residence indebtedness.” If the canceled debt qualifies for exclusion from gross income, the debtor may be required to reduce tax attributes (certain credits, losses, and basis of assets) by the amount excluded.

If a property was taken by the lender (foreclosure) or given up by the borrower (abandonment), the lender usually sends the taxpayer Form 1099-A, Acquisition or Abandonment of Secured Property. Form 1099-A will have information needed to determine the gain or loss due to the foreclosure or abandonment.

If the debt is canceled, the taxpayer will receive Form 1099-C, Cancellation of Debt. If foreclosure/abandonment and debt cancellation occur in the same calendar year, the lender may issue only Form 1099-C, including the information that would be reported on Form 1099-A.

The Mortgage Forgiveness Debt Relief Act of 2007 allows for the exclusion of discharged qualified principal residence indebtedness canceled in 2007, 2008, and 2009.

The Emergency Economic Stabilization Act of 2008 extended the exclusion for tax years 2010 through 2012. The American Taxpayer Relief Act of 2012 extended the exclusion to 12/31/2013.

Qualified Principal Residence Indebtedness

Qualified principal residence indebtedness includes:

- Any debt incurred in acquiring, constructing, or substantially improving a principal residence that is secured by the principal residence
- Any debt *secured by the principal residence resulting from the refinancing of debt* incurred to acquire, construct, or substantially improve a principal residence, but only to the extent that the amount of debt does not exceed the amount of the refinanced indebtedness



A principal residence is generally the home where the taxpayer lives most of the time. A taxpayer can have only one principal residence at a time.

Exclusion Limit

The maximum amount that can be treated as qualified principal residence indebtedness is \$2 million (\$1 million if Married Filing Separately).

Canceled qualified principal residence indebtedness cannot be excluded from income if the cancellation was for services performed for the lender or on account of any factor not directly related to a decline in the value of the residence or the taxpayer’s financial condition.

Criteria for Canceled Principal Residence Debt

Volunteers may assist taxpayers who meet the following requirements:

- The home was never used in a business or as rental property
- The debt was not canceled because the taxpayer filed bankruptcy
- The taxpayer is **not** in bankruptcy when he/she comes to the site for assistance
- Form 1099-C does not include an amount for interest
- The debt must be a mortgage used only to buy, build, or substantially improve the taxpayer's primary residence, i.e., this money was not used to pay off credit cards, medical/dental expenses, vacations, etc.
- The mortgage was secured by the taxpayer's primary residence
- The mortgage was not more than \$2 million (\$1 million if Married Filing Separately)

example

Bob refinanced his personal residence and used the loan proceeds from the equity in his home to build a new master bedroom suite on the main level of his house. This debt is qualified principal residence indebtedness.

example

Tom refinanced his personal residence and used the loan proceeds from the equity in his home to pay off credit cards and buy a car. This debt is not qualified principal residence indebtedness.



EXERCISES

Use Publication 4731, Part II, to answer the following questions. The answers appear at the end of the lesson.

Question 1: A volunteer with Cancellation of Debt certification is working with Angie. Angie confirmed that she had to give up her principal residence and produced Form 1099-C for the cancellation of the mortgage loan. Angie explains that she did not file for bankruptcy, even though she experienced hardship due to the loss of income from no longer being able to rent out an upstairs bedroom and bath. Angie also verified that the mortgage loan was used entirely to purchase the home and was secured by the home. Her Form 1099-C lists the amount of debt canceled as \$60,000.

Should the volunteer assist Angie with her return? Yes No

Question 2: Fred went to his local VITA site to have his tax return prepared. The volunteer went through Fred's records and noticed Form 1099-C reflecting a canceled debt of \$50,000.

Using Publication 4731, Part II, as a guide, the volunteer learned Fred lost his job and could no longer make his mortgage payments. The bank foreclosed on Fred's home. Due to the housing market slump, the value of Fred's home had declined, and his mortgage balance was more than the fair market value of the home. The bank sold Fred's home and canceled the remaining debt (\$50,000) not covered by the sale price.

Upon further questioning, the volunteer learned Fred had refinanced his home two years ago and used the equity in the home to pay off some credit cards and take a trip to Las Vegas.

Should the volunteer assist Fred with the preparation of his return at the VITA site? Yes No

Foreclosures and Capital Gain or Loss

If a taxpayer does not make payments owed on a loan secured by property, the lender may foreclose on the loan or repossess the property. The foreclosure or repossession is treated as a sale from which the taxpayer may realize a gain or loss. This is true even if the taxpayer voluntarily returns the property to the lender.

Figure the gain or loss from a foreclosure or repossession the same way as the gain or loss from a sale. The gain is the difference between the amount realized and the adjusted basis of the transferred property (amount realized minus adjusted basis). The loss is the difference between the adjusted basis in the transferred property and the amount realized (adjusted basis minus amount realized).

When a residence that is security for a mortgage is abandoned or foreclosed upon, the gain or loss must be reported on the return and is subject to the rules for a Sale of Residence.

Generally, the amount realized on a foreclosure is considered to be the selling price. But this selling price depends, in part, on whether the debt was recourse debt or nonrecourse debt. In addition, the taxpayer may also have ordinary income from the cancellation of debt.

Use the Worksheet for Foreclosures and Repossessions in Publication 4681 to figure the ordinary income from the cancellation of debt and the gain or loss from a foreclosure or repossession.

Generally, the taxpayer's gain or loss from a foreclosure or abandonment is reported on Form 8949 and Schedule D.

If the taxpayer is personally liable for the debt (recourse debt), and the amount of outstanding debt (mortgage) is more than the home's FMV, the difference is treated as cancellation of debt income.

- If the canceled debt qualifies as excludable from gross income, the exclusion is reported on Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (And Section 1082 Basis Adjustment)
- Otherwise, the canceled debt is reportable as ordinary income on Form 1040, line 21 and is beyond the scope of VITA/TCE

Form 1099-A, Acquisition or Abandonment of Secured Property

When a personal residence is foreclosed upon, and the lender cancels a portion of the debt, the taxpayer will generally receive Form 1099-A and Form 1099-C. If, in the same calendar year, the debt is canceled in connection with a foreclosure of secured property, the lender has the option of issuing Form 1099-C only.

The filing requirements of Form 1099-A are met by the lender completing the following on Form 1099-C:

- Debt description
- The debtor was personally liable for the repayment of the debt
- Fair market value of property

Verify with the taxpayer that the information on Form 1099-A and Form 1099-C is correct. Pay particular attention to the amount of debt forgiven and the fair market value reported. Advise the taxpayer to contact the lender immediately if any of the information is not correct.



A loss on the sale or disposition of a personal residence is not deductible. A gain may qualify for the Section 121 exclusion (\$250,000 or \$500,000 for Married Filing Jointly taxpayers) for a gain on the sale of a personal residence.



If the canceled debt is reportable on Form 1040, line 21 or the canceled debt is not fully excludable from gross income, the issue is beyond the scope of the VITA/TCE programs.

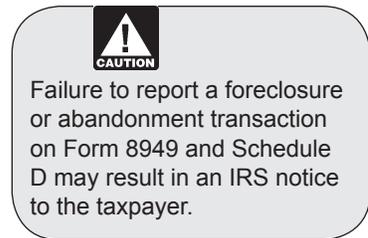


For more information on determining the basis for sale of residence see the lesson on Income – Capital Gain or Loss, or Publication 17.

Form 1099-A, issued by the lender, reports the outstanding debt and the fair market value of the property. This form provides information needed to determine the amount of any gain or loss due to foreclosure or abandonment. Report the gain or loss from Form 1099-A on Form 8949 and Schedule D.

The sale price (amount realized) is based on whether the taxpayer is personally liable (recourse loan) or not personally liable (nonrecourse loan) for the debt.

- If the taxpayer is personally liable, the sale price is the **lesser** of the balance of the principal mortgage debt outstanding or the fair market value
- If the taxpayer is not personally liable, then the sale price is the full amount of the outstanding debt, as reflected on Form 1099-A
- For both recourse and nonrecourse loans, add any proceeds the taxpayer received from the foreclosure sale to the amount realized



Generally, if there is a loss on the sale of a principal residence or the entire gain is excluded under the Section 121 exclusion (\$250,000 or \$500,000 for Married Filing Jointly), the sale does not have to be reported. However, taxpayers who receive Form 1099-A should report the sale to account for the basis in the property.

Form 1099-C, Cancellation of Debt

Lenders or creditors are required to issue Form 1099-C if they cancel a debt owed to them of \$600 or more. Generally, an individual taxpayer must include all canceled amounts (even if less than \$600) on the “Other Income” line of Form 1040.

However, under certain circumstances, a taxpayer may not have to include canceled debt in income. For example, if the canceled debt is related to the taxpayer’s principal residence, the taxpayer may be able to exclude all or a portion of canceled debt if it is “qualified principal residence indebtedness.” The amount excluded due to the “discharge of qualified principal residence indebtedness” is reported on Form 982.

In addition to debtor information, Form 1099-C reports the amount of debt canceled and the date canceled. **If the form has event code “A” indicating bankruptcy, or if an amount is included for interest, refer the taxpayer to a professional tax preparer.**

Form 982 must be filed with the taxpayer’s return to report the excluded amount of discharged indebtedness and the reduction of certain tax attributes. Taxpayers excluding discharged debt from “qualified principal residence indebtedness” must complete only a few lines on Form 982; check the discharge of qualified principal residence indebtedness box and include the amount of debt discharged from Form 1099-C to Form 982. If the taxpayer kept ownership of the home, the basis adjustment to the principal residence for the excluded canceled debt must be reflected on the form.

Coordination with Form 1099-A

As mentioned earlier, if a personal residence is foreclosed upon, and the debt is canceled in the same year, the taxpayer may receive Form 1099-C *only*. The required filing information from Form 1099-A will be shown on Form 1099-C.

Generally, the gross foreclosure bid price is considered to be the FMV. For an abandonment or voluntary conveyance in lieu of foreclosure, the FMV is generally the appraised value of the property.

For a recourse loan, the sale price is the **lesser** of the balance of the principal debt (mortgage) outstanding or fair market value.

Mortgage Workouts and Form 1099-C

Homeowners whose mortgage debt is partly forgiven through a loan modification, or “workout,” which allows them to continue owning their residence, will receive Form 1099-C reporting the amount of debt discharged. Because the taxpayer kept ownership of the home, there is no gain or loss to be reported.

However, if the canceled debt meets the requirements of “qualified principal residence indebtedness,” Form 982 must be completed to report the amount excluded from gross income and the reduction of tax attributes. See Publication 4012, Income tab, Capital Loss on Foreclosure, on how to complete Form 982.

Taxpayers who are not personally liable for the debt (nonrecourse debt) do not have ordinary income from the cancellation of the debt unless the lender:

- Offered a discount for the early payment of the debt or
- Agreed to a loan modification that resulted in the reduction of the principal balance of the debt

If a lender offers to discount (reduce) the principal balance of a loan that is paid off early, or agrees to a loan modification (“workout”) that includes a reduction in the principal balance of a loan, the amount of the discount or the amount of the principal reduction is *canceled debt* whether or not the taxpayer is personally liable for the debt. The amount of the canceled debt must be included in income unless the exceptions or exclusions discussed earlier apply.

Gain or Loss Reported on Form 8949 and Schedule D

Form 8949, Sales and Other Dispositions of Capital Assets, includes all capital gain and loss transactions. The subtotals from Form 8949 are carried over to Schedule D, Capital Gains and Losses, where gain or loss is calculated in aggregate.

Losses on a personal residence are never deductible. Gains (all or part) may be excluded under the rules regarding the sale of a personal residence (Section 121 exclusion).

For more information on how to report the gain or losses, see the instructions for Form 8949.

See Publication 4012, Income tab, Capital Loss on Foreclosure, that shows how a foreclosure was reported on the Capital Gain or Loss Transaction Worksheet based on the information provided on Form 1099-A.

Case Study – Reporting a Foreclosure and Canceled Debt

Frank bought his home on May 14, 2003. His basis in the home was \$200,000. After he lost his job last year, he was not able to make the payments. The bank foreclosed in June of the current year, and Frank moved out. At the time of the foreclosure, the fair market value of the home was \$125,000 and the principal balance of the mortgage was \$195,000. All of the debt was incurred to purchase the home. Frank received Form 1099-C for the amount of debt canceled by his bank.



The following case studies are only examples of how the mentioned issues and forms can look and be reported. The dates and years of the forms are relevant for these case studies.

Frank has qualified principal residence indebtedness. His tax return should include Form 8949 and Schedule D to show the basis of the home disposed of through foreclosure, and Form 982 to exclude the debt cancellation from income.

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. FIRST BANK ANYWHERE USA		1 Date of identifiable event 6/25/2013	OMB No. 1545-1424 2013	Cancellation of Debt
CREDITOR'S federal identification number XX-XXXXXXX		2 Amount of debt discharged \$ 70,000.00	3 Interest if included in box 2 \$	
DEBTOR'S identification number XXX-XX-XXXX		4 Debt description HOME MORTGAGE LOAN 1111 ANYWHERE STREET ANYWHERE TOWN, STATE ZIP		
DEBTOR'S name FRANK LINCOLN		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>		Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
Street address (including apt. no.) ANYWHERE		6 Identifiable event code		
City or town, province or state, country, and ZIP or foreign postal code CITY, STATE ZIP USA		7 Fair market value of property \$ 125,000.00		
Account number (see instructions) 1234567		Form 1099-C (keep for your records)		Department of the Treasury - Internal Revenue Service

www.irs.gov/form1099c

Form 8949 (2012) current year not available 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.) **Frank Lincoln** 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 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 Form 1099-A	05/14/03	06/25/13	\$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

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.

term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back.

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked	\$125,000	\$200,000	\$75,000	\$0
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss) . Combine lines 8a through 14 in column (h). Then go to Part III on the back				15 \$0

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 11338H

Schedule D (Form 1040) 2013

Form **982**
(Rev. July 2013)
Department of the Treasury
Internal Revenue Service

Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)

OMB No. 1545-0046

▶ Attach this form to your income tax return.

Attachment
Sequence No. **94**

▶ Information about Form 982 and its instructions is at www.irs.gov/form982.

Name shown on return
FRANK LINCOLN

Identifying number
XXX-XX-XXXX

Part I General Information (see instructions)

1 Amount excluded is due to (check applicable box(es)):

- a** Discharge of indebtedness in a title 11 case
- b** Discharge of indebtedness to the extent insolvent (not in a title 11 case)
- c** Discharge of qualified farm indebtedness
- d** Discharge of qualified real property business indebtedness
- e** Discharge of qualified principal residence indebtedness

2 Total amount of discharged indebtedness excluded from gross income **2** **\$70,000**

3 Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? Yes No

Part II Reduction of Tax Attributes. You must attach a description of each transaction that results in the reduction in

Case Study Alternative – Mortgage Workout

If Frank had been able to negotiate a workout with his mortgage lender (reducing the amount he owed on the mortgage and staying in the home), he would not have completed Form 8949 and Schedule D because he had not disposed of the asset.

Assume Frank's lender agreed to reduce his mortgage debt from \$195,000 to \$175,000. The lender issued Frank a Form 1099-C showing \$20,000 of canceled debt. Frank's Form 982 would be completed, but the amount of debt forgiven (or his basis in the home, whichever was smaller) would need to be entered on the form, and his basis in the home would be decreased by that amount.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-1424	
CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no.		1 Date of identifiable event 6/25/2013	2013 Form 1099-C
FIRST BANK ANYWHERE USA		2 Amount of debt discharged \$ 20,000.00	
		3 Interest if included in box 2 \$	
CREDITOR'S federal identification number XX-XXXXXXX	DEBTOR'S identification number XXX-XX-XXXX	4 Debt description HOME MORTGAGE LOAN 1111 ANYWHERE STREET ANYWHERE TOWN, STATE ZIP	
DEBTOR'S name FRANK LINCOLN		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	
Street address (including apt. no.) ANYWHERE		7 Fair market value of property \$	
City or town, province or state, country, and ZIP or foreign postal code CITY, STATE ZIP USA			
Account number (see instructions) 1234567		6 Identifiable event code	
Form 1099-C (keep for your records)		www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service	

Cancellation of Debt

Copy B
For Debtor
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.

Form 982 (Rev. July 2013) Department of the Treasury Internal Revenue Service		Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment) ▶ Attach this form to your income tax return. ▶ Information about Form 982 and its instructions is at www.irs.gov/form982 .		OMB No. 1545-0046 Attachment Sequence No. 94	
Name shown on return FRANK LINCOLN			Identifying number XXX-XX-XXXX		
Part I General Information (see instructions)					
1 Amount excluded is due to (check applicable box(es)):					
a Discharge of indebtedness in a title 11 case					<input type="checkbox"/>
b Discharge of indebtedness to the extent insolvent (not in a title 11 case)					<input type="checkbox"/>
c Discharge of qualified farm indebtedness					<input type="checkbox"/>
d Discharge of qualified real property business indebtedness					<input type="checkbox"/>
e Discharge of qualified principal residence indebtedness					<input checked="" type="checkbox"/>
2 Total amount of discharged indebtedness excluded from gross income					\$20,000
3 Do you elect to treat all real property described in section 1221(a)(1), relating to property held for sale to customers in the ordinary course of a trade or business, as if it were depreciable property? <input type="checkbox"/> Yes <input type="checkbox"/> No					
Part II Reduction of Tax Attributes. You must attach a description of any transactions resulting in the reduction in basis under section 1017. See Regulations section 1.1017-1 for basis reduction ordering rules, and, if applicable, required partnership consent statements. (For additional information, see the instructions for Part II.)					
Enter amount excluded from gross income:					
4 For a discharge of qualified real property business indebtedness applied to reduce the basis of depreciable real property					4
5 That you elect under section 108(b)(5) to apply first to reduce the basis (under section 1017) of depreciable property					5
6 Applied to reduce any net operating loss that occurred in the tax year of the discharge or carried over to the tax year of the discharge					6
7 Applied to reduce any general business credit carryover to or from the tax year of the discharge					7
8 Applied to reduce any minimum tax credit as of the beginning of the tax year immediately after the tax year of the discharge					8
9 Applied to reduce any net capital loss for the tax year of the discharge, including any capital loss carryovers to the tax year of the discharge					9
10a Applied to reduce the basis of nondepreciable and depreciable property if not reduced on line 5. <i>DO NOT use in the case of discharge of qualified farm indebtedness</i>					10a
b Applied to reduce the basis of your principal residence. Enter amount here ONLY if line 1e is checked					10b \$20,000
11 For a discharge of qualified farm indebtedness applied to reduce the basis of:					
a Depreciable property used or held for use in a trade or business or for the production of income if not reduced on line 5					



EXERCISES (continued)

Question 3: A volunteer with Cancellation of Debt certification is working with Robert. The volunteer asks Robert if he underwent foreclosure or had to give up his home during the tax year. Robert confirmed that he did, and produced Form 1099-A. The volunteer asked Robert if he had received Form 1099-C, and Robert replied that he did not. Examining the form, the volunteer noted the balance of principal outstanding was \$234,000. What should the volunteer do next?

- A. Ask the questions on Publication 4731, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt
- B. Ask enough probing questions to determine if Robert had a gain or loss on the foreclosure
- C. Refer Robert to a professional tax preparer
- D. Complete Form 982

Question 4: Mary purchased her main home in June 2004 for \$175,000. She lost her job and was no longer able to make her mortgage payments during the current year. In July of the current year, Mary moved out of the home to live with relatives. On July 15, the bank foreclosed on the home. On November 15, the bank discontinued its collection activity and canceled the remaining debt. The fair market value at the time of foreclosure was \$100,000 because of the poor housing market, but Mary still owed \$150,000 on the mortgage. None of the loan proceeds were used for any purpose other than to buy, build, or substantially improve the principal residence. Mary never used the home for business or rental purposes and has not filed for bankruptcy. Based on this information, what should the volunteer do?

- A. Refer Mary to another source for tax return preparation
- B. Report a loss of \$50,000 on Schedule D
- C. Report \$50,000 debt canceled on Form 982
- D. Include the debt cancellation amount in income

Question 5: After Tom became ill and could not work full time, he and his wife, Grace, were having difficulty making their mortgage payments. Rather than go through the expense of a foreclosure, the lender agreed to reduce the principal on their loan and refinance it with a better interest rate and lower payments. The principal balance before the November 1 of the current year workout was \$130,000, and the lender reduced the loan to \$110,000. None of the loan proceeds were used for any purpose other than to buy, build, or substantially improve the principal residence. The home has never been used for business or as rental property, and the taxpayers have not filed for bankruptcy.

Based on this information, what should the volunteer do?

- A. Refer Tom and Grace to another source for tax return preparation
- B. Report the reduction in the basis of the home on line 10b of Form 982
- C. Report the \$20,000 as a loss on Schedule D
- D. Include the debt cancellation amount in income



EXERCISES (continued)

Question 6: Gene bought his home in 2003. His basis in the home was \$210,000. He lost his job in January of this year and was not able to make the mortgage payments. The bank foreclosed in August and Gene moved out. At the time of the foreclosure, the fair market value was \$145,000 and the principal balance of the mortgage was \$185,000. All of the debt was incurred to purchase the home, it was never used for business or as a rental, and Gene has not filed for bankruptcy. Gene has a Form 1099-C. Gene is personally liable for repayment of the debt.

How should the foreclosure and loss be reported?

- A. Report the \$40,000 debt cancellation on Form 982, line 10b
- B. Report the \$40,000 debt cancellation on Form 982, line 2, only
- C. Report the \$40,000 debt cancellation on Form 982, line 2, and the foreclosure on Form 8949 and Schedule D
- D. Report the \$40,000 debt cancellation on Form 1040, line 21

Cancellation of Debt – Nonbusiness Credit Card Debt Cancellation

Generally, if a taxpayer receives Form 1099-C for canceled credit card debt and was **solvent** (assets greater than liabilities) immediately before the debt was canceled, all the canceled debt will be included on Form 1040, line 21, Other Income. No additional supporting forms or schedules are needed to report canceled credit card debt.

example

John made a deal with his credit card company to pay \$2,000 on his \$7,000 balance, and the company agreed to take it as payment in full. In January of the current year, John received a Form 1099-C from his credit card company reporting \$5,000 (the amount of debt canceled). John was solvent immediately before the debt was canceled. John would include the entire \$5,000 in income on Form 1040, line 21.

Lenders and creditors are required to issue Form 1099-C if they cancel a debt of \$600 or more. If the debt canceled is less than \$600, some lenders or creditors may send a letter or some other form of notification to the taxpayer. Generally, taxpayers must include all canceled amounts (even if less than \$600) on the Other Income line of Form 1040.

Insolvency (Out of Scope for VITA/TCE)

Insolvency is a condition in which the FMV of all assets is less than one's liabilities. The amount or level of insolvency is expressed as a negative net worth.

For purposes of determining insolvency, assets include the value of everything owned (including assets that serve as collateral for debt, and exempt assets which are beyond the reach of creditors under the law, such as an interest in a pension plan and the value of a retirement account).

Liabilities are amounts owed and include:

- The entire amount of recourse debts
- The amount of nonrecourse debt is not in excess of the FMV of the property and is security for the debt

Use the Insolvency Determination Worksheet as a resource to determine whether a taxpayer is considered insolvent.

Insolvency Determination Worksheet			
Assets (FMV)		Liabilities	
Homes	\$	Mortgages	\$
Cars		Home equity loans	
Recreational vehicles, etc.		Vehicle loans	
Bank accounts		Personal signature loans	
IRAs, 401Ks, etc.		Credit card debts	
Jewelry		Past-due mortgage interest, real estate taxes, utilities, and child care costs	
Furniture		Other liabilities	
Clothes			
Misc.			
Other assets			
Total Assets:	\$	Total Liabilities:	\$
Total Assets minus Total Liabilities = \$			
(Negative amount equals insolvency)			
(Positive amount equals solvency)			



If the taxpayer had nonbusiness credit card debt canceled, all or part of the debt may be excluded if the cancellation occurred in bankruptcy, or if the taxpayer was insolvent immediately before the cancellation. These situations are beyond the scope of VITA/TCE. If any of these situations apply, refer the taxpayer to a professional tax preparer. See IRS Publication 4681 for more information.



Publication 4731 (Part III), located in the Volunteer Resource Guide (Income Tab), provides step-by-step guidance for the volunteer tax return preparer to determine if the cancellation of credit card debt is within scope.

Taxpayer Interview and Tax Law Application

Here is how a volunteer advised Michelle regarding her canceled credit card debt.

SAMPLE INTERVIEW

VOLUNTEER SAYS...

I notice you received a 1099-C from a credit card company.

Yes, Form 1099-C shows the amount of debt discharged.

Do you think your debts at the time exceeded your assets?

Let's fill out the Insolvency Determination Worksheet to help us determine whether you were insolvent.

According to the worksheet, you are insolvent. I am afraid I am not able to help you. VITA/TCE volunteers are not trained to compute the nontaxable portion of canceled credit card debt.

I suggest you seek assistance from a professional tax preparer.

MICHELLE RESPONDS...

Yes, I negotiated with them to cancel \$3,000 of my debt.

I could only afford to pay them \$1,000, so it really helped me.

I'm not sure, but it's certainly possible.

OK.

Oh, I understand.

I will, thank you.

Insolvency Determination Worksheet for Michelle			
Assets (FMV)		Liabilities	
Homes	\$120,000	Mortgages	\$180,000
Cars	15,000	Home equity loans	50,000
Recreational vehicles, etc.		Vehicle loans	18,000
Bank accounts	1,000	Personal signature loans	
IRAs, 401Ks, etc.	60,000	Credit card debts	3,000
Jewelry		Past-due mortgage interest, real estate taxes, utilities, and child care costs	
Furniture	2,000	Other liabilities	
Clothes	1,550		
Misc.			
Other assets			
Total Assets:	\$199,550	Total Liabilities:	\$251,000
Total Assets minus Total Liabilities = (\$51,450)			
(Negative amount equals insolvency)			
(Positive amount equals solvency)			



EXERCISES (continued)

Question 7: Greg was released from his obligation to pay \$5,000 of personal credit card debt. The credit card company sent Form 1099-C showing canceled debt of \$5,000. Greg is fairly certain he has more debt than he has assets.

Can the VITA/TCE site provide tax return preparation assistance to Greg?

- A. Yes, since the entire \$5,000 in canceled debt is considered income and reported on Form 1040, line 21.
- B. No, because it appears Greg is insolvent, which might mean some of the canceled credit card debt would be nontaxable and beyond the scope of the VITA/TCE programs.

Question 8: Kay was released from her obligation to pay personal credit card debt. She owed \$10,000 to her credit card company, which agreed to accept \$2,500 as payment in full. Before paying the credit card company, it was determined Kay was solvent (assets greater than liabilities) and not in bankruptcy. The credit card company issued Kay a Form 1099-C, reporting \$7,500 as the amount of debt discharged.

Based on the information above, can Kay be assisted at her local VITA/TCE site? Yes No

Question 9: Review the information in Question 8 about Kay's canceled debt. If the VITA/TCE site is able to assist Kay, what amount would be reported on Kay's Form 1040, line 21?

- A. \$0
- B. \$10,000
- C. \$2,500
- D. \$7,500

Summary

Cancellation of Debt is an optional specialty training for volunteers with an Advanced Certification. A separate certification is required for volunteers on cancellation of debt issues. A debt includes any indebtedness for which a taxpayer is liable or which attaches to the taxpayer's property. Cancellation of indebtedness can involve auto loans, credit card debt, medical care, professional services, installment purchases of furniture or other personal property, mortgages, and home equity loans.

Cancellation of debt can be complex. VITA/TCE volunteers may assist a taxpayer with issues related to cancellation of debt as long as the taxpayer meets all the criteria for discharge of qualified principal residence indebtedness or if all debt canceled and reported on Form 1099-C was nonbusiness credit card debt.

Taxpayers who go through a foreclosure or abandonment of their principal residence receive Form 1099-A, Acquisition or Abandonment of Secured Property. Form 1099-A will have information needed to determine the gain or loss due to the foreclosure or abandonment.

If the debt on the principal residence is canceled, the taxpayer will receive Form 1099-C, Cancellation of Debt. If foreclosure/abandonment and debt cancellation occur in the same calendar year, the lender may issue only Form 1099-C, including the information that would be reported on Form 1099-A.

If a taxpayer receives Form 1099-C for canceled credit card debt and was solvent immediately before the debt was canceled, all the canceled debt will be included on Form 1040, line 21, Other Income.

Use Publication 4731, Screening Sheet for Foreclosures/Abandonments and Cancellation of Debt, which provides questions and step-by-step guidance to determine whether the cancellation of debt issue is within scope for the VITA/TCE programs.

- 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.

What situations are out of scope for the VITA/TCE programs?

The following are out of scope for this lesson. While this list may not be all inclusive, it is provided for your awareness only.

- Cancellation of debt for issues other than “qualified principal residence indebtedness” or nonbusiness credit card debt
- Cancellation of debt for a principal residence that was used in a business or as rental property
- Cancellation of debt when Form 1099-C includes an amount for interest
- Cancellation of debt was because the taxpayer filed bankruptcy or was insolvent immediately before the debt was canceled



EXERCISE ANSWERS

Answer 1: No. Because Angie used part of the home as rental property, all the canceled debt may not qualify to be excluded from income. The rules involving mortgage debt exclusions are complex. Angie should be referred to a professional tax preparer.

Answer 2: No. Fred's situation is outside the scope of the volunteer program since a portion of his refinanced debt was used for purposes other than to buy, build, or substantially improve his principal residence. Fred should be referred to a professional tax preparer, per the guidance on Publication 4731.

Answer 3: A. The volunteer should use Publication 4731, Part I to determine if Robert had a gain or loss on the foreclosure. If the taxpayer receives a Form 1099-C, the volunteer would use the screening sheet to determine if the related tax issues are within scope.

Answer 4: C. The volunteer would need to complete Form 8949, Schedule D, and Form 982. Although there is a loss, it cannot be deducted. The mortgage debt cancellation is not included in income on the tax return because it is covered by the qualified principal residence indebtedness exclusion on Form 982.

Answer 5: B. The volunteer would complete Form 982 and report the reduction in the basis of the home. The \$20,000 in debt cancellation can be excluded as qualified principal residence indebtedness on Form 982 and is not counted as income on the tax return. Form 8949 and Schedule D are not required because Tom and Grace did not dispose of the home.

Answer 6: C. Form 982, Form 8949, and Schedule D should be completed. When a residence that is security for a mortgage is abandoned or foreclosed upon, it is treated as having been sold. This results in the foreclosure being reported on Form 8949 and Schedule D as sale of home. Failure to file Form 8949 and Schedule D may result in an IRS notice to the taxpayer.

Answer 7: B. Greg is fairly certain that he has more debt than he has assets, which means he is insolvent. This situation is beyond the scope of the VITA/TCE programs.

Answer 8: Yes. Kay was solvent and not in bankruptcy, and the credit card company issued her a Form 1099-C.

Answer 9: D. Kay would report \$7,500 on line 21 of her Form 1040.



Cancellation of Debt – Practice Scenarios

Now that you have completed the Cancellation of Debt course, let's practice. Five practice scenarios are provided to help you apply what you have learned.

Scenarios 1, 2, and 3 involve cancellation of debt issues on the taxpayer's principal residence. The first scenario does not require you to prepare a tax return. For practice using the tax preparation software, review the interview notes and taxpayer documents in order to complete a tax return for scenarios 2 and 3.

Scenarios 4 and 5 involve canceled debt from a credit card. Scenario 4 does not require you to prepare a tax return. For practice using the tax preparation software, review the interview notes and taxpayer documents in order to complete a tax return for scenario 5.

To answer the questions, complete Form 1040, page 1, and the appropriate forms and schedules.

The Practice Lab on Link & Learn Taxes is available for you to complete the returns using tax preparation software. After you answer the questions, you can check your answers, which are listed at the end of this course.

Practice Scenario 1 – Mike and Marilyn Albion

Interview Notes

Mike and Marilyn owned and lived in their home since 2001. They could not make the mortgage payments, so they moved out of their home in July 2013. In January 2014, they received Form 1099-C from their mortgage company. Box 2 showed canceled debt of \$75,000 and box 5 indicated that the loan was a recourse loan, which made them personally liable for the debt. Their home was never used in a business or as a rental property. The mortgage was used to purchase the home and was secured by the home. They did not file bankruptcy.

Practice Scenario 1 Questions

Answers appear at the end of the lesson.

- 1-1** Mike and Marilyn's debt is referred to as nonrecourse debt. True False
- 1-2** Mike and Marilyn will not have to report the canceled debt as income because it meets one of the exclusions to the general rule. True False
- 1-3** The canceled debt will be reported on:
- A. Form 1040, line 21
 - B. Form 982, line 2
 - C. Form 982, line 10b
 - D. All of the above
- 1-4** VITA/TCE volunteers can assist taxpayers who lose their home during bankruptcy.
 True False

Practice Scenario 2 – Larry and Donna Rusk

Interview Notes

- Larry and Donna are married and want to file a joint return.
- Larry is a middle school art teacher.
- Donna lost her job and received unemployment.
- They stopped making their house payments in December 2012, and the bank foreclosed on August 16, 2013. They had owned and lived in the home since June 10, 2000. The cost of the home was \$150,000. The home was never used for business or rental purposes. The balance of the mortgage principal at the time of foreclosure was \$133,000.
- The bank issued a 1099-C for debt canceled.
- They want to have their refund direct deposited: Routing #062005690 Acct. #123876-4.



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.

- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name LARRY	M.I.	Last name RUSK	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. Your spouse's first name DONNA	M.I.	Last name RUSK	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
3. Mailing address 8899 LIGHTWOOD STREET		Apt #	City YOUR CITY	State YS
4. Contact information Telephone number(s) YOUR PHONE #		Email address NONE		
5. Your Date of Birth 07/29/1980	6. Your job title TEACHER		7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8. Your spouse's Date of Birth 01/30/1982	9. Your spouse's job title UNEMPLOYED		10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure				
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single Married Did you live with your spouse during any part of the last six months of 2013? Yes No

Divorced or Legally Separated Date of final decree or separate maintenance agreement _____

Widowed Year of spouse's death _____

2. List the names below of:
 • everyone who lived with you last year (other than you or your spouse)
 • anyone you supported but did not live with you last year

If additional space is needed check here and list on page 4

Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	To be completed by Certified Volunteer Preparer				
									Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					

**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**

Yes	No	Unsure	Check appropriate box for each question in each section
Part III – Income – Last Year, Did You (or Your Spouse) Receive			
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>2</u>
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) <input checked="" type="checkbox"/> 401K (B) _____ Other
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Medical expenses? (including health insurance premiums)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Home mortgage interest? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Charitable contributions?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Expenses related to self-employment income or any other income you received?

Part V – Life Events – Last Year, Did You (or Your Spouse)			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Pay any student loan interest? (Form 1098-E)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit?	To purchase U.S. Savings Bonds?	To split your refund between different accounts?
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

a Employee's social security number 381-XX-XXXX		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 59-2XXXXXX		1 Wages, tips, other compensation 30,559.00		2 Federal income tax withheld 3,746.35			
c Employer's name, address, and ZIP code OAK TRAIL MIDDLE SCHOOL 200 OAK TRAIL ROAD YOUR CITY, STATE ZIP		3 Social security wages 32,559.00		4 Social security tax withheld 2,018.66			
		5 Medicare wages and tips 32,559.00		6 Medicare tax withheld 472.11			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Suff. LARRY RUSK 8899 LIGHTWOOD ST. YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12 D 2,000.00			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	59-2XXXXXX	30,559.00	1,100.00				

Form **W-2 Wage and Tax Statement**

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

a Employee's social security number 382-XX-XXXX		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 59-3XXXXXX		1 Wages, tips, other compensation 5,900.00		2 Federal income tax withheld 590.00			
c Employer's name, address, and ZIP code DAISY DAY CARE 1945 FLOWER RD. YOUR CITY, STATE ZIP		3 Social security wages 5,900.00		4 Social security tax withheld 365.80			
		5 Medicare wages and tips 5,900.00		6 Medicare tax withheld 85.55			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Suff. DONNA RUSK 8899 LIGHTWOOD ST. YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	59-3XXXXXX	5,900.00					

Form **W-2 Wage and Tax Statement**

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. GEORGIA STATE UNEMPLOYMENT COMMISSION 456 PEACHTREE STREET YOUR CITY, STATE ZIP		1 Unemployment compensation \$ 4,500.00	OMB No. 1545-0120 2013 Form 1099-G	Certain Government Payments
PAYER'S federal identification number 53-XXXXXX		2 State or local income tax refunds, credits, or offsets \$	3 Box 2 amount is for tax year	
RECIPIENT'S name DONNA RUSK Street address (including apt. no.) 8899 LIGHTWOOD STREET City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		5 RTAA payments \$	6 Taxable grants \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (see instructions)		7 Agriculture payments \$	8 If checked, box 2 is trade or business income <input type="checkbox"/>	
		9 Market gain \$	11 State income tax withheld \$	
		10a State	10b State identification no.	
Form 1099-G (keep for your records)		www.irs.gov/form1099g		Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. BEACON FIRST NATIONAL BANK 500 N MARKET STREET YOUR CITY, STATE ZIP		1 Date of identifiable event 08/16/2013	OMB No. 1545-1424 2013 Form 1099-C	Cancellation of Debt
CREDITOR'S federal identification number 59-XXXXXX		2 Amount of debt discharged \$ 21,000.00	3 Interest if included in box 2 \$	
DEBTOR'S name LARRY AND DONNA RUSK Street address (including apt. no.) 8899 LIGHTWOOD STREET City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		4 Debt description HOME MORTGAGE LOAN 415 CEDAR TRAIL YOUR CITY, STATE ZIP		Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
Account number (see instructions)		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	7 Fair market value of property \$ 112,000.00	
		6 Identifiable event code		
Form 1099-C (keep for your records)		www.irs.gov/form1099c		Department of the Treasury - Internal Revenue Service

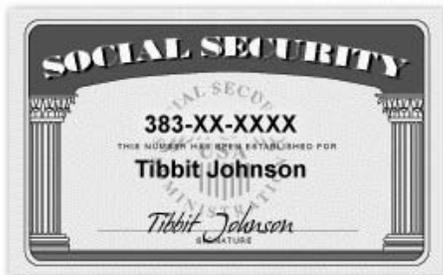
Practice Scenario 2 Questions

- 2-1** What is the amount of canceled debt excluded from gross income on Form 982, line 2?
- A. \$0
 - B. \$21,000
 - C. \$112,000
 - D. \$133,000
- 2-2** What is the net long-term capital gain or loss shown on Schedule D, line 15?
- A. (\$21,000)
 - B. \$0
 - C. \$17,000
 - D. \$21,000
- 2-3** Which of the following would cause the Rusks' return to be out of scope for VITA/TCE volunteers?
- A. They filed bankruptcy
 - B. They rented out the basement apartment
 - C. They took out a home equity loan and used the proceeds to pay off credit card debt
 - D. All of the above
- 2-4** What is the amount of canceled debt the Rusks will report as income on Form 1040, line 21? \$_____
- 2-5** What is the Rusks' total income on Form 1040, line 22?
- A. \$36,459
 - B. \$40,959
 - C. \$50,559
 - D. \$60,959

Practice Scenario 3 – Tibbit Johnson

Interview Notes

- Tibbit Johnson is a retired school teacher and a widower with two adult children. His wife, Sasha, passed away in 2012. At the time of his wife's death, she was employed full-time as a bank teller.
- He has not remarried.
- After the death of his wife, he was struggling to make the mortgage payment on his residence on his teacher's pension alone. In November 2013 he worked out a loan modification agreement with his lender, reducing his monthly payment by \$200, which allowed him to keep his home.
- Tibbit received a Form 1099-R for his teacher's pension and his only other source of income was \$7 in interest on a savings account he had with Teachers Credit Union. He did not receive a Form 1099-INT from the credit union.
- The mortgage breakdown was:
 - Year 1993, mortgage secured to buy the house: \$175,000
 - Year 2001, second mortgage loan to replace the roof and windows: \$25,000
- The home's fair market value (FMV) had fallen to \$160,000 when the mortgage workout with his lender occurred. Tibbit owed \$173,000 on the combined first and second mortgage loans before the mortgage workout with his lender. The lender agreed to refinance the two loans into one and reduce the mortgage principal balance to the current fair market value.
- Tibbit received Form 1099-C reflecting \$13,000 in cancellation of debt. He was solvent at the time the debt was canceled and was not in bankruptcy. The house has never been rented or used for any business purpose.
- Tibbit and Sasha itemized on their joint 2012 return and did not receive a refund on their state return. Tibbit is wondering if he should itemize on his 2013 return.
- Tibbit wants to know if he can still deduct the \$1,200 in mortgage interest. He has no other deductible expenses.
- He would like any refund to be direct deposited into his checking account. Routing #062005690 and Account #123967-3.



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.

- Please complete pages 1-2 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.

Part I - Your Personal Information

1. Your first name TIBBIT	M.I.	Last name JOHNSON	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. Your spouse's first name	M.I.	Last name	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No	
3. Mailing address 8301 HOLLY PLACE	Apt #	City YOUR CITY	State YS	ZIP code YOUR ZIP
4. Contact information Telephone number(s) YOUR PHONE #	Email address NONE			
5. Your Date of Birth 07/13/1949	6. Your job title RETIRED	7. Last year, were you:		a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8. Your spouse's Date of Birth	9. Your spouse's job title	10. Last year, was your spouse:		a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure				
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				

Part II - Marital Status and Household Information

1. As of December 31 of last year, were you: Single Married Did you live with your spouse during any part of the last six months of 2013? Yes No Divorced or Legally Separated Date of final decree or separate maintenance agreement _____ Widowed Year of spouse's death **2012**

2. List the names below of:
 • everyone who lived with you last year (other than you or your spouse)
 • anyone you supported but did not live with you last year

If additional space is needed check here and list on page 4

											To be completed by Certified Volunteer Preparer				
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)							

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

Yes	No	Unsure	Check appropriate box for each question in each section
Part III – Income – Last Year, Did You (or Your Spouse) Receive			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) _____ 401K (B) _____ Other
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Medical expenses? (including health insurance premiums)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6. (B) Home mortgage interest? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Charitable contributions?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Expenses related to self-employment income or any other income you received?

Part V – Life Events – Last Year, Did You (or Your Spouse)			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Pay any student loan interest? (Form 1098-E)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit?	To purchase U.S. Savings Bonds?	To split your refund between different accounts?
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code TEACHER'S STATE PENSION FUND 123 OAK STREET YOUR CITY, STATE ZIP		1 Gross distribution \$ 20,000.00	OMB No. 1545-0119 2013		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$ 20,000.00	Form 1099-R		
PAYER'S federal identification number 59-6XXXXXX		RECIPIENT'S identification number 383-XX-XXXX		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>
RECIPIENT'S name TIBBIT JOHNSON		3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$ 1,700.00	
Street address (including apt. no.) 8201 HOLLY PLACE		5 Employee contributions /Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$	
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		7 Distribution code(s) 7	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
		9a Your percentage of total distribution %		9b Total employee contributions \$	
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$ 300.00	13 State/Payer's state no. YS 2343235		14 State distribution \$ 20,000.00
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality		17 Local distribution \$

Form **1099-R**

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. FIRST HOME MORTGAGE PO BOX 12 YOUR CITY, STATE ZIP		1 Date of identifiable event 11/13/2013	OMB No. 1545-1424 2013		Cancellation of Debt
		2 Amount of debt discharged \$ 13,000.00	Form 1099-C		
CREDITOR'S federal identification number 59-XXXXXXX	DEBTOR'S identification number 383-XX-XXXX	3 Interest if included in box 2 \$			Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
DEBTOR'S name TIBBIT JOHNSON		4 Debt description HOME MORTGAGE LOAN			
Street address (including apt. no.) 8201 HOLLY PLACE		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>			
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Identifiable event code		7 Fair market value of property \$	
Account number (see instructions)					

Form **1099-C**

(keep for your records)

www.irs.gov/form1099c

Department of the Treasury - Internal Revenue Service

Practice Scenario 3 Questions

- 3-1 Tibbit's debt is referred to as recourse debt. True False
- 3-2 Tibbit's adjusted gross income is \$33,007. True False
- 3-3 How should the workout with the mortgage lender be reported on Tibbit's tax return?
- A. Report the \$13,000 debt cancellation on Form 982, line 2 only.
 - B. Report the \$13,000 debt cancellation on Form 982, line 2, and Form 8949 and Schedule D.
 - C. Report the \$13,000 debt cancellation on Form 982, line 2, and on Form 1040, line 21.
 - D. Report the \$13,000 debt cancellation on Form 982, line 2, and line 10b.

Practice Scenario 4 – Jay Smith

Interview Notes

Jay incurred \$15,000 in credit card debt. He was unable to pay the monthly payments. In September 2013, the credit card company agreed to accept \$8,000 from Jay as full payment. Jay received a Form 1099-C from the credit card company for \$7,000. He was also personally liable for the payment of the debt. Jay was not insolvent immediately before the cancellation of debt, nor has he filed for bankruptcy.

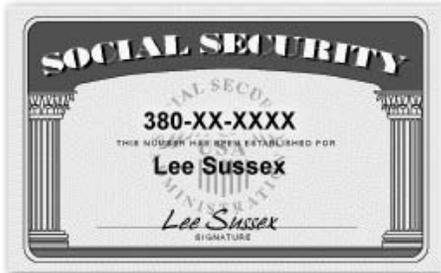
Practice Scenario 4 Questions

- 4-1 What is the taxable portion of Jay's canceled debt that will be reported on Form 1040? \$_____
- 4-2 If the fair market value of Jay's assets was less than his liabilities, this is what is referred to as being solvent. True False

Practice Scenario 5 – Lee Sussex

Interview Notes

- Lee is single with no children.
- She did not itemize last year.
- She received Form 1099-C for the cancellation of her nonbusiness credit card debt.
- Lee was unsure whether she was solvent at the time the credit card debt was canceled.
- Lee has the following assets:
 - Car \$7,000
 - Bank account \$250
 - Furniture \$2,000
 - Pension plan \$35,000
 - Home \$75,000
- Lee has these liabilities:
 - Mortgage loan \$10,000
 - Credit card debt \$6,500
 - Car loan \$9,000
- She wants her refund to be direct deposited to Routing #062005690, Account # 07131968.



Form 13614-C (October 2013)	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB Number 1545-1964
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- 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.
- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name LEE	M.I. M	Last name SUSSEX	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name	M.I.	Last name	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 7294 ELM	Apt #	City YOUR CITY	State YS ZIP code YOUR ZIP
4. Contact information Telephone number(s) YOUR PHONE # Email address NONE			
5. Your Date of Birth 11/29/1985	6. Your job title EDITOR	7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
8. Your spouse's Date of Birth	9. Your spouse's job title	10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No	
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure			
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single
 Married Did you live with your spouse during any part of the last six months of 2013? Yes No
 Divorced or Legally Separated Date of final decree or separate maintenance agreement _____
 Widowed Year of spouse's death _____

2. List the names below of:
 • **everyone** who lived with you last year (other than you or your spouse)
 • **anyone** you supported but did not live with you last year

If additional space is needed check here and list on page 4

										To be completed by Certified Volunteer Preparer				
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)						

**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**

Yes No Unsure Check appropriate box for each question in each section

Part III – Income – Last Year, Did You (or Your Spouse) Receive

- 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? 1
- 2. (A) Tip Income?
- 3. (B) Scholarships? (Forms W-2, 1098-T)
- 4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
- 5. (B) Refund of state/local income taxes? (Form 1099-G)
- 6. (B) Alimony income?
- 7. (A) Self-Employment income? (Form 1099-MISC, cash)
- 8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
- 9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
- 10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
- 11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
- 12. (B) Unemployment compensation? (Form 1099-G)
- 13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
- 14. (M) Income (or loss) from Rental Property?
- 15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay

- 1. (B) Alimony? If yes, do you have the recipient's SSN? Yes No
- 2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) 401K (B) _____ Other
- 3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
- 4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
- 5. (B) Medical expenses? (including health insurance premiums)
- 6. (B) Home mortgage interest? (Form 1098)
- 7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
- 8. (B) Charitable contributions?
- 9. (B) Child or dependent care expenses such as daycare?
- 10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
- 11. (A) Expenses related to self-employment income or any other income you received?

Part V – Life Events – Last Year, Did You (or Your Spouse)

- 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
- 2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
- 3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
- 4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
- 5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
- 6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
- 7. (A) Receive the First Time Homebuyers Credit in 2008?
- 8. (B) Pay any student loan interest? (Form 1098-E)
- 9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
- 10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit?	To purchase U.S. Savings Bonds?	To split your refund between different accounts?
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

a Employee's social security number 380-XX-XXXX		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 59-0XXXXXX		1 Wages, tips, other compensation 30,000.00		2 Federal income tax withheld 4,081.25	
c Employer's name, address, and ZIP code WORLD HERALD NEWS 141 PINE STREET YOUR CITY, STATE ZIP		3 Social security wages 32,500.00		4 Social security tax withheld 2,015.00	
		5 Medicare wages and tips 32,500.00		6 Medicare tax withheld 471.25	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name LEE SUSSEX 7294 ELM YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12 D 2,500.00	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
f Employee's address and ZIP code		15 State Employer's state ID number YS 59-0XXXXXX		16 State wages, tips, etc. 30,000.00	
		17 State income tax 1,200.00		18 Local wages, tips, etc.	
		19 Local income tax		20 Locality name	

Form **W-2** Wage and Tax Statement **2013** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. CREDIT CARD COMPANY 100 OVERPASS HWY YOUR CITY, STATE ZIP		1 Date of identifiable event 06/01/2013	OMB No. 1545-1424	2013 Form 1099-C	Cancellation of Debt
		2 Amount of debt discharged \$ 6,500.00			
		3 Interest if included in box 2 \$			
CREDITOR'S federal identification number 59-1XXXXXX	DEBTOR'S identification number 380-XX-XXXX	4 Debt description CREDIT CARD DEBT		Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.	
DEBTOR'S name LEE SUSSEX		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>			
Street address (including apt. no.) 7294 ELM					
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP					
Account number (see instructions)		6 Identifiable event code	7 Fair market value of property \$		

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

Insolvency Determination Worksheet for Lee Sussex			
Assets (FMV)		Liabilities	
Homes	\$75,000	Mortgages	\$10,000
Cars	7,000	Home equity loans	
Recreational vehicles, etc.		Vehicle loans	9,000
Bank accounts	250	Personal signature loans	
IRAs, 401Ks, etc.		Credit card debts	6,500
Jewelry		Past-due mortgage interest, real estate taxes, utilities, and child care costs	
Furniture	2,000	Other liabilities	
Clothes			
Misc.	35,000		
Other assets			
Total Assets:	\$119,250	Total Liabilities:	\$25,500
Total Assets minus Total Liabilities = \$93,750			
(Negative amount equals insolvency)			
(Positive amount equals solvency)			

Practice Scenario 5 Questions

- 5-1 Lee can exclude from income the entire amount of canceled debt. True False
- 5-2 If it were determined Lee was solvent at the time of the cancellation of debt, could a VITA/TCE volunteer still assist her? Yes No
- 5-3 What is Lee's adjusted gross income?
- A. \$30,000
- B. \$32,500
- C. \$36,500
- D. \$39,000

Answers to Practice Scenarios

- 1-1: False 3-1: True
- 1-2: True 3-2: False
- 1-3: B 3-3: D
- 1-4: False
- 4-1: 7,000
- 2-1: B 4-2: False
- 2-2: B
- 2-3: D 5-1: False
- 2-4: 0 5-2: Yes
- 2-5: B 5-3: C



Cancellation of Debt Test Questions

Test Answer Sheet

Name _____

Instructions: Volunteers with an Advanced Certification may proceed to a certification for Cancellation of Debt (COD). COD is an optional specialty training and certification test available on Link & Learn Taxes. Volunteers must achieve a minimum of 80% to be certified.

CAUTION: The Test/Retest scenarios are provided electronically in a PDF format for information purposes only. The questions on the online test may be either from the test or retest. Students should read each question on the online test very carefully before answering.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

COD Scenario 1

1.	
2.	
3.	

COD Scenario 2

4.	
5.	
6.	

COD Scenario 3

7.	
8.	

COD Scenario 4

9.	
10.	
11.	
12.	

COD Scenario 5

13.	
14.	

COD Scenario 6

15.	
16.	
17.	

COD Scenario 7

18.	
19.	
20.	

Total Answers Correct: _____

Total Questions: 20

Passing Score: 16 of 20

Directions

Scenarios 1 through 4 cover qualified principal residence indebtedness. The first three scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 1: Frank and Lonnette Snow

Interview Notes

- Frank and Lonnette received Form 1099-A reporting the foreclosure on their principal residence in 2013.
- At the time of foreclosure, they owed a balance of \$120,000 to the lender (Form 1099-A, box 2) and the FMV of the property was \$90,000 (Form 1099-A, box 4).
- Frank and Lonnette had owned and lived in their home since 2002.
- They moved out of their home on September 2, 2013.
- Their residence was never used as a business or as rental property.
- Frank and Lonnette have not filed for bankruptcy.
- Form 1099-A, box 5, was checked showing the Snows were personally liable for the debt.
- The debt has not been canceled by the creditor.

COD Scenario 1: Test Questions

1. Frank and Lonnette should report the foreclosure of their home on Form 8949 and Schedule D.
 - a. True
 - b. False
2. Since Frank and Lonnette have a recourse loan, they will report the sales price of their home using the fair market value (FMV).
 - a. True
 - b. False
3. A lender can use Form 1099-A to report both a foreclosure and cancellation of debt even if they occur in different years.
 - a. True
 - b. False

COD Scenario 2: Jacob and Tiffany Brown

Interview Notes

- Jacob and Tiffany owned and lived in their home since 2004.
- They could not make the mortgage payments and moved out of their home in March 2013.
- In August 2013, they received Form 1099-C from the mortgage company showing they were personally liable for the debt (box 5). Box 2 indicated canceled debt of \$60,000. Box 3 indicated no interest.
- The home was never used in a business or as rental property.
- The original mortgage of \$200,000 was used to purchase and was secured by the home.
- They did not file bankruptcy.

COD Scenario 2: Test Questions

4. Jacob and Tiffany's discharge of qualified principal residence indebtedness is an exclusion to the general rule that cancellation of debt is reported as income on the tax return.
 - a. True
 - b. False
5. Jacob and Tiffany have a _____ loan.
 - a. Home equity
 - b. Nonrecourse
 - c. Debt consolidation
 - d. Recourse
6. Exceptions to the general rule for reporting cancellation of debt as income include:
 - a. Certain student loans
 - b. Deductible debt
 - c. Bankruptcy
 - d. Both a and b

COD Scenario 3: Marie Reeves

Interview Notes

- Marie owned and lived in her home since 2004.
- In 2011, Marie lost her job. She started working as a teacher's assistant in 2013.
- In March 2013, she was struggling to make the mortgage payment on her home. She worked out a loan modification agreement with her lender and was able to reduce her monthly mortgage payment by \$700, allowing her to stay in her home.
- Marie purchased the home in 2004 for \$350,000. In March 2013, at the time of her mortgage workout, the balance owed on her mortgage was \$300,000. Due to the real estate market in her area, the fair market value (FMV) of her home had declined to less than what she currently owed on the mortgage.
- Marie's lender issued a Form 1099-C, showing \$60,000 in box 2. Box 3 indicated no interest.
- Form 1099-C, box 5 is checked "yes" indicating that she has a recourse loan and is personally liable for the debt.
- The home was never used in a business or as rental property.
- The mortgage was used to purchase and was secured by the home.
- Marie has not filed for bankruptcy.

COD Scenario 3: Test Questions

7. How will Marie report the Form 1099-C information on her 2013 Form 1040?
 - a. She will report it on Form 982, lines 1e, 2, and 10b.
 - b. She will report the transaction on Form 8949, Schedule D, and Form 982.
 - c. She will report it on Form 982, lines 1e and 2.
 - d. She does not have to report it since there was no foreclosure on her home.
8. The basis of Marie's home is reduced by \$60,000.
 - a. True
 - b. False

COD Scenario 4: Bill and Liz Jones

Interview Notes

- Bill and Liz want to file a joint return.
- Liz lost her job in 2012 and they got behind on their mortgage payments.
- Liz started working for a flower shop in 2013 but they still struggled to meet all their financial obligations.
- Their mortgage company foreclosed on their principal residence in May 2013.
- The mortgage was used to purchase the home, and was secured by the home. There was no business or rental use of the property. Their records show the following information:
 - Fair Market Value: \$175,000
 - Purchase date: August 16, 1999
 - Cost basis: \$275,000
 - Mortgage balance at the time of foreclosure: \$225,000
- They did not file for bankruptcy.
- They want to know if they can exclude the canceled debt by the mortgage company under the qualified principal residence indebtedness exclusion.
- Bill and Liz will not itemize for 2013.
- If they have a refund, they want the check mailed to them.



Form 13614-C (October 2013)	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB Number 1545-1964
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- 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.
- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name BILL	M.I.	Last name JONES	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. Your spouse's first name LIZ	M.I.	Last name JONES	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
3. Mailing address 1225 10TH STREET		Apt #	City YOUR CITY	State YS
4. Contact information Telephone number(s) YOUR PHONE #		Email address NONE		
5. Your Date of Birth 08/19/1968	6. Your job title RETIRED MILITARY		7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8. Your spouse's Date of Birth 08/15/1975	9. Your spouse's job title FLORIST		10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure				
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single
 Married Did you live with your spouse during any part of the last six months of 2013? Yes No
 Divorced or Legally Separated Date of final decree or separate maintenance agreement _____
 Widowed Year of spouse's death _____

2. List the names below of:
 • **everyone** who lived with you last year (other than you or your spouse)
 • **anyone** you supported but did not live with you last year

If additional space is needed check here and list on page 4

										To be completed by Certified Volunteer Preparer				
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)						

**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**

Yes	No	Unsure	Check appropriate box for each question in each section
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Part III – Income – Last Year, Did You (or Your Spouse) Receive

- | | | | |
|-------------------------------------|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>1</u> |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. (A) Tip Income? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. (B) Scholarships? (Forms W-2, 1098-T) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. (B) Refund of state/local income taxes? (Form 1099-G) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Alimony income? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (A) Self-Employment income? (Form 1099-MISC, cash) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. (B) Unemployment compensation? (Form 1099-G) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. (M) Income (or loss) from Rental Property? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____ |

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay

- | | | | |
|--------------------------|-------------------------------------|--------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) _____ 401K (B) _____ Other |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. (B) Medical expenses? (including health insurance premiums) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Home mortgage interest? (Form 1098) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (B) Charitable contributions? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (B) Child or dependent care expenses such as daycare? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. (A) Expenses related to self-employment income or any other income you received? |

Part V – Life Events – Last Year, Did You (or Your Spouse)

- | | | | |
|-------------------------------------|-------------------------------------|--------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____ |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____ |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (A) Receive the First Time Homebuyers Credit in 2008? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (B) Pay any student loan interest? (Form 1098-E) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____ |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D? |

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit? Yes No To purchase U.S. Savings Bonds? Yes No To split your refund between different accounts? Yes No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

a Employee's social security number 384-XX-XXXX		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 38-6XXXXXX		1 Wages, tips, other compensation 17,000.00		2 Federal income tax withheld 1,090.00	
c Employer's name, address, and ZIP code SPRING FLOWER SHOP 5062 HASLET ST. YOUR CITY, STATE ZIP		3 Social security wages 17,000.00		4 Social security tax withheld 1,054.00	
		5 Medicare wages and tips 17,000.00		6 Medicare tax withheld 246.50	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial Last name LIZ JONES 1225 10TH STREET YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other		12c	
f Employee's address and ZIP code				12d	
15 State Employer's state ID number YS 38-6XXXXXX	16 State wages, tips, etc. 17,000.00	17 State income tax 580.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2013** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

PAYER'S name, street address, city or town, province or state, country, and ZIP or foreign postal code DFAS PO BOX 8899 YOUR CITY, STATE ZIP		1 Gross distribution \$ 11,500.00		OMB No. 1545-0119 2013 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.
PAYER'S federal identification number 30-2XXXXXX		2a Taxable amount \$ 11,500.00		4 Federal income tax withheld \$ 640.00		
RECIPIENT'S name BILL JONES Street address (including apt. no.) 1225 10TH STREET City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		3 Capital gain (included in box 2a) \$		6 Net unrealized appreciation in employer's securities \$		
RECIPIENT'S identification number 385-XX-XXXX		5 Employee contributions /Designated Roth contributions or insurance premiums \$		8 Other \$ %		
7 Distribution code(s) 7		9a Your percentage of total distribution %		9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$		
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$		

Form **1099-R** www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

LENDER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no. STATEWIDE MORTGAGE COMPANY 3434 BROADWAY YOUR CITY, STATE ZIP		OMB No. 1545-0877 2013 Form 1099-A		Acquisition or Abandonment of Secured Property Copy B For Borrower This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
LENDER'S federal identification number 38-9XXXXXX	BORROWER'S identification number 385-XX-XXXX	1 Date of lender's acquisition or knowledge of abandonment 5/15/2013	2 Balance of principal outstanding \$ 225,000.00	
BORROWER'S name BILL AND LIZ JONES		3	4 Fair market value of property \$ 175,000.00	
Street address (including apt. no.) 1225 10TH STREET		5 If checked, the borrower was personally liable for repayment of the debt <input checked="" type="checkbox"/>		
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Description of property 125 OAK STREET YOUR CITY, STATE ZIP		
Account number (see instructions)				
Form 1099-A (keep for your records)		www.irs.gov/form1099a		Department of the Treasury - Internal Revenue Service

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. STATEWIDE MORTGAGE COMPANY 3434 BROADWAY YOUR CITY, STATE ZIP		1 Date of identifiable event 5/15/2013		OMB No. 1545-1424 2013 Form 1099-C		Cancellation of Debt Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
CREDITOR'S federal identification number 38-9XXXXXX	DEBTOR'S identification number 385-XX-XXXX	2 Amount of debt discharged \$ 50,000.00	3 Interest if included in box 2 \$	4 Debt description HOME MORTGAGE LOAN		
DEBTOR'S name BILL AND LIZ JONES		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>				
Street address (including apt. no.) 1225 10TH STREET		6 Identifiable event code		7 Fair market value of property \$		
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP						
Account number (see instructions)						
Form 1099-C (keep for your records)		www.irs.gov/form1099c		Department of the Treasury - Internal Revenue Service		

COD Scenario 4: Test Questions

Directions

Using the interview notes, taxpayer documents, and reference materials, prepare Bill and Liz's tax return through line 22 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

9. What is the sales price of the home shown on Part II of Form 8949? \$_____
10. What is the long-term capital gain or loss reported on Schedule D?
 - a. (\$100,000)
 - b. \$0
 - c. \$50,000
 - d. \$175,000
11. What is the total amount of canceled debt excluded from gross income on Form 982, Part I, line 2?
 - a. \$0
 - b. \$50,000
 - c. \$175,000
 - d. \$225,000
12. Which of the following would cause Bill and Liz's return to be out of scope?
 - a. They took out a home equity loan in 2007 to vacation in London.
 - b. Bill and Liz filed for bankruptcy.
 - c. They had an interest amount in box 3 of their Form 1099-C.
 - d. All of the above.

Directions

Scenarios 5 through 7 cover nonbusiness credit card indebtedness. The next two scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 5: Cynthia Gilmer

Interview Notes

- In 2013, Cynthia Gilmer negotiated with her credit card company to pay them \$4,500 on her \$12,000 balance. The company agreed to accept it as payment in full.
- At the end of the year, she received Form 1099-C from the credit card company with \$7,500 in box 2. Box 3 indicated no interest.
- It was determined that she was solvent immediately before the cancellation of debt and she was not in bankruptcy.
- Cynthia was personally liable for the payment of the debt.

COD Scenario 5: Test Questions

13. What is the taxable portion of Cynthia's cancellation of debt shown in the Income section of Form 1040? \$_____
14. Which forms and/or schedules will Cynthia need to attach to Form 1040 to report the cancellation of debt income?
 - a. No additional forms or schedules are needed
 - b. Form 982
 - c. Form 8949 and Schedule D
 - d. Form 8949, Schedule D, and Form 982

COD Scenario 6: James Baxter

Interview Notes

- James Baxter borrowed \$4,000 on his bank credit card in 2009 to go to Italy.
- After paying \$1,000 of the bank credit card debt, James lost his job and was unable to pay the balance of \$3,000. The debt was canceled by the bank credit card company in 2013 and they issued a Form 1099-C indicating no interest in box 3.
- James also had a letter from a department store stating that it had canceled his store credit card debt of \$400. The amount canceled did not include interest.
- Immediately before the debt was canceled, James was solvent.
- James was personally liable for the debt.
- James has not filed for bankruptcy.

COD Scenario 6: Test Questions

15. What is the total taxable amount of canceled debt reported in the Income section of Form 1040?
 - a. \$1,000
 - b. \$3,000
 - c. \$3,400
 - d. \$4,000
16. Is James required to file Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082, Basis Adjustment), with his Form 1040?
 - a. Yes
 - b. No
17. James is not required to report the \$400 of canceled credit card debt because he did not receive a Form 1099-C from the department store.
 - a. True
 - b. False

COD Scenario 7: Debbie and Jeff Rockland

Interview Notes

- Debbie and Jeff Rockland want to file a joint tax return.
- They have no dependents.
- Debbie and Jeff settled their \$9,000 personal credit card debt by paying \$5,000. They received a Form 1099-C.
- It was determined that Debbie and Jeff were solvent at the time the credit card debt was canceled, and they have not filed for bankruptcy.
- Debbie and Jeff will not itemize for 2013.
- If they are due a refund, they would like it direct deposited into their checking account:
 - Routing number: 111993776
 - Account number: 43243



Form 13614-C (October 2013)	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB Number 1545-1964
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- 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.
- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name DEBBIE	M.I.	Last name ROCKLAND	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name JEFF	M.I.	Last name ROCKLAND	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 6140 ROSA STREET	Apt #	City YOUR CITY	State YS ZIP code ZIP
4. Contact information Telephone number(s) YOUR PHONE# Email address NONE			
5. Your Date of Birth 08/29/1982	6. Your job title CLERK	7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
8. Your spouse's Date of Birth 07/19/1980	9. Your spouse's job title MANAGER	10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure			
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single
 Married Did you live with your spouse during any part of the last six months of 2013? Yes No
 Divorced or Legally Separated Date of final decree or separate maintenance agreement _____
 Widowed Year of spouse's death _____

2. List the names below of:
 • **everyone** who lived with you last year (other than you or your spouse)
 • **anyone** you supported but did not live with you last year
- If additional space is needed check here and list on page 4

										To be completed by Certified Volunteer Preparer				
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)						

**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**

Yes	No	Unsure	Check appropriate box for each question in each section		
Part III – Income – Last Year, Did You (or Your Spouse) Receive					
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>2</u>		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?		
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify Form 1099-C, credit card debt		
Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay					
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? <u>IRA (A)</u> Roth IRA (B) <u>401K (B)</u> Other		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Medical expenses? (including health insurance premiums)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Home mortgage interest? (Form 1098)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Charitable contributions?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Child or dependent care expenses such as daycare?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Expenses related to self-employment income or any other income you received?		
Part V – Life Events – Last Year, Did You (or Your Spouse)					
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)		
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Pay any student loan interest? (Form 1098-E)		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____		
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?		
Part VI – Additional Information and Questions Related to the Preparation of Your Return					
Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)					
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund <input checked="" type="checkbox"/> You <input checked="" type="checkbox"/> Spouse					
If you are due a refund, would you like					
Direct deposit?		To purchase U.S. Savings Bonds?		To split your refund between different accounts?	
<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If you have a balance due, would you like to make a payment directly from your bank account? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No					
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.					
Other than English, what language is spoken in your home? <u>NONE</u> <input type="checkbox"/> Prefer not to answer					
Are you or a member of your household considered disabled? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Prefer not to answer					
Catalog Number 52121E		www.irs.gov		Form 13614-C (Rev. 10-2013)	

		a Employee's social security number 597-XX-XXXX		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 59-9XXXXXX		1 Wages, tips, other compensation 19,000.00		2 Federal income tax withheld 2,777.00			
c Employer's name, address, and ZIP code BEXAR FINANCIAL COMPANY 1200 ALAMO ST. YOUR CITY, STATE ZIP		3 Social security wages 19,000.00		4 Social security tax withheld 1,178.00			
		5 Medicare wages and tips 19,000.00		6 Medicare tax withheld 275.50			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Suff. DEBBIE ROCKLAND 6140 ROSA STREET YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	59-9XXXXXX	19,000.00	533.00				

Form **W-2** Wage and Tax Statement

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

		a Employee's social security number 598-XX-XXXX		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 59-3XXXXXX		1 Wages, tips, other compensation 16,000.00		2 Federal income tax withheld 1,650.00			
c Employer's name, address, and ZIP code DAYLILLY RESTAURANT 3200 BROADWAY YOUR CITY, STATE ZIP		3 Social security wages 16,000.00		4 Social security tax withheld 992.00			
		5 Medicare wages and tips 16,000.00		6 Medicare tax withheld 232.00			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Suff. JEFF ROCKLAND 6140 ROSA STREET YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	59-3XXXXXX	16,000.00	275.00				

Form **W-2** Wage and Tax Statement

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

CREDITOR'S name, street address, city or town, province or state, country, ZIP, or foreign postal code, and telephone no. NATIONAL CREDIT CARD CO. 110 THIRD STREET YOUR CITY, STATE ZIP		1 Date of identifiable event 11/29/2013	OMB No. 1545-1424 2013 Form 1099-C	Cancellation of Debt
		2 Amount of debt discharged \$ 4,000.00		
		3 Interest if included in box 2 \$		
CREDITOR'S federal identification number 38-8XXXXXX	DEBTOR'S identification number 597-XX-XXXX	4 Debt description CREDIT CARD DEBT		Copy B For Debtor <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.</small>
DEBTOR'S name DEBBIE AND JEFF ROCKLAND				
Street address (including apt. no.) 6140 ROSA STREET		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>		
City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		6 Identifiable event code		
Account number (see instructions)		7 Fair market value of property \$		

Form **1099-C** (keep for your records) www.irs.gov/form1099c Department of the Treasury - Internal Revenue Service

COD Scenario 7: Test Questions

Directions

Using the interview notes, taxpayer documents, and reference materials, prepare Debbie and Jeff's tax return through line 37 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

18. On which schedule or form is the excluded portion of their canceled credit card debt reported?
 - a. Debbie and Jeff cannot exclude the debt. No additional schedule or form is filed with Form 1040.
 - b. Schedule A
 - c. Schedule D
 - d. Form 982

19. If the Rocklands were insolvent immediately before their non-business credit card debt was canceled, the return would be out of scope for the VITA/TCE programs.
 - a. True
 - b. False

20. What is the Rocklands' adjusted gross income?
 - a. \$35,000
 - b. \$39,000
 - c. \$41,000
 - d. \$45,000



Cancellation of Debt – Retest Questions

Retest Answer Sheet

Name _____

Instructions: Volunteers with an Advanced Certification may proceed to a certification for Cancellation of Debt (COD). COD is an optional specialty training and certification test available on Link & Learn Taxes. Volunteers must achieve a minimum of 80% to be certified.

CAUTION: The Test/Retest scenarios are provided electronically in a PDF format for information purposes only. The questions on the online test may be either from the test or retest. Students should read each question on the online test very carefully before answering.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

COD Scenario 1

1.	
2.	
3.	

COD Scenario 2

4.	
5.	
6.	

COD Scenario 3

7.	
8.	

COD Scenario 4

9.	
10.	
11.	
12.	

COD Scenario 5

13.	
14.	

COD Scenario 6

15.	
16.	
17.	

COD Scenario 7

18.	
19.	
20.	

Total Answers Correct:	_____
Total Questions:	20
Passing Score:	16 of 20

Directions

The first three scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 1: Frank and Lonnette Snow

Interview Notes

- Frank and Lonnette received Form 1099-A reporting the foreclosure on their principal residence in 2013.
- At the time of foreclosure, they owed a balance of \$120,000 to the lender (Form 1099-A, box 2) and the FMV of the property was \$90,000 (Form 1099-A, box 4).
- Frank and Lonnette had owned and lived in their home since 2002.
- They moved out of their home on September 2, 2013.
- Their residence was never used as a business or as rental property.
- Frank and Lonnette have not filed for bankruptcy.
- Form 1099-A, box 5, was checked showing the Snows were personally liable for the debt.
- The debt has not been canceled by the creditor.

COD Scenario 1: Retest Questions

1. Frank and Lonnette will report the foreclosure of their home using _____.
 - a. Form 982 only
 - b. Schedule D only
 - c. Form 8949 and Schedule D
 - d. Form 982, Form 8949, and Schedule D
2. The sales price of Frank and Lonette's home on Form 8949 and Schedule D is _____.
 - a. \$30,000
 - b. \$90,000
 - c. \$120,000
 - d. \$210,000
3. Can the lender report both a foreclosure and cancellation of debt on Form 1099-C if they occur in the same year?
 - a. Yes
 - b. No

COD Scenario 2: Jacob and Tiffany Brown

Interview Notes

- Jacob and Tiffany owned and lived in their home since 2004.
- They could not make the mortgage payments and moved out of their home in March 2013.
- In August 2013, they received Form 1099-C from the mortgage company showing they were personally liable for the debt (box 5). Box 2 indicated canceled debt of \$60,000. Box 3 indicated no interest.
- The home was never used in a business or as rental property.
- The original mortgage of \$200,000 was used to purchase and was secured by the home.
- They did not file bankruptcy.

COD Scenario 2: Retest Questions

4. Which of the following is an exclusion to the general rule that cancellation of debt is income to the taxpayer?
 - a. Discharge of debt through bankruptcy
 - b. Discharge of qualified principal residence indebtedness
 - c. Discharge of debt of an insolvent taxpayer
 - d. All of the above
5. If Jacob and Tiffany have a non-recourse loan with their lender, are they personally liable for the debt?
 - a. Yes
 - b. No
6. Which of the following is **not** an exception to the general rule that cancellation of debt is income to the taxpayer?
 - a. Deductible debt
 - b. Bequests
 - c. Insolvency
 - d. Certain student loans

COD Scenario 3: Marie Reeves

Interview Notes

- Marie owned and lived in her home since 2004.
- In 2011, Marie lost her job. She started working as a teacher's assistant in 2013.
- In March 2013, she was struggling to make the mortgage payment on her home. She worked out a loan modification agreement with her lender and was able to reduce her monthly mortgage payment by \$700, allowing her to stay in her home.
- Marie purchased the home in 2004 for \$350,000. In March 2013, at the time of her mortgage workout, the balance owed on her mortgage was \$300,000. Due to the real estate market in her area, the fair market value (FMV) of her home had declined to less than what she currently owed on the mortgage.
- Marie's lender issued a Form 1099-C, showing \$60,000 in box 2. Box 3 indicated no interest.
- Form 1099-C, box 5 is checked "yes" indicating that she has a recourse loan and is personally liable for the debt.
- The home was never used in a business or as rental property.
- The mortgage was used to purchase and was secured by the home.
- Marie has not filed for bankruptcy.

COD Scenario 3: Retest Questions

7. Line ____ of Form 982 is used to report the reduction in basis of Marie's home.
 - a. 1e
 - b. 2
 - c. 10a
 - d. 10b
8. The reduction in basis reported on Form 982 is _____.
 - a. \$700
 - b. \$40,000
 - c. \$50,000
 - d. \$60,000

COD Scenario 4: Retest Questions

Directions

Refer to the scenario information for Bill and Liz Jones beginning on page 1-41.

Using the interview notes, taxpayer documents, and reference materials, prepare Bill and Liz's tax return through line 22 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

9. What is the sales price of the home shown on Part II of Form 8949?
 - a. \$50,000
 - b. \$175,000
 - c. \$225,000
 - d. \$275,000

10. What is the long-term capital gain or loss reported on Schedule D? \$_____

11. What is the total amount of canceled debt Bill and Liz can exclude from gross income on Form 982, Part I, line 2? \$_____

12. Bill and Liz's return would be out of scope for the VITA/TCE programs if they filed for bankruptcy.
 - a. True
 - b. False

Directions

The next two scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

COD Scenario 5: Cynthia Gilmer

Interview Notes

- In 2013, Cynthia Gilmer negotiated with her credit card company to pay them \$4,500 on her \$12,000 balance. The company agreed to accept it as payment in full.
- At the end of the year, she received Form 1099-C from the credit card company with \$7,500 in box 2. Box 3 indicated no interest.
- It was determined that she was solvent immediately before the cancellation of debt and she was not in bankruptcy.
- Cynthia was personally liable for the payment of the debt.

COD Scenario 5: Retest Questions

13. What taxable amount of canceled debt, if any, is included in the Income section of Form 1040?
 - a. \$0
 - b. \$4,500
 - c. \$7,500
 - d. \$12,000
14. Cynthia will need to attach Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness, to her Form 1040.
 - a. True
 - b. False

COD Scenario 6: James Baxter

Interview Notes

- James Baxter borrowed \$4,000 on his bank credit card in 2009 to go to Italy.
- After paying \$1,000 of the bank credit card debt, James lost his job and was unable to pay the balance of \$3,000. The debt was canceled by the bank credit card company in 2013 and they issued a Form 1099-C indicating no interest in box 3.
- James also had a letter from a department store stating that it had canceled his store credit card debt of \$400. The amount canceled did not include interest.
- Immediately before the debt was canceled, James was solvent.
- James was personally liable for the debt.
- James has not filed for bankruptcy.

COD Scenario 6: Retest Questions

15. What is the total taxable amount of canceled debt reported in the Income section of Form 1040? \$_____.
16. How much should be reported on Form 982 as discharged indebtedness excluded from gross income?
 - a. \$3,000
 - b. \$3,400
 - c. \$4,000
 - d. \$0, Form 982 is not required
17. James is still required to report the \$400 of canceled credit card debt even if the department store credit card company fails to send a Form 1099-C.
 - a. True
 - b. False

COD Scenario 7: Retest Questions

Directions

Refer to the scenario information for Debbie and Jeff Rockland beginning on page 1-49.

Using the interview notes, taxpayer documents, and reference materials, prepare Debbie and Jeff's tax return through line 37 of Form 1040 including the appropriate forms, schedules or worksheets to answer each of the following questions.

Note: When using the Link & Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

18. Debbie and Jeff should file Form 982 with their Form 1040.
 - a. True
 - b. False

19. If the Rocklands were solvent immediately before their non-business credit card debt was canceled, _____.
 - a. They would report the canceled debt on Form 982
 - b. The volunteer would have to exclude part of the canceled debt from income
 - c. The return would be in scope for the volunteer program
 - d. All of the above

20. What is the Rocklands' adjusted gross income on their Form 1040? \$_____



Health Savings Accounts (HSA)



Introduction

Health Savings Accounts (HSA) is an optional course for volunteers with Basic or Advanced certification. Check with your Site Coordinator to determine if you should seek certification in this topic.

This course was developed to help volunteers assist taxpayers who have an HSA. HSAs allow individuals with high-deductible health insurance to use tax-deductible contributions to pay qualified medical expenses. The course covers:

- HSA eligibility, contributions, and distributions
- Reporting HSA activity on Form 8889, Health Savings Accounts
- Determining the HSA deduction on Form 1040

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Define an HSA and other tax-favored arrangements
- Determine eligibility to contribute to an HSA
- Calculate the limits on contributions to an HSA
- Identify information documents, Forms 5498-SA, W-2 and 1099-SA, used in reporting contributions and distributions
- Determine when and how to report HSA contributions on Form 8889 and calculate the tax deduction, if any
- Determine when and how to report HSA distributions on Form 8889
- Explain the effects of losing HSA eligibility

What is out of scope for VITA/TCE?

Refer taxpayers with these issues to a professional tax preparer:

- Excess contributions to an HSA that are not withdrawn in a timely fashion
- Qualified HSA funding distributions from an IRA
- Death of an HSA holder
- Additional Tax for Failure to Maintain HDHP Coverage
- Deemed distributions from an HSA due to prohibited transactions, such as using an HSA as a security for a loan
- Archer Medical Saving Accounts
- Medicare Advantage MSA
- Health Reimbursement Arrangement

For more information, see Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans.

What do I need?

- Intake and Interview Sheet
 - Publication 17
 - Publication 502
 - Publication 969
 - Publication 4885, HSA Screening Sheet
 - Form 1040
 - Form 8889 and Instructions
 - Form 5498-SA and Instructions
 - Form 1099-SA and Instructions
 - Form W-2 and Instructions
- Optional:**
- Form 1040 Instructions

The Background on HSA

A health savings account (HSA) is a tax-favored medical savings account available to taxpayers. HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis.

HSAs are owned by individuals, but contributions may be made by an employer or any other person. Amounts in an HSA may be accumulated over the years or distributed on a tax-free basis to pay for or reimburse qualified medical expenses.

Intake/Interview Process

Use Form 13614-C, Intake/Interview & Quality Review Sheet to determine if the taxpayer had HSA contributions or distributions. The intake and interview sheet is a starting point for a comprehensive interaction with the taxpayer. This interaction, along with the source documents provided by the taxpayer, will help you prepare an accurate return.

Form 5498-SA, HSA, Archer MSA, or Medicare Advantage MSA Information, is used to report HSA contributions. Form 1099-SA, Distributions from an HSA, Archer MSA, or Medicare Advantage MSA, is used to report HSA distributions. These information documents are issued by the HSA trustee to taxpayers who have HSA contributions or distributions, for use in tax return preparation.

Confirm each item on the intake and interview sheet to make sure you and the taxpayer have considered all the necessary information. If items are incorrect or incomplete, revisit the issue and make corrections to the return, as needed.

HSA Helpful Hints and HSA Screening Sheet

The HSA Helpful Hints document was developed to provide an at-a-glance summary of the HSA topic. Publication 4885, HSA Screening Sheet, was developed to help volunteers determine if the HSA issue was within the scope of the volunteer program. Use these references if HSA questions arise during the interview with the taxpayer.

The HSA Helpful Hints and the HSA Screening Sheet are included in Publication 4012, the Volunteer Resource Guide (Adjustments Tab). You can download and print a copy of Publication 4885 from www.irs.gov.

Types of Tax-Favored Arrangements

What are tax-favored arrangements?

Various programs are designed to give individuals tax advantages to offset health care costs. This section provides general definitions of other tax-favored arrangements. These definitions will help you distinguish the **differences** in these programs and help with your overall understanding of tax-favored arrangements. While these programs may have features similar to an HSA, it is important to know they are different.

TIP

Contributions are amounts added to an HSA account by an individual, an employer, or any other person.

Deductions are the amounts allowed as adjustments to income on Form 1040.

Distributions are amounts an individual withdraws from the HSA for qualified medical purposes.

Types of tax-favored arrangements are:

- Archer Medical Savings Accounts
- Medicare Advantage MSA
- Health Reimbursement Arrangements
- Flexible Spending Arrangements

Archer Medical Savings Accounts (MSA)

The Archer MSA represents the first generation of HSA. MSA contributions may be received from either an eligible individual or his or her employer but not in the same tax year. Contributions by the individual are taken as an adjustment to income and are deductible whether or not the individual itemizes deductions. Employer contributions are not included in taxable income. As long as distributions from an MSA are used to pay qualified medical expenses, they are not taxed, but MSA eligibility is restricted to employees of small employers and the self-employed, which rules out participation for many taxpayers.

Medicare Advantage MSA

A Medicare Advantage MSA is an Archer MSA designated by Medicare to be used solely to pay the qualified expenses of the account holder who is enrolled in Medicare. Contributions can only be made by Medicare. The contributions are not included in the individual's income. Distributions from a Medicare Advantage MSA that are used to pay qualified medical expenses are not taxed.

Health Reimbursement Arrangements (HRA)

An HRA must receive contributions from the employer only. Employees may not contribute. Contributions are not includible in income. Reimbursements from an HRA that are used to pay qualified medical expenses are not taxed.



Refer taxpayers with an Archer Medical Savings Account, Medicare Advantage MSA, or a Health Reimbursement Arrangement to a professional tax preparer. These topics are out of scope and the information is provided for your awareness only.

Flexible Spending Arrangements (FSA)

A health Flexible Spending Arrangement (FSA) allows an employee to be reimbursed for medical expenses. An FSA is usually funded through a voluntary salary reduction agreement with the employer. No employment tax or federal income tax is deducted from an employee's contribution. The employer may also contribute. The FSA is not a health plan but only a means of reimbursing the FSA participant for qualified medical expenses. Unused funds will be lost if not spent by the end of the qualifying period. Do not confuse FSA with HSA; FSA activity is not reported on an individual tax return.

What is an HSA?

An HSA is the newest of all tax-favored medical savings plans. An HSA is a tax-exempt trust or custodial account that a taxpayer sets up with a qualified HSA trustee. Distributions from an HSA are nontaxable if the funds are used for qualified medical expenses. A taxpayer must be an eligible individual to qualify for an HSA.

No permission or authorization from the IRS is necessary to establish an HSA. To set up an HSA a taxpayer will need to work with a trustee. A qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of individual retirement arrangements (IRA) or Archer MSA. The HSA can be established through a trustee that is different from the taxpayer's health plan provider.

An HSA is created by:

- Enrolling in a High-Deductible Health Plan (HDHP) and then
- Opening a tax-exempt trust or custodial account, with a qualified HSA trustee, to pay for qualified medical expenses

HSA Benefits

There are several benefits from having an HSA including the following:

- Amounts contributed to an HSA, except for employer contributions, can be used as an adjustment to income.
- Contributions to an HSA by an employer may be excluded from gross income; this includes contributions made through a Section 125 cafeteria plan.
- The contributions remain in the account and are carried over, without limit, from year to year until the taxpayer uses them.
- The interest and other earnings on the assets in the account are tax-free.
- Distributions will be tax-free if used to pay unreimbursed qualified medical expenses.
- An HSA is portable, so it stays with taxpayers even if they change employers or leave the work force.



EXERCISES

Answers are at the end of the lesson.

Question 1: Does an HSA stay with the taxpayer even if the taxpayer becomes unemployed?

Yes No

Question 2: Which of the following statements is false?

- A. Taxpayers' contributions to an HSA are tax deductible.
- B. Interest earned on an HSA is tax-free if used for unreimbursed qualified medical expenses.
- C. Taxpayers pay taxes on HSA earnings when they take distributions for unreimbursed qualified medical expenses.
- D. Unused funds and interest are carried over, without limit, from year to year.

Individuals Who Qualify for an HSA

To be an **eligible individual** and qualify for an HSA, the taxpayer must meet the following requirements:

- Be covered by a high-deductible health plan (HDHP) on the first day of the month
- Not be covered by other health insurance (see Publication 969 for exceptions)
- Not be enrolled in Medicare (the individual can be HSA-eligible for the months before being covered by Medicare)
- Not be eligible to be claimed as a dependent on someone else's tax return (see Caution)

Rules for Married Individuals

In the case of married individuals, each spouse who is an eligible individual who wants to have an HSA must open a separate HSA. Married couples cannot have a joint HSA, even if they are covered by the same HDHP; however, distributions can be used to cover the qualified expenses of the other spouse.

High-Deductible Health Plan

Taxpayers must be covered by a high-deductible health plan (HDHP) to take advantage of HSA. An HDHP generally costs less than traditional health care coverage. These cost savings can then be put into the HSA.

An HDHP is health coverage with a:

- Higher annual deductible than typical health plans and
- Maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that the taxpayer must pay for covered expenses. Out-of-pocket expenses include co-payments and other amounts but do not include premiums.

The IRS has ruled that an HDHP can cover certain types of **preventive care** without a deductible, or with a deductible that is less than the annual deductible applicable to all other services. Generally, preventive care services do not include any service, benefit, or medication to treat an existing illness, injury, or condition. In situations where the treatment is incidental or ancillary to a preventive care service or screening, the treatment may fall within the safe-harbor for preventive care. See IRS Notice 2004-50, Internal Revenue Bulletin 2004-33, available on www.irs.gov, for details on these situations.

If an HDHP has a deductible for preventive care expenses, those expenses, up to the deductible, are qualified medical expenses for HSA purposes. If the HDHP has no deductible for these preventive services, the plan – not the HSA – covers the expenses.



If another taxpayer is entitled to claim an exemption for the individual, the individual cannot claim a deduction for an HSA contribution. This is true even if the other person does not actually claim the exemption.



An employee covered by an HDHP and a health FSA or an HRA that pays or reimburses qualified medical expenses generally cannot make contributions to an HSA.



In addition to preventive care, the high deductible requirements are not necessary for dental or vision coverage.

HDHP Deductible Limits

There are limits for annual deductible and out-of-pocket expenses for an HDHP.

For more information, refer to Publication 969.



EXERCISES (continued)

Question 3: There are maximum limits on the total of the annual deductible and out-of-pocket medical expenses that the taxpayer may pay for covered expenses for an HDHP. Yes No

Question 4: Frank is retired and has no other health coverage except for Medicare. He would like to open an HSA to cover his additional medical expenses. He's been shopping for high-deductible health plans. Provided he gets an HDHP, is he eligible for an HSA? Yes No

Question 5: Bill and Ann are married. They are both self-employed, and each is enrolled in a self-only HDHP. Can Bill and Ann set up a joint HSA? Yes No

Question 6: John is 18 years old and a full-time student. He also works and is covered under his employer's HDHP (self-only). John's parents are eligible to claim him as a dependency exemption on their tax return, but they choose not to claim him. Does John qualify for an HSA? Yes No

Contributions to HSA

Any eligible individual can contribute to an HSA. For an employee's HSA, the employee, employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute.

Family members or any other person may also contribute on behalf of an eligible individual. Contributions to an HSA must be made in cash. Contributions of stock or property are not allowed.

Amounts contributed to an HSA, except for employer contributions, can be used as an adjustment to income.



EXERCISES (continued)

Question 7: Arnold has a high-deductible health plan with an HSA with his company. His mother contributed to his HSA as a gift on his 40th birthday. Is this an allowable contribution? Yes No

Employer Contributions

Employer contributions (including an employee's contribution through a cafeteria plan) are allowed to be made to an employee's HSA. Generally, employer contributions are excludable from an employee's income. Taxpayers must reduce the amount they, or any other person, can contribute to their HSA by the amount of any contributions made by the taxpayer's employer that are excludable from income. This includes amounts contributed to the taxpayer's account by the employer through a cafeteria plan. For example, in 2013, if the employer contributed \$1,000 to a taxpayer's HSA who had a self-only HDHP, the remaining contribution limit would be \$2,250. Refer to the Volunteer Resource Guide, Important Tax Law Changes for 2013, for current year contribution limits.

HSA Limits on Contributions

The amount that can be contributed to an HSA depends on the type of HDHP coverage, the taxpayer's age, the date the taxpayer became an eligible individual, and the date the taxpayer ceases to be an eligible individual.

Eligible individuals who are 55 or older by the end of the tax year can increase their contribution limit up to \$1,000 a year. This extra amount is the catch-up contribution allowed for an HSA.

Refer to HSA contribution limits in Volunteer Resource Guide, Important Tax Law Changes for 2013.



Taxpayers with excess contributions (contributions over the limits) must withdraw the excess to avoid an additional tax. If the excess was not timely withdrawn, refer the taxpayer to a professional tax preparer. Review Form 8889 Instructions and Publication 969 for details.



EXERCISES (continued)

Question 8: Taxpayers must reduce the amount that they or any other person can contribute to their HSA by the amount of any employer contributions that are excludable from income. Yes No

Question 9: Marie is 56 years old. Is she eligible to make catch-up contributions to her HSA account?
 Yes No

Rules for Married People

The rules for married people apply only if both spouses are eligible individuals. If either spouse has family HDHP coverage, the family contribution limit applies; both spouses are treated as having family HDHP coverage.

If **both** spouses are 55 or older and not enrolled in Medicare:

- Each spouse is entitled to increase his or her contribution limit with an additional contribution.
- Their maximum total contributions under family HDHP coverage would include a catch-up contribution for each spouse.
- The contribution limit is divided between the spouses by agreement. If there is no agreement, the contribution limit is split equally between the spouses.
- Any additional contribution for age 55 or over must be made by each spouse to his or her own HSA.

example

For 2013, Mr. Auburn and his wife are both eligible individuals. They each have family coverage under separate HDHPs. Mr. Auburn is 58 years old and Mrs. Auburn is 53. Mr. and Mrs. Auburn can split the family contribution limit (\$7,450) equally, or they can agree on a different division. If they split it equally, Mr. Auburn can contribute \$4,225 to an HSA (one-half the maximum contribution for family coverage \$3,225 + \$1,000 additional contribution), and Mrs. Auburn can contribute \$3,225 to an HSA. See Publication 969 for current year limits.



Tax Software Hint: A manual calculation will be needed for Forms 8889 for a married couple with separate HSAs. The manual calculation is based upon equal amounts or the amounts agreed upon by the taxpayers. Remember the additional contributions for 55 or over must go into the HSA belonging to the person who meets the age requirement.



EXERCISES (continued)

Question 10: When one spouse is age 55 or older, either spouse can add the catch-up contribution to their HSA. True False

Contribution Rule Limits

While most taxpayers may not contribute the maximum amount allowed to their HSA, you may need to explain these limits to taxpayers. The amount that can be contributed to an HSA depends on the:

- Type of HDHP coverage (self-only or family coverage)
- Taxpayer's age
- Date the taxpayer became an eligible individual, *and*
- Date the taxpayer ceases to become an eligible individual.

If the taxpayer is an eligible individual on the first day of every month with the same coverage for the entire year, the full contribution amount is allowed.

If the taxpayer was not an eligible individual for the entire year or changed his or her coverage during the year, the contribution limit is:

- **Last-month rule** allows eligible individuals to make a full contribution for the year even if they were not an eligible individual for the entire year. They can make the full contribution for the year if:
 - They are eligible individuals on the first day of last month of their taxable year. For most people, this would be December 1, and
 - They remain eligible individuals during the testing period. The testing period runs from December 1 of the current year through December 31 of the following year (for calendar taxpayers).
 - If the taxpayer does not qualify to contribute the full amount for the year, the contribution is determined by using the sum of the monthly contribution limits rule.

OR

- **Sum of the monthly contribution limits rule** (use Limitation Chart and Worksheet in Form 8889 Instructions). This is the amount determined separately for each month based on eligibility and HDHP coverage on the first day of each month plus catch-up contributions. For this purpose, the monthly limit is 1/12 of the annual contribution limit, as calculated on the Limitation Chart and worksheet.

A taxpayer who cannot use the last-month rule **must** use the sum of the monthly contribution limits rule to determine the maximum HSA contribution.



Tax Software Hint: The Limitation Worksheet is at the bottom of Form 8889, page 1. You will also need the Instructions for Form 8889. To view the instructions in Taxwise Online, select help from anywhere on the form to access the help feature. In Desktop, to access the help feature, press F1 while Form 8889 is open.

example

Chris, age 53, became an eligible individual on December 1 of the tax year. He has family HDHP coverage on that date. He fully expects to meet the testing period by remaining eligible through December 31 of the following tax year. Under the last-month rule, he can contribute up to the maximum family contribution limit for the current tax year.

example

Maria, age 48, was an eligible individual with self-only HDHP coverage. She was covered from January through September. She was not an eligible individual for the remaining months of October, November, and December. Use the limitation chart and worksheet in Form 8889 Instructions to calculate her maximum contribution.



EXERCISES (continued)

Question 11: From January through June, Peggy, age 30, participated in her employer's HDHP (with self-only coverage) and made monthly contributions to her HSA. Peggy was laid off in July and remained unemployed and without health insurance for the remainder of the tax year. Peggy can use the last-month rule to figure her contribution limit. True False

HSA Contribution Timeframe

Taxpayers and employers can make contributions to the taxpayer's HSA until the filing deadline. If taxpayers were not eligible individuals for the entire year, they can still make contributions until the filing deadline, for the months they were eligible individuals.

HSA Rollovers or Transfers

Rollover Contributions

Generally, a rollover is a tax-free distribution to the taxpayer of cash or other assets from one HSA that the taxpayer contributes to another HSA. The contribution to the second HSA is called a rollover contribution. These contributions:

- Are not included in taxpayers' income
- Are not deductible
- Do not reduce taxpayers' contribution limit

Taxpayers can also roll over amounts from Archer MSAs into an HSA. They do not have to be eligible individuals to make a rollover contribution from their existing HSA to a new HSA.

Rollovers are not subject to annual contribution limits and a rollover contribution is not always cash; for example, it could be a Certificate of Deposit (CD). The taxpayer must roll over the amount within 60 days after the date of receipt, and may only make one rollover contribution to an HSA during a one-year period.

See Publication 969 for more information on rollover contributions.



Remember, Archer MSAs are out of scope for VITA/TCE. Refer taxpayers who have issues that involve Archer MSA to a professional tax preparer.

example

Mary became unemployed during the current tax year. She was required by her previous employer to move her HSA. She rolled over the amount within 60 days to a new HSA.



If the taxpayers have their HSA funds transferred directly into another HSA in a trustee-to-trustee transfer, this is not considered a rollover. There is no limit on the number of these transfers. Do not include the amount transferred in income, deduct it as a contribution or include it as a distribution on Form 8889.



EXERCISES (continued)

Question 12: Doris moved to a new job. She asked the HSA trustee to transfer her funds into the new HSA. Is this allowable? Yes No

Distributions from an HSA

Distributions for Qualified Medical Expenses

Generally, taxpayers will pay medical expenses during the year without being reimbursed by the HDHP until the plan's annual deductible is reached. When the taxpayer pays these medical expenses that are not reimbursed by the HDHP, the taxpayer can request a distribution from the HSA trustee. The taxpayer can receive tax-free distributions from an HSA to pay or be reimbursed for qualified medical expenses incurred after the taxpayer establishes the HSA.

Qualified medical expenses are expenses that *generally* would qualify for the medical and dental expenses deduction. Examples include unreimbursed expenses for doctors, dentists, and hospitals. A medicine or drug will be a qualified medical expense only if the medicine or drug:

- Requires a prescription
- Is available without a prescription (an over-the-counter medicine or drug) and the taxpayer gets a prescription for it, or
- Is insulin

See Publication 502, Medical and Dental Expenses, for more information.

Taxpayers must keep records to show that HSA distributions were used to pay or reimburse qualified medical expenses, that these expenses had not been paid or reimbursed from another source, and the medical expense had not been taken as an itemized deduction in any year. For recordkeeping requirements on HSA distributions see Publication 969, Distributions from an HSA. Taxpayers are not required to take annual distributions from their HSA. However, taxpayers who have taken HSA distributions will receive Form 1099-SA from their HSA trustee and must provide it before the return can be completed.



Expenses incurred before establishing an HSA are not qualified medical expenses. If a taxpayer is considered to be an eligible individual for the entire year under the last-month rule, only those expenses incurred after actually establishing the HSA are qualified expenses.

example

Laura established an HSA in July. She incurred medical expenses in May and wants to pay those from her HSA. The expenses incurred in May before she established her HSA are not qualified medical expenses for purposes of her HSA.

example

Vikki's doctor suggested she take some exercise classes. Vikki signed up for yoga, swimming classes, and a health club. Since these are for general health improvement, they cannot be considered as qualified medical expenses.

TIP

Preventive services, not reimbursed by the HDHP, can be paid from an HSA.



EXERCISES (continued)

Question 13: Mariah purchased over-the-counter medicine (without a prescription) in June. Is this a qualified medical expense for HSA purposes? Yes No

Qualified Insurance Premiums for HSA Purposes

Qualified insurance premiums for HSA purposes are different than premiums that qualify as a medical expense on Schedule A.

A taxpayer **cannot** treat insurance premiums as qualified medical expenses **unless** the premiums are for:

- Long-term care insurance based on premium limits shown in the Volunteer Resource Guide, Important Tax Law Changes for 2013, or the Instructions for Schedule A, Itemized Deductions
- Health care continuation coverage, such as coverage under COBRA
- Health care coverage while receiving unemployment compensation
- Medicare and other health care coverage if the taxpayer was 65 or older (other than premiums for a Medicare supplemental policy, such as Medigap)



EXERCISES (continued)

Question 14: Johnnie, who is 49 years old, used funds from her HSA to pay her premium for COBRA coverage. Is this a qualified distribution? Yes No

Whose medical expenses qualify?

Qualified medical expenses are those incurred by the following persons:

- The taxpayer and spouse
- All dependents claimed on the tax return
- Any other person who could have been claimed as a dependent on the taxpayer's return except that:
 - The person filed a joint return
 - The person had gross income of the exemption amount or more, or
 - The taxpayer or spouse (if filing jointly) could be claimed as a dependent on someone else's tax return

TIP

A child of parents who are divorced, separated, or living apart for the last six months of the calendar year is treated as the dependent of both parents (for medical expenses) whether or not the custodial parent releases the claim to the child's exemption.



Taxpayers cannot deduct qualified medical expenses as an itemized deduction on Form 1040, Schedule A, that are equal to the tax-free distribution from their HSA. Since the medical expenses have been paid from HSA funds, the taxpayers cannot include the same expenses on Schedule A.



Even taxpayers who have a self-only HDHP may use the money in their HSA to pay the unreimbursed medical expenses for their spouse or other family members (as described previously).

Out of Scope HSA Distributions

The following are out of scope for the VITA/TCE programs. The information is provided for awareness purposes only. Taxpayers with these issues should be referred to a professional tax preparer.

- Deemed distributions from an HSA:
 - Engaging in prohibited transactions; see Publication 969 for details
 - Using an HSA as security for a loan

Also, a taxpayer cannot claim the health coverage tax credit for premiums paid with a tax-free distribution from an HSA. As stated in the Payments lesson, Form 8885, Health Coverage Tax Credit, is out of scope for the VITA/TCE programs.

Reporting HSA Contributions, Distributions, and Deductions

Form 5498-SA, HSA, Archer MSA, Medicare Advantage MSA Information

Form 5498-SA shows the amount contributed during the year for any HSA, Archer MSA, or Medicare Advantage MSA. Generally, contributions made by the taxpayer or someone other than the taxpayer's employer are deductible on the taxpayer's tax return. In addition to being included on Form 5498-SA, employer contributions will also be shown on Form W-2, box 12, with code W. Contributions made by an employer are not included in the income of the taxpayer. Contributions to an employee's account by an employer using the amount of an employee's salary reduction through a cafeteria plan (also known as a "125 plan") are treated as employer contributions. HSA contribution limits are reduced by employer contributions.

Excess contributions will be included in income and are also subject to a 6% excise tax. Excess contributions that are not withdrawn in a timely fashion are out of scope for the VITA/TCE programs. Refer taxpayers in this situation to a professional tax preparer.



Form 5498-SA is issued by the HSA Trustee showing the amount of HSA contributions.



Taxpayers may not receive Form 5498-SA before the filing deadline, but they should have the information regarding contributions to their HSA.

Form 8889, Health Savings Accounts (HSA)

A taxpayer must file Form 8889 with Form 1040 if the taxpayer (or spouse if filing a joint return) had any activity in an HSA. This is true even if only the taxpayer's employer or the spouse's employer made contributions to the HSA.

Taxpayers who are filing jointly and who each have separate HSAs will each complete a separate Form 8889. Married taxpayers cannot have a joint HSA.

Ask taxpayers during the interview process if their HDHP coverage is "self-only" or "family," and check the corresponding box on Form 8889.

Form 8889, Part I

Form 8889, Part 1, is used to report all HSA contributions and to compute the allowable HSA deduction. This includes contributions made by the filing deadline that are designated for the tax year. Contributions made by an employer are also shown in Part I, but are not included in the deductible amount.

An HSA may receive contributions from an eligible individual or any other person, including an employer or a family member, on behalf of an eligible individual.



Tax Software Hint: The entry of code W and the amount in box 12 of Form W-2 will generate Form 8889 with employer contributions shown. After all other entries have been completed on Part I, the HSA deduction will be carried from Form 8889 to the Adjusted Gross Income section of Form 1040.



EXERCISES (continued)

Question 15: Audrey has HDHP coverage for herself only. She contributed \$2,000 to her HSA. Her employer also contributed \$1,000 to her HSA. Using Form 8889, what is her HSA deduction?

- A. \$1,000
- B. \$2,000
- C. \$3,000

Question 16: Form 8889, Part I, is used to report HSA contributions made by _____.

- A. An employer
- B. A taxpayer
- C. A person on behalf of the taxpayer
- D. All of the above

Question 17: Employer contributions to an HSA will be included in the taxpayer's HSA deduction on Form 1040, Adjustment Section. True False

Form 8889, Part II

Form 8889, Part II, is used by taxpayers to report distributions from an HSA. Taxpayers receive tax-free distributions from an HSA to pay or be reimbursed for qualified medical expenses. The taxpayer will have to tell you what types of expenses were paid or reimbursed with the distribution.

Form 1099-SA reports distributions to a taxpayer. Box 5 will indicate whether the distribution is from an HSA, Archer MSA, or a Medicare Advantage MSA. The code in Form 1099-SA, box 3, identifies the distribution the taxpayer received. Code 1 is a normal distribution. Refer to Form 1099-SA for an explanation of the other codes.

If distributions are received for reasons other than qualified medical expenses, the amount withdrawn will be included in income and reported on Form 1040, line 21. The additional tax on distributions not used for qualified medical expenses is 20%. See below for exceptions to the additional tax. This tax is computed on Form 8889 and reported on Form 1040.

Taxpayers do not have to take distributions from their HSA each year.



Tax Software Hint: Amounts entered on Form 8889 are automatically carried over to the applicable lines of Form 1040. The amount of HSA distributions not used for qualified medical expenses will carry over to line 21. On the line for “Type,” enter HSA. If you have more than one item to enter on line 21, see the Volunteer Resource Guide, TaxWise Income Tab, How/Where to Enter Income, for guidance.

Unreimbursed Medical Expenses

If unreimbursed qualified medical expenses were paid with the distribution, the taxpayer does not pay tax on the distribution, but it is reported on Form 8889, Part II; the unreimbursed qualified medical expenses are also reported. If the taxpayer does not use the distribution for qualified medical expenses, it must be included in income and the taxpayer must pay tax on the distribution.

HSA distributions included in income are subject to an additional 20% tax unless the account beneficiary:

- Dies
- Becomes disabled (see Form 8889 Instructions)
- Turns age 65



EXERCISES (continued)

Question 18: Vikki incurred \$3,000 of unreimbursed qualified medical expenses. She received a \$2,000 distribution from her HSA to pay for these medical expenses. Using Form 8889, determine Vikki’s taxable HSA distribution.

- A. \$0
- B. \$2,000
- C. \$3,000
- D. \$5,000

Question 19: Joe paid \$4,000 in unreimbursed qualified medical expenses. He received an HSA distribution of \$4,000. Where is this information reported on his tax return?

- A. Form 8889, Part I
- B. Form 8889, Part II
- C. Does not need to be reported
- D. Both A and B

Question 20: Assume Joe paid \$3,000 in unreimbursed qualified medical expenses and received an HSA distribution of \$4,000. What amount is taxable?

- A. \$4,000
- B. \$3,000
- C. \$1,000
- D. \$0

Form 8889, Part III

There are consequences when a taxpayer fails to maintain HDHP coverage. Form 8889, Part III, is used to figure amounts that must be reported on Form 1040 for failure to be an eligible individual during the testing period for:

- Last-month rule
- A qualified HSA funding distribution

See the Form 8889 Instructions and refer affected taxpayers to a professional tax preparer. This information is provided for your awareness. Form 8889, Part III, is out of scope for the VITA/TCE programs.

Summary

An HSA is a tax-exempt trust or custodial account that a taxpayer sets up with a qualified HSA trustee to pay for or reimburse certain medical expenses a taxpayer incurs.

Eligibility

A taxpayer must be an **eligible individual** to qualify for an HSA. See specific qualifications outlined earlier. A high-deductible health plan (HDHP) is health coverage with:

- A higher annual deductible than typical health plans, and
- A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that the taxpayer must pay for covered expenses. Out-of-pocket expenses include co-payments and other amounts, but do not include most premiums.

An HSA is created by:

- Enrolling in an HDHP, and
- Establishing the HSA

Contributions, Distributions, Deductions, and Form 8889

The amount the taxpayer or any other person can contribute to the taxpayer's HSA depends on the type of HDHP coverage, the taxpayer's age, the date the taxpayer became an eligible individual, and the date the taxpayer is no longer an eligible individual. In addition, the contribution limit for an HSA is reduced by employer contributions.

HSAs enable taxpayers to pay for current medical expenses and save for future qualified medical expenses on a tax-free basis. The following forms are used to report HSA activities:

- Form 5498-SA to report contributions to a taxpayer's HSA. Employer contributions will also be shown in Form W-2, box 12 – may include employee contributions under a Section 125 Cafeteria Plan (pretax dollars).
- Form 1099-SA to report HSA distributions for the year.
- Form 8889, Health Savings Accounts, Part I, to report contributions and calculate the HSA deduction.
- Form 8889, Health Saving Accounts, Part II, to report HSA distributions and report qualified medical expenses. Amounts that are taxable are calculated, and the 20% additional tax is also shown here.
- Form 8889, Health Savings Accounts, Part III, is Income and Additional Tax for Failure to Maintain HDHP Coverage. This part of the form is out of scope. Refer taxpayers with these issues to a professional tax preparer.

Funds in an HSA can remain in the account and are carried over, without limit, from year to year until the taxpayer uses them. Interest or other earnings on the assets in the account are tax-free.

Taxpayers can receive tax-free distributions from their HSA to pay or be reimbursed for qualified medical expenses that are incurred after establishing the HSA.

Qualified medical expenses are those expenses that would generally qualify for the medical and dental expense deduction on Schedule A of Form 1040.

There are recordkeeping requirements for HSA distributions. See Publication 969 for additional information.



EXERCISE ANSWERS

Answer 1: Yes. An HSA is portable, so it stays with the taxpayer even if the taxpayer changes employers or leaves the work force.

Answer 2: C. With an HSA, distributions for unreimbursed qualified medical expenses are tax-free.

Answer 3: Yes. There are maximum limits on the sum of the annual deductible and out-of-pocket medical expenses that the taxpayer must pay for covered expenses.

Answer 4: No. To set up and contribute to an HSA, an individual must not be enrolled in Medicare.

Answer 5: No. Spouses cannot have a joint HSA. Each spouse who is an eligible individual must open a separate HSA.

Answer 6: No. Any person eligible to be claimed as an exemption by another individual does not qualify for an HSA. This is true even if the person is not actually claimed.

Answer 7: Yes. Family members or any other person may also contribute on behalf of an eligible individual.

Answer 8: Yes. Taxpayers must reduce the amount that they or any other person can contribute to their HSA by the amount of any employer contributions that are excludable from income.

Answer 9: Yes. She is eligible to make catch-up contributions to her HSA account because she is over age 55.

Answer 10: False. Only the spouse who is age 55 or older can make the catch-up contribution.

Answer 11: False. Peggy was not an eligible individual on the first day of the last month of her tax year (December 1); therefore she must use the sum of monthly contribution limits rule.

Answer 12: Yes. This is allowed because Doris transferred her HSA funds directly into another HSA in a trustee-to-trustee transfer. This is not considered a rollover; there is no limit on the number of these transfers.

Answer 13: No. Nonprescription medicines (other than insulin) do not qualify for HSA purposes. See Publication 969 for more information.

Answer 14: Yes. Premiums for COBRA coverage is a qualified medical expense.

Answer 15: B. Employer contributions are not deductible.

Answer 16: D. Form 8889, Part I, is used to report contributions made by taxpayers, contributions made by any other person on behalf of the taxpayer, and the contributions made by the taxpayer's employer.

Answer 17: False. Only contributions made by the taxpayer or by any other person, other than the employer, can be included in the taxpayer's HSA deduction on Form 1040, Adjustments section.

Answer 18: A. If the HSA distribution is for qualified medical expenses it is tax-free. If the distribution is more than the amount of qualified expenses, the difference is then taxable income.

Answer 19: B. Unreimbursed qualified medical expenses are reported on Form 8889, Part II.

Answer 20: C. The difference between the total distributions and the unreimbursed qualified medical expenses is taxable.



Health Savings Accounts – Practice Scenarios

Three practice scenarios are provided to help you apply what you have learned in the Health Savings Accounts course.

The first scenario requires you to review the interview notes, but does not require you to prepare a tax return. The next two scenarios require you to review the interview notes and taxpayer documents in order to complete the practice exercise. In order to answer the questions, you need to complete Form 1040, page 1, and the appropriate forms and schedules.

The Practice Lab on Link & Learn Taxes is available for you to complete the returns using tax preparation software. After you answer the questions, you can check your answers, which are listed on the last page of the HSA course.

Practice Scenario 1 – Lucy Hildago

This scenario does not require you to prepare a tax return. Review Form 8889 and use your resource materials and the interview notes to answer the questions below.

Interview Notes

- Lucy is a single mother, age 35. Lucy's 2-year-old daughter, Carmen, lives with her.
- Lucy is enrolled in an HDHP with family coverage and had the same coverage for all of 2013. She established an HSA two years ago.
- Lucy put \$1,200 of her own money in the HSA. She also tells you that her grandmother deposited \$3,000 in that account for her during 2013.
- Lucy's Form W-2 shows \$1,020 in box 12 with code W. She has Form 5498-SA showing \$5,220 in box 2.

Practice Scenario 1 Questions

- 1-1 Lucy can identify the employer's HSA contribution by the information in box 12 on her Form W-2.
- A. True
 - B. False
- 1-2 What amount will be entered on Form 8889, line 2?
- A. \$1,200
 - B. \$3,000
 - C. \$4,200
 - D. \$5,220
- 1-3 After completing Form 8889, Part I, what is Lucy's HSA deduction?
- A. \$3,000
 - B. \$4,200
 - C. \$5,130
 - D. \$5,220

Practice Scenario 2 – Andrew Noble

Use the taxpayer documents and interview notes to complete this practice exercise. Complete Form 1040, page 1, and the appropriate forms and schedules, to answer the questions.

For practice using the tax preparation software, complete this scenario using the Practice Lab on Link & Learn Taxes.

Interview Notes:

- Andrew was not on Medicare at any time in 2013.
- Andrew was enrolled the entire year of 2013 in an HDHP with self-only coverage.
- During 2013, Andrew contributed \$3,500 to his HSA.
- Andrew took a distribution from his HSA to pay the following unreimbursed expenses:
 - Urgent care bill: \$375
 - Hospital bill: \$1,200
 - Prescription medicine: \$578
 - Dental bills for routine exams: \$168
 - Nonprescription medication: \$79

Form 13614-C (October 2013)	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB Number 1545-1964
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- 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.
- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name ANDREW	M.I. T	Last name NOBLE	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name	M.I.	Last name	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 1244 E STATE STREET	Apt #	City YOUR CITY	State YS ZIP code YOUR ZIP
4. Contact information Telephone number(s) YOUR PHONE # Email address NONE			
5. Your Date of Birth 03/03/1951	6. Your job title MANAGER	7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
8. Your spouse's Date of Birth	9. Your spouse's job title	10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No	
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure			
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single
 Married Did you live with your spouse during any part of the last six months of 2013? Yes No
 Divorced or Legally Separated Date of final decree or separate maintenance agreement _____
 Widowed Year of spouse's death _____

2. List the names below of:
 • **everyone** who lived with you last year (other than you or your spouse)
 • **anyone** you supported but did not live with you last year
- If additional space is needed check here and list on page 4

										To be completed by Certified Volunteer Preparer				
Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)						

**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**

Yes	No	Unsure	Check appropriate box for each question in each section
Part III – Income – Last Year, Did You (or Your Spouse) Receive			
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>1</u>
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) _____ 401K (B) _____ Other
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Medical expenses? (including health insurance premiums)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Home mortgage interest? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Charitable contributions?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Expenses related to self-employment income or any other income you received?

Part V – Life Events – Last Year, Did You (or Your Spouse)			
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Pay any student loan interest? (Form 1098-E)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Part VI – Additional Information and Questions Related to the Preparation of Your Return			
Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)			
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund <input type="checkbox"/> You <input type="checkbox"/> Spouse			
If you are due a refund, would you like			
Direct deposit?	To purchase U.S. Savings Bonds?	To split your refund between different accounts?	
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
If you have a balance due, would you like to make a payment directly from your bank account? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

CORRECTED (if checked)

TRUSTEE'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number STATE BANK 123 MAIN ST YOUR CITY, STATE, ZIP		1 Employee or self-employed person's Archer MSA contributions made in 2013 and 2014 for 2013 \$	OMB No. 1545-1518 2013 Form 5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S federal identification number 56-4XXXXXX	PARTICIPANT'S social security number 560-XX-XXXX	2 Total contributions made in 2013 \$ 3,500.00	3 Total HSA or Archer MSA contributions made in 2014 for 2013 \$ 0.00	
PARTICIPANT'S name ANDREW T NOBLE Street address (including apt. no.) 1244 E. STATE ST. City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE, ZIP		4 Rollover contributions \$	5 Fair market value of HSA, Archer MSA, or MA MSA \$ 14,650.00	
Account number (see instructions)		6 HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>		

Copy B

For Participant

The information in boxes 1 through 6 is being furnished to the Internal Revenue Service.

Form **5498-SA** (keep for your records) www.irs.gov/form5498sa Department of the Treasury - Internal Revenue Service

a Employee's social security number 560-XX-XXXX		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN) 56-2XXXXXX		1 Wages, tips, other compensation \$28,625.00		2 Federal income tax withheld \$2,175.00					
c Employer's name, address, and ZIP code PORTER INDUSTRIES 123 CENTRAL AVE LOUISVILLE, KY 40202		3 Social security wages \$28,625.00		4 Social security tax withheld \$1,775.75		5 Medicare wages and tips \$28,625.00		6 Medicare tax withheld \$415.06	
d Control number		7 Social security tips		8 Allocated tips		9		10 Dependent care benefits	
e Employee's first name and initial Last name Suff. ANDREW T. NOBLE 1244 E. STATE ST. YOUR CITY, STATE, ZIP		11 Nonqualified plans		12a See instructions for box 12		12b		12c	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12d		14 Other			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name			
YS	56-2XXXXXX	\$28,625.00	1,025.00						

Form **W-2 Wage and Tax Statement** **2013** Department of the Treasury - Internal Revenue Service
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Practice Scenario 2 Questions

- 2-1** What is the amount of Andrew's HSA deduction on Form 1040?
- A. \$3,050
 - B. \$3,500
 - C. \$4,050
 - D. \$6,150
- 2-2** Did Andrew make an excess contribution to his HSA?
- A. Yes. The contribution is over the \$3,250 limit for self-only HDHP coverage.
 - B. No. Andrew can make catch up contributions because he is 55 or older.
- 2-3** Is the urgent care bill a qualified medical expense for HSA purposes?
- A. Yes
 - B. No
- 2-4** What is the total unreimbursed qualified medical expenses reported on Form 8889, Part II?
- A. \$2,153
 - B. \$2,232
 - C. \$2,321
 - D. \$2,400

Practice Scenario 3 – James and Diana Calhoun

Use the taxpayer documents and interview notes to complete this practice exercise. Complete Form 1040, page 1, and the appropriate forms and schedules, to answer the questions.

For practice using the tax preparation software, complete this scenario using the Practice Lab on Link & Learn Taxes.

Interview Notes

- James and Diana Calhoun want to file a joint tax return.
- Diana is enrolled in an HDHP with family coverage. She has an HSA through her employer. As part of her benefit program, the employer contributed \$1,000 to her HSA during 2013. In addition, Diana made a contribution of \$2,000.
- James and Diana have no other health insurance.
- Diana received a distribution from her HSA of \$1,900.
- James and Diana did not itemize last year and do not plan to itemize this year.
- Diana checked the unsure box on Part III, question covering other income on the intake and interview sheet, since she is not sure she has to include the HSA distribution in her income.
- Medical bills for James:
 - Over-the-counter medication (no prescription): \$400
 - Unreimbursed doctor bills: \$300
 - Unreimbursed expense for eyeglasses (needed for medical reasons): \$425
 - Unreimbursed prescription drugs: \$657
- Medical bills for Diana:
 - HDHP insurance premium: \$1,500
 - Unreimbursed doctor bills: \$195
 - Unreimbursed prescription drugs: \$128
 - Unreimbursed lab work (routine blood tests): \$250

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.

- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name JAMES	M.I. P	Last name CALHOUN	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
2. Your spouse's first name DIANA	M.I. G	Last name CALHOUN	Is your spouse a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
3. Mailing address 1679 ROBERTS ST		Apt #	City YOUR CITY	State YS ZIP code YOUR ZIP
4. Contact information Telephone number(s) YOUR PHONE #		Email address NONE		
5. Your Date of Birth 06/04/1964	6. Your job title ACCOUNTANT	7. Last year, were you:		a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8. Your spouse's Date of Birth 12/04/1963	9. Your spouse's job title NURSE	10. Last year, was your spouse:		a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure				
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single Married Did you live with your spouse during any part of the last six months of 2013? Yes No

Divorced or Legally Separated Date of final decree or separate maintenance agreement _____

Widowed Year of spouse's death _____

2. List the names below of:
 • everyone who lived with you last year (other than you or your spouse)
 • anyone you supported but did not live with you last year

If additional space is needed check here and list on page 4

Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	To be completed by Certified Volunteer Preparer				
									Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					

**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**

Yes	No	Unsure	Check appropriate box for each question in each section
Part III – Income – Last Year, Did You (or Your Spouse) Receive			
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>2</u>
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (A) Tip Income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Scholarships? (Forms W-2, 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (B) Refund of state/local income taxes? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Alimony income?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Self-Employment income? (Form 1099-MISC, cash)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	12. (B) Unemployment compensation? (Form 1099-G)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	14. (M) Income (or loss) from Rental Property?
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify _____

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay			
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) _____ 401K (B) _____ Other
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage)
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Medical expenses? (including health insurance premiums)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Home mortgage interest? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Charitable contributions?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	11. (A) Expenses related to self-employment income or any other income you received?

Part V – Life Events – Last Year, Did You (or Your Spouse)			
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	6. (B) Live in an area that was affected by a natural disaster? If yes, where? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	7. (A) Receive the First Time Homebuyers Credit in 2008?
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	8. (B) Pay any student loan interest? (Form 1098-E)
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? _____
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D?

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit?	To purchase U.S. Savings Bonds?	To split your refund between different accounts?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

a Employee's social security number 520-XX-XXXX		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile			
b Employer identification number (EIN) 53-0XXXXXX		1 Wages, tips, other compensation 27,418.00	2 Federal income tax withheld 2,175.00				
c Employer's name, address, and ZIP code PATTERSON FOODS INC 1106 WILSON WAY INDIANAPOLIS, IN 46205		3 Social security wages 27,418.00	4 Social security tax withheld 1,699.92				
		5 Medicare wages and tips 27,418.00	6 Medicare tax withheld 397.56				
		7 Social security tips	8 Allocated tips				
d Control number		9	10 Dependent care benefits				
e Employee's first name and initial Last name JAMES P. CALHOUN 1679 ROBERTS ST YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee <input type="checkbox"/>	Retirement plan <input type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b		
		14 Other		12c			
				12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	53-0XXXXXX	27,418.00	1,025.00				

Form **W-2** Wage and Tax Statement

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

a Employee's social security number 521-XX-XXXX		Safe, accurate, FAST! Use		Visit the IRS website at www.irs.gov/efile			
b Employer identification number (EIN) 53-1XXXXXX		1 Wages, tips, other compensation 15,327.54	2 Federal income tax withheld 1,033.57				
c Employer's name, address, and ZIP code HARRIMAN EMERGENCY CLINIC 1250 OHIO BLVD INDIANAPOLIS, IN 46205		3 Social security wages 15,327.54	4 Social security tax withheld 950.31				
		5 Medicare wages and tips 15,327.54	6 Medicare tax withheld 222.25				
		7 Social security tips	8 Allocated tips				
d Control number		9	10 Dependent care benefits				
e Employee's first name and initial Last name DIANA G. CALHOUN 1679 ROBERTS ST YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12 W 1,000.00			
		13 Statutory employee <input type="checkbox"/>	Retirement plan <input type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b		
		14 Other		12c			
				12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	
YS	53-1XXXXXX	15,327.54	89.06				

Form **W-2** Wage and Tax Statement

2013

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

TRUSTEE'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number USA TRUST BANK 123 MAIN ST YOUR CITY, STATE, ZIP		1 Employee or self-employed person's Archer MSA contributions made in 2013 and 2014 for 2013 \$	OMB No. 1545-1518 2013 Form 5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information
TRUSTEE'S federal identification number		2 Total contributions made in 2013 \$ 3,000.00	3 Total HSA or Archer MSA contributions made in 2014 for 2013 \$ 0.00	
PARTICIPANT'S name DIANA CALHOUN Street address (including apt. no.) 1679 ROBERTS ST City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE, ZIP		4 Rollover contributions \$	5 Fair market value of HSA, Archer MSA, or MA MSA \$ 9,509.00	
Account number (see instructions)		6 HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>		
Form 5498-SA (keep for your records)		www.irs.gov/form5498sa Department of the Treasury - Internal Revenue Service		Copy B For Participant The information in boxes 1 through 6 is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

TRUSTEE'S/PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number JACKSON BANK & TRUST 14907 S.W. GRAND ST INDIANAPOLIS, IN 46205			OMB No. 1545-1517 2013 Form 1099-SA	Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
PAYER'S federal identification number 54-2XXXXXX	RECIPIENT'S identification number 521-XX-XXXX	1 Gross distribution \$ 1,900.00	2 Earnings on excess cont. \$	
RECIPIENT'S name DIANA G CALHOUN Street address (including apt. no.) 1679 ROBERTS ST City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE, ZIP		3 Distribution code 1	4 FMV on date of death \$	
Account number (see instructions)		5 HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>		
Form 1099-SA (keep for your records)		www.irs.gov/form1099sa Department of the Treasury - Internal Revenue Service		Copy B For Recipient This information is being furnished to the Internal Revenue Service.

Practice Scenario 3 Questions

- 3-1** The HSA deduction on the Calhouns' tax return is:
- A. \$0
 - B. \$1,000
 - C. \$2,000
 - D. \$3,000
- 3-2** What is the Calhouns' Adjusted Gross Income as shown on Form 1040?
- A. \$39,746
 - B. \$40,746
 - C. \$42,746
 - D. \$44,646
- 3-3** What is the total of unreimbursed qualified medical expenses on Form 8889, Part II?
- A. \$1,955
 - B. \$2,355
 - C. \$3,400
 - D. \$3,855
- 3-4** Did the Calhouns receive distributions in excess of their unreimbursed qualified medical expenses?
- A. Yes
 - B. No

Answers to Practice Scenarios

1-1: A

1-2: C

1-3: B

2-1: B

2-2: B

2-3: A

2-4: C

3-1: C

3-2: B

3-3: A

3-4: B



Health Savings Accounts – Test Questions

Test Answer Sheet

Name _____

Instructions: Volunteers with a Basic or Advanced certification may proceed to a certification for Health Savings Accounts (HSA). HSA is an optional specialty training and certification test available on Link & Learn Taxes. Volunteers must achieve a minimum of 80% to be certified.

CAUTION: The Test scenarios are provided electronically in a PDF format for information purposes only. The questions on the online test may be either from the test or retest. Students should read each question on the online test very carefully before answering.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

HSA Scenario 1

1.	
2.	
3.	

HSA Scenario 2

4.	
5.	

HSA Scenario 3

6.	
7.	
8.	

HSA Scenario 4

9.	
10.	
11.	

HSA Scenario 5

12.	
13.	
14.	
15.	

Total Answers Correct: _____

Total Questions: 15

Passing Score: 12 of 15

Directions

The first four scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

HSA Scenario 1: Jason Grant

Interview Notes

- Jason Grant is single and 46 years old.
- Jason works as an office manager and his Form W-2 shows wages of \$48,000.
- Jason participated in his employer's self-only coverage High Deductible Health Plan (HDHP) all year.
- Jason does not have any other health coverage.
- Jason has had an HSA for three years.
- Jason's employer contributed \$1,000 in 2013 to his HSA.
- In 2013, Jason contributed \$1,500 to his HSA.
- Jason is a U.S. citizen and has a valid social security number.

HSA Scenario 1: Test Questions

1. Jason is an eligible individual for HSA purposes because:
 - a. He cannot be claimed as a dependent on someone else's return.
 - b. He has an HDHP and is not on Medicare.
 - c. He does not have any other health coverage.
 - d. All of the above.
2. How much can Jason take as an HSA deduction on Form 1040, line 25?
 - a. \$0
 - b. \$1,000
 - c. \$1,500
 - d. \$2,500
3. As a volunteer, where would you find the employer contributions made to Jason's HSA?
 - a. Form 1099-SA
 - b. Form W-2, box 12, code W
 - c. Form 1099-MISC, box 3
 - d. No form is required; the employee needs to keep records

HSA Scenario 2: Sidney and Mary Allen

Interview Notes

- Sidney and Mary Allen are married and will file a joint return.
- Sidney is 60 years old, and Mary is 53 years old.
- Both were enrolled in self-only coverage High Deductible Health Plans (HDHPs) through their employers for the entire year of 2013.
- Sidney and Mary each have an HSA.
- Both have contributed the maximum amounts to their HSAs in 2013.
- Sidney and Mary are both U.S. citizens and have valid social security numbers.

HSA Scenario 2: Test Questions

4. What is the maximum amount of contributions to their HSAs?
 - a. Sidney – \$3,250; Mary – \$3,250
 - b. Sidney – \$4,250; Mary – \$3,250
 - c. \$6,450
 - d. \$12,900
5. Sidney and Mary will each need to complete a separate Form 8889 when filing their joint return.
 - a. True
 - b. False

HSA Scenario 3: Penny Cook

Interview Notes

- Penny Cook is 35 years old.
- Penny is single and has no dependents.
- In 2013, she had earnings from her job of \$43,000.
- Penny has participated in her employer's self-only HDHP coverage all year.
- Penny has had an HSA for the past three years, including all of 2013.
- Penny contributed the maximum amount allowed to her HSA in 2013.
- In 2013, Penny took funds from her HSA to pay the following expenses:
 - Eyeglasses (needed for medical reasons)—\$250
 - Over-the-counter medication for a skin condition (no prescription from a doctor)—\$120
 - Co-payments for doctor office visits—\$80
 - Dental checkup—\$75
 - Health club fees—\$250
- Penny is a U.S. citizen and has a valid social security number.

HSA Scenario 3: Test Questions

6. What is the amount of Penny's HSA contribution reported on Form 8889, line 2?
 - a. \$3,050
 - b. \$3,250
 - c. \$4,150
 - d. \$6,450

7. What is the amount of **total** distributions reported on Form 8889, line 14a?
 - a. \$405
 - b. \$525
 - c. \$665
 - d. \$775

8. What is the amount of unreimbursed qualified medical expenses reported on Form 8889, line 15?
 - a. \$405
 - b. \$525
 - c. \$665
 - d. \$775

HSA Scenario 4: Charles and Hazel Rowan

Interview Notes

- Charles, age 42, and Hazel, age 40, are married and will file a joint return.
- They have two children, Jessica and Robert, whom they will claim as dependents on their joint return.
- Hazel's cousin, George (age 30), came to live with them in August 2013. George's gross income was \$4,000. Hazel and Charles did not provide over one-half of George's support for the year but did pay \$500 of George's medical bills in October 2013.
- Charles was enrolled all of 2013 in an HDHP with family coverage.
- Charles has had an HSA for five years.
- In 2013, Charles made regular contributions to his HSA totaling \$2,500.
- In 2013, Charles took funds from his HSA to pay numerous medical expenses including:
 - \$100 for over-the-counter allergy medicine for their daughter, Jessica (no prescription from doctor)
 - \$200 in co-payments for office visits to the pediatrician for Jessica and Robert
 - \$150 to purchase Hazel's contact lenses (needed for medical reasons)
 - \$1,000 for long-term care insurance for Charles
- Charles, Hazel, Jessica, Robert, and cousin George are all U.S. citizens and have valid social security numbers.

HSA Scenario 4: Test Questions

9. The amount of Charles' HSA deduction on Form 1040, line 25, is:
 - a. \$1,500
 - b. \$2,500
 - c. \$3,100
 - d. \$6,250
10. For HSA purposes, Charles can include qualified medical expenses for which of the following people?
 - a. Charles and Hazel
 - b. Jessica and Robert
 - c. Charles, Hazel, Jessica, and Robert
 - d. Charles, Hazel, Jessica, Robert, and George
11. On his Form 8889, Charles can include the \$100 paid for Jessica's nonprescription allergy medicine as a qualifying medical expense for HSA purposes.
 - a. True
 - b. False

HSA Scenario 5: Thomas Franklin

Interview Notes

- Thomas Franklin, age 44, is a single parent raising his 16-year-old son, James.
- Thomas qualifies to file as Head of Household.
- For the last three years, Thomas has had family health coverage through a High Deductible Health Plan (HDHP) from his employer.
- Thomas has had an HSA for several years.
- In 2013, he contributed \$2,000 to his HSA.
- Thomas' mother helped him out and contributed \$3,000 to his HSA in 2013.
- Thomas' employer also contributed \$500 to his HSA in 2013.
- Thomas paid the following expenses in 2013 using money from his HSA:
 - \$575 for doctor visits for Thomas
 - \$250 for prescription medicine for Thomas
 - \$300 for doctor visits for James
 - \$100 for toiletries for the family



Form 13614-C (October 2013)	Department of the Treasury - Internal Revenue Service Intake/Interview & Quality Review Sheet	OMB Number 1545-1964
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- 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.
- Please complete pages 1-2 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.

Part I – Your Personal Information

1. Your first name THOMAS	M.I. B	Last name FRANKLIN	Are you a U.S. citizen? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. Your spouse's first name	M.I.	Last name	Is your spouse a U.S. citizen? <input type="checkbox"/> Yes <input type="checkbox"/> No
3. Mailing address 65421 SW 17TH ST	Apt #	City YOUR CITY	State YS ZIP code ZIP
4. Contact information Telephone number(s) YOUR PHONE#		Email address NONE	
5. Your Date of Birth 05/20/1969	6. Your job title MANAGER	7. Last year, were you: a. Full time student <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
8. Your spouse's Date of Birth	9. Your spouse's job title	10. Last year, was your spouse: a. Full time student <input type="checkbox"/> Yes <input type="checkbox"/> No	
		b. Totally and permanently disabled <input type="checkbox"/> Yes <input type="checkbox"/> No c. Legally blind <input type="checkbox"/> Yes <input type="checkbox"/> No	
11. Can anyone claim you or your spouse on their tax return? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unsure			
12. Have you or your spouse a. Been a victim of identity theft? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No b. Adopted a child? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			

Part II – Marital Status and Household Information

1. As of December 31 of last year, were you: Single
 Married Did you live with your spouse during any part of the last six months of 2013? Yes No
 Divorced or Legally Separated Date of final decree or separate maintenance agreement _____
 Widowed Year of spouse's death _____

2. List the names below of:
 • **everyone** who lived with you last year (other than you or your spouse)
 • **anyone** you supported but did not live with you last year
- If additional space is needed check here and list on page 4

Name (first, last) Do not enter your name or spouse's name below	Date of Birth (mm/dd/yy)	Relationship to you (for example: son, daughter, parent, none, etc)	Number of months lived in your home last year	US Citizen (yes/no)	Resident of U.S., Canada, or Mexico last year (yes/no)	Single or Married as of 12/31/13 (S/M)	Full-time Student last year (yes/no)	Totally and Permanently Disabled (yes/no)	To be completed by Certified Volunteer Preparer				
									Can this person be claimed by someone else as a dependent on their return? (yes/no)	Did this person provide more than 50% of their own support? (yes/no)	Did this person have more than \$3900 of income? (yes/no)	Did the taxpayer(s) provide more than 50% of support for this person? (yes/no)	Did the taxpayer(s) pay more than half the cost of maintaining a home for this person? (yes/no)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)					
JAMES FRANKLIN	1/18/1997	SON	12	YES	YES	S	YES	NO					

**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**

Yes	No	Unsure	Check appropriate box for each question in each section
-----	----	--------	---

Part III – Income – Last Year, Did You (or Your Spouse) Receive

- | | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|--|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1. (B) Wages or Salary? (Form W-2) If yes, how many jobs did you have last year? <u>1</u> |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. (A) Tip Income? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. (B) Scholarships? (Forms W-2, 1098-T) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. (B) Refund of state/local income taxes? (Form 1099-G) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Alimony income? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (A) Self-Employment income? (Form 1099-MISC, cash) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (A) Cash/check payments for any work performed not reported on Forms W-2 or 1099? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (A) Income (or loss) from the sale of Stocks, Bonds or Real Estate? (including your home) (Forms 1099-S, 1099-B) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (B) Disability income? (such as payments from insurance, or workers compensation) (Forms 1099-R, W-2) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. (A) Distribution from Pensions, Annuities, and/or IRA? (Form 1099-R) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. (B) Unemployment compensation? (Form 1099-G) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. (B) Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. (M) Income (or loss) from Rental Property? |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 15. (B) Other income? (gambling, lottery, prizes, awards, jury duty, Sch K-1, etc.) (Forms W-2G) Specify HSA distribution |

Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay

- | | | | |
|-------------------------------------|-------------------------------------|--------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. (B) Alimony? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. Contributions to a retirement account? <u> </u> IRA (A) <u> </u> Roth IRA (B) <u> </u> 401K (B) <u> </u> Other |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Unreimbursed employee business expenses? (such as uniforms or mileage) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 5. (B) Medical expenses? (including health insurance premiums) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Home mortgage interest? (Form 1098) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (B) Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (B) Charitable contributions? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (B) Child or dependent care expenses such as daycare? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. (A) Expenses related to self-employment income or any other income you received? |

Part V – Life Events – Last Year, Did You (or Your Spouse)

- | | | | |
|-------------------------------------|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 1. (HSA) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. (COD) Have debt from a mortgage or credit card cancelled/forgiven by a commercial lender? (Forms 1099-C, 1099-A) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. (A) Buy, sell or have a foreclosure (COD) of your home? (Form 1099-A) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. (B) Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? <u> </u> |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. (A) Purchase and install energy-efficient home items? (such as windows, furnace, insulation, etc.) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. (B) Live in an area that was affected by a natural disaster? If yes, where? <u> </u> |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. (A) Receive the First Time Homebuyers Credit in 2008? |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. (B) Pay any student loan interest? (Form 1098-E) |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. (B) Make estimated tax payments or apply last year's refund to this year's tax? If so how much? <u> </u> |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. (A) File a federal return last year containing a "capital loss carryover" on Form 1040 Schedule D? |

Part VI – Additional Information and Questions Related to the Preparation of Your Return

Presidential Election Campaign Fund (If you check a box, your tax or refund will not change)

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

If you are due a refund, would you like

Direct deposit? Yes No To purchase U.S. Savings Bonds? Yes No To split your refund between different accounts? Yes No

If you have a balance due, would you like to make a payment directly from your bank account? Yes No

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.

Other than English, what language is spoken in your home? NONE Prefer not to answer

Are you or a member of your household considered disabled? Yes No Prefer not to answer

a Employee's social security number 441-XX-XXXX		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile		
b Employer identification number (EIN) 44-1XXXXXX		1 Wages, tips, other compensation 31,925.00	2 Federal income tax withheld 2,185.00			
c Employer's name, address, and ZIP code WILLIAMS MANUFACTURING 2520 AUSTIN BLVD YOUR CITY, STATE ZIP		3 Social security wages 31,925.00	4 Social security tax withheld 1,979.35			
		5 Medicare wages and tips 31,925.00	6 Medicare tax withheld 462.91			
		7 Social security tips	8 Allocated tips			
d Control number		9	10 Dependent care benefits			
e Employee's first name and initial Last name Suff. THOMAS B FRANKLIN 65421 SW 17TH ST YOUR CITY, STATE ZIP		11 Nonqualified plans		12a See instructions for box 12 W 500.00		
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b			
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
15 State YS	Employer's state ID number 44-1XXXXXX	16 State wages, tips, etc. 31,925.00	17 State income tax 421.00	18 Local wages, tips, etc.	19 Local income tax	
				20 Locality name		

Form **W-2** Wage and Tax Statement **2013** Department of the Treasury—Internal Revenue Service
 Copy B—To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

CORRECTED (if checked)

TRUSTEE'S/PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone number HEALTHCARE TRUSTEE OF AMERICA 123 MAIN STREET YOUR CITY, STATE ZIP		OMB No. 1545-1517 2013 Form 1099-SA		Distributions From an HSA, Archer MSA, or Medicare Advantage MSA Copy B For Recipient This information is being furnished to the Internal Revenue Service.
PAYER'S federal identification number 44-4XXXXXX	RECIPIENT'S identification number 441-XX-XXXX	1 Gross distribution \$ 1,225.00	2 Earnings on excess cont. \$	
RECIPIENT'S name THOMAS B. FRANKLIN		3 Distribution code 1	4 FMV on date of death \$	
Street address (including apt. no.) 65421 SW 17TH STREET City or town, province or state, country, and ZIP or foreign postal code YOUR CITY, STATE ZIP		5 HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>		
Account number (see instructions)				

Form **1099-SA** (keep for your records) www.irs.gov/form1099sa Department of the Treasury - Internal Revenue Service

HSA Scenario 5: Test Questions

Directions

Use the interview notes, taxpayer documents, and reference materials needed for this scenario. **Please complete Form 1040 through line 61**, and the appropriate forms (including Form 8889), schedules, or worksheets to answer each of the following questions.

Note: When using the Link and Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your User ID.

12. What is the amount of Thomas Franklin's health savings account deduction on Form 1040, line 25?
 - a. \$2,000
 - b. \$4,500
 - c. \$5,000
 - d. \$5,500

13. What is Thomas Franklin's adjusted gross income (AGI) on Form 1040?
 - a. \$26,425
 - b. \$26,925
 - c. \$27,025
 - d. \$31,925

14. What is the amount of unreimbursed qualified medical expenses reported on Form 8889, line 15?
 - a. \$0
 - b. \$500
 - c. \$675
 - d. \$1,125

15. What is the amount of additional tax reported on Form 1040, line 60?
 - a. \$10
 - b. \$20
 - c. \$123
 - d. \$245



Health Savings Accounts – Retest Questions

Retest Answer Sheet

Name _____

Instructions: Volunteers with a Basic or Advanced certification may proceed to a certification for Health Savings Accounts (HSA). HSA is an optional specialty training and certification test available on Link & Learn Taxes. Volunteers must achieve a minimum of 80% to be certified.

CAUTION: The Test scenarios are provided electronically in a PDF format for information purposes only. The questions on the online test may be either from the test or retest. Students should read each question on the online test very carefully before answering.

Privacy Act Notice

The Privacy Act of 1974 requires that when we ask for information we tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it, and whether your response is voluntary, required to obtain a benefit, or mandatory.

Our legal right to ask for information is 5 U.S.C. 301.

We are asking for this information to assist us in contacting you relative to your interest and/or participation in the IRS volunteer income tax preparation and outreach programs. The information you provide may be furnished to others who coordinate activities and staffing at volunteer return preparation sites or outreach activities. The information may also be used to establish effective controls, send correspondence and recognize volunteers.

Your response is voluntary. However, if you do not provide the requested information, the IRS may not be able to use your assistance in these programs.

Question Answer

HSA Scenario 1

1.	
2.	
3.	

HSA Scenario 2

4.	
5.	

HSA Scenario 3

6.	
7.	
8.	

HSA Scenario 4

9.	
10.	
11.	

HSA Scenario 5

12.	
13.	
14.	
15.	

Total Answers Correct:	_____
Total Questions:	15
Passing Score:	12 of 15

Directions

These first four scenarios do not require you to prepare a tax return. Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after each scenario.

HSA Scenario 1: Jason Grant

Interview Notes

- Jason Grant is single and 46 years old.
- Jason works as an office manager and his Form W-2 shows wages of \$48,000.
- Jason participated in his employer's self-only coverage High Deductible Health Plan (HDHP) all year.
- Jason does not have any other health coverage.
- Jason has had an HSA for three years.
- Jason's employer contributed \$1,000 in 2013 to his HSA.
- In 2013, Jason contributed \$1,500 to his HSA.
- Jason is a U.S. citizen and has a valid social security number.

HSA Scenario 1: Retest Questions

1. Based on the information provided, Jason is an eligible individual for HSA purposes.
 - a. True
 - b. False
2. Jason's HSA deduction on Form 1040, line 25 is \$_____.
3. The employer contributions to Jason's HSA are reported on Form 1099-MISC.
 - a. True
 - b. False

HSA Scenario 2: Sidney and Mary Allen

Interview Notes

- Sidney and Mary Allen are married and will file a joint return.
- Sidney is 60 years old, and Mary is 53 years old.
- Both were enrolled in self-only coverage High Deductible Health Plans (HDHPs) through their employers for the entire year of 2013.
- Sidney and Mary each have an HSA.
- Both have contributed the maximum amounts to their HSAs in 2013.
- Sidney and Mary are both U.S. citizens and have valid social security numbers.

HSA Scenario 2: Retest Questions

4. Sidney can contribute a maximum of \$4,250 to his HSA and Mary can contribute a maximum of \$3,250 to her HSA for 2013.
 - a. True
 - b. False
5. Which form or schedule will Sidney and Mary each use to calculate their HSA deductions?
 - a. Schedule A
 - b. Form 8853
 - c. Form 8889
 - d. Form W-2

HSA Scenario 3: Penny Cook

Interview Notes

- Penny Cook is 35 years old.
- Penny is single and has no dependents.
- In 2013, she had earnings from her job of \$43,000.
- Penny has participated in her employer's self-only HDHP coverage all year.
- Penny has had an HSA for the past three years, including all of 2013.
- Penny contributed the maximum amount allowed to her HSA in 2013.
- In 2013, Penny took funds from her HSA to pay the following expenses:
 - Eyeglasses (needed for medical reasons)—\$250
 - Over-the-counter medication for a skin condition (no prescription from a doctor)—\$120
 - Co-payments for doctor office visits—\$80
 - Dental checkup—\$75
 - Health club fees—\$250
- Penny is a U.S. citizen and has a valid social security number.

HSA Scenario 3: Retest Questions

6. Penny's HSA contribution on Form 8889, line 2 is \$_____.
7. The amount of **total** distributions reported on Penny's Form 8889, line 14a is \$_____.
8. Which of the following items is not included on Form 8889, line 15?
 - a. Dental checkup – \$75
 - b. Eyeglasses needed for medical reasons – \$250
 - c. Co-payments for doctor office visits – \$80
 - d. Over-the-counter medicine for a skin condition (no doctor's prescription) – \$120

HSA Scenario 4: Charles and Hazel Rowan

Interview Notes

- Charles, age 42, and Hazel, age 40, are married and will file a joint return.
- They have two children, Jessica and Robert, whom they will claim as dependents on their joint return.
- Hazel's cousin, George (age 30), came to live with them in August 2013. George's gross income was \$4,000. Hazel and Charles did not provide over one-half of George's support for the year but did pay \$500 of George's medical bills in October 2013.
- Charles was enrolled all of 2013 in an HDHP with family coverage.
- Charles has had an HSA for five years.
- In 2013, Charles made regular contributions to his HSA totaling \$2,500.
- In 2013, Charles took funds from his HSA to pay numerous medical expenses including:
 - \$100 for over-the-counter allergy medicine for their daughter, Jessica (no prescription from doctor)
 - \$200 in co-payments for office visits to the pediatrician for Jessica and Robert
 - \$150 to purchase Hazel's contact lenses (needed for medical reasons)
 - \$1,000 for long-term care insurance for Charles
- Charles, Hazel, Jessica, Robert, and cousin George are all U.S. citizens and have valid social security numbers.

HSA Scenario 4: Retest Questions

9. Charles' HSA deduction amount on Form 1040, line 25, is \$6,250.
 - a. True
 - b. False
10. The \$500 that Charles paid for cousin George's medical bill is a qualified medical expense for HSA purposes.
 - a. True
 - b. False
11. For HSA purposes, what is the total amount of qualified medical expenses paid by Charles?
 - a. \$700
 - b. \$800
 - c. \$1,030
 - d. \$1,110

HSA Scenario 5: Retest Questions

Directions

Refer to the scenario information for Thomas Franklin beginning on page 2-35. Use the interview notes, taxpayer documents, and reference materials needed for this scenario. **Please complete Form 1040 through line 61**, and the appropriate forms (including Form 8889), schedules, or worksheets to answer each of the following questions.

Note: When using the Link and Learn Taxes Practice Lab, complete the social security numbers and employer identification numbers by replacing the Xs with your user ID.

12. The amount shown on Form 1040, line 25, comes from Form 8889, line 13.
 - a. True
 - b. False

13. Thomas Franklin's adjusted gross income (AGI) is \$_____.

14. The expenses reported on Form 8889, line 15, should be:
 - a. Qualified medical expenses
 - b. Reimbursed qualified medical expenses
 - c. Unreimbursed qualified medical expenses
 - d. Unreimbursed qualified medical expenses in excess of 10% of Adjusted Gross Income (AGI)

15. What is the percentage of the additional tax that Thomas must pay on the HSA distribution that was not used for unreimbursed qualified medical expenses?
 - a. 5%
 - b. 10%
 - c. 20%
 - d. 50%

Link & Learn Taxes

Link & Learn Taxes is web-based training designed specifically for VITA/TCE volunteers. Each volunteer's ability to prepare complete and accurate returns is vital to the credibility and integrity of the program. Link & Learn Taxes, as part of the complete volunteer training kit, provides the path to achieving this high level of quality service.

Link & Learn Taxes and the printed technical training kit, Publication 4480, work together to help volunteers learn and practice.

Link & Learn Taxes for 2013 includes:

- Access to all VITA/TCE courses
- Easy identification of the VITA/TCE courses with the course icons
 - As you progress through a lesson, the content for Basic, Advanced, Military, or International will display, depending on the level of certification you selected
- PowerPoint presentations that can be customized to fit your classroom needs
- VITA/TCE Central to provide centralized access for training materials and reference links
- The Practice Lab
 - Gives volunteers practice with an early version of the IRS-provided tax preparation software
 - Lets volunteers complete workbook problems from Publication 4491W
 - Lets volunteers prepare test scenario returns for the test/retest



Go to www.irs.gov, type “Link & Learn” in the Keyword field and click Search. You’ll find a detailed overview and links to the courses.

FSA (Facilitated Self Assistance) empowers taxpayers to prepare their own return with the assistance of a certified volunteer. Taxpayers complete their own return using interview-based software supplied by leaders in the tax preparation industry. Volunteers assist taxpayers with tax law and software questions.

Virtual VITA allows partners to initiate the intake process for taxpayers in one location, while utilizing a certified volunteer to prepare the return in an entirely different location. By incorporating this flexibility, partners can provide taxpayers with more convenient locations to file their taxes.

For more information contact your SPEC Relationship Manager to see if you should start a FSA or Virtual VITA site in your community.

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