4491X

VITA/TCE Training Supplement

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

2010 RETURNS

Take your VITA/TCE training online at **www.irs.gov** (keyword: Link and Learn Taxes) with online testing, immediate scoring, feedback and more. Gain experience using the Electronic Software Practice Lab!

Publication 4491X (Rev. 1-2011) Catalog Number 52568R Department of the Treasury **Internal Revenue Service** www.irs.gov

Publication 4491-X – 2010 Supplement (Revised January 2011)

New Tax Legislation and Other Updates

Introduction

This is the second release of Publication 4491X for tax year 2010. The information from the December 2010 release is included in this update. Also addressed in this supplement are provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 that are within the scope of the Volunteer Income Tax Assistance and Tax Counseling for the Elderly Programs (VITA/TCE). The Act was signed into law by President Obama on December 17, 2010.

Volunteers preparing returns that include any of the provisions in this act must complete the supplemental training in this publication before assisting taxpayers.

In addition to instructional guidance for the new legislation, this supplement also contains pen and ink changes to the VITA/TCE training materials that were previously released in the 12/2010 version of this supplement.

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

The Internal Revenue Service will begin processing tax returns delayed by the December tax law changes on February 14, 2011. For the most up-to-date information on tax law issues, visit www.irs.gov.

TIP

For more information about the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, visit www.irs.gov.

TIP

The answers to the comprehensive problems and exercises in Publication 4491W can be accessed from “What’s Hot” in the Partner and Volunteer Resource Center on www.irs.gov.

CAUTION

Any additional updates to the content in the comprehensive problems and exercises (Publication 4491-W) and Link & Learn Taxes (including the Practice Lab) will be issued in Product Alerts through mid-February, as needed. Consult your Site Coordinator for additional guidance.

What new tax law information do I need to prepare an accurate return?

This supplement includes tax law updates from the following act:

- The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

Lesson	Topic	Courses	New Tax Law
0	What's New This Year?		• Personal Exemption and Itemized Deduction Phaseouts • Estate Tax and Basis Calculation • Temporary Extension of Alternative Minimum Tax (AMT) Relief • Expired Tax Benefits
10	Capital Gain or Loss		• Adjusted Basis
11	Retirement Income		• IRA distributions
17	Adjustments to Income		• Educator expenses • Tuition & Fees
19	Standard Deduction and Tax Computation		• Expired Tax Provision
20	Itemized Deductions		• General sales tax
23	Credit for Child and Dependent Care		• AMT Patch
24	Education Credits		• AMT Patch
27	Miscellaneous Credits		• AMT Patch

Pen & Ink Changes to the Printed Publications

Thanks to everyone who provided feedback regarding the printed training material. The following pen and ink changes are responses to concerns received through the first week of December. Please feel free to direct any additional content concerns to your local IRS-SPEC tax consultant or Site Coordinator.

Product	Page	Pen and Ink Changes
Technical Updates		
4012	C-3	Under "Tests To Be a Qualifying Child," step 1, change to: "The child must be younger than you (or your spouse, if filing jointly)."
4012	2-1	For Form 1099-R Distributions from IRAs, change line number to 15.
4491W	68	Interview notes, ninth bullet: change year from 2008 to 2009
L&LT HSA Certification Test		The answer for question 10 was not correct when initially released. The HSA L&LT certification test was updated on 11/29/10 with the correct answer. For HSA purposes long term care insurance premiums do qualify as a medical expense but there are limitations based on age. Refer to the 2010 Instructions for Schedule A or the 2010 edition of Publication 502 for details.

Product	Page	Pen and Ink Changes
Non-technical Updates		
4012	A-3	On Chart D, add two items to the list: 9. You qualify for the making work pay credit. 10. You qualify for the adoption credit.
4012	A-4	Under Form 1040A, Tax Credits: delete “government retiree credit,”
4012	C-5	• Table 2, Step 5, delete the * • In Footnotes, change “*” to “Step 5” • In Footnotes, delete footnote currently labeled “Step 5.” It does not apply to Table 2.
4012	C-6	In Footnotes: change “Step 10” to “Step 13”
4012	C-7	• In Footnotes, add a footnote for Step 2: If a child is emancipated under state law, either by reaching the age of majority or through other means, the child is treated as not living with either parent. See examples in Publication 17. • Table 3, Step 4: delete the phrase “greater part of the year” and replace with “greater number of nights during the year”
4012	E-3	Under “Student qualifications” change the first bullet to read: “you, your spouse or your dependent, and”
4012	G-2	Footnote 2: change the word “expect” to “except”
4012	G-9	In Part I, under the third bullet, delete the phrase “certain metal and asphalt roofs” from the second list and add to the first list. The labor costs associated with the on-site preparation and installation of certain metal or asphalt roofs are not to be included when calculating the Nonbusiness Energy Property Credit.
4012	2-4	Under “Allocated Tips,” change first sentence to read: “Allocated tips in box 8 of Form W-2 will carry over to line 4 of Form 4137.”
4012	4-1	Delete 3rd bullet on this page.
4012	14-6	Under “Peel-off label,” delete the first sentence. Change remaining sentence to: Individual and business taxpayers will no longer receive income tax packages in the mail from the IRS. These tax packages contained the forms, schedules, instructions and the “**peel-off**” label.
1084	Inside Cover	Delete telephone number for Foreign Student/Scholar Issues, and replace with the new number: **267-941-1000** (not toll-free)
6744	2-9	Change the year from 2009 to 2010 on Form 1098-T shown on this page.
4491	6-11	Second paragraph, first sentence, after the words “custodial parent” insert the following: “(parent with whom the child lived for the greater number of nights during the year)”
4491W	41, 87 and 178	On all three pages, change “Line 73a” to “Line 74a”

Product	Page	Pen and Ink Changes
4491W	41	Under the heading for "Line 50," change the last sentence to read: Check to see if they qualify for this credit and if so, complete the questions on Form 8880."
4491W	46	Delete 6th bullet
4491W	52	• 3rd bullet, 2nd sentence, change to: "When Earl's sister became ill last March…" • 4th bullet, 3rd sentence, change the number $6,060 to $6,560
4491W	81	On the first Form 1099-R: Enter $10,000 in Box 2a and change the distribution code in Box 7 to "1"
4491W	96	On the Form 1099-R, delete the "X" in box 2b.
4704-FS	13	Question 25, answer B should be $337. This amount was corrected on the L&LT online certification test.
4704-FS-A	A-5	Raji Singh's Form 1040NR-EZ, lines 15 and 17 should be 2,075 and lines 22 and 23a should be 337.

Lesson 0: What's New This Year

Personal Exemption and Itemized Deduction Phaseouts

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the repeal of the personal exemption phaseout and the repeal of the overall limitation on itemized deductions for two years, through December 31, 2012.

Estate Tax and Basis Calculation/Holding Period for Inherited Property

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reinstated the estate tax for decedents dying after December 31, 2009. Together with the reinstatement of the estate tax, the Act eliminates the modified carryover basis rules and replaces them with the stepped up basis rules that had applied until 2010. Property with a stepped-up basis receives a basis equal to the property's fair market value on the date of the decedent's death (or on an alternative valuation date). The Act gives estates of decedents dying after December 31, 2009, and before January 1, 2011, the option to elect not to come under the reinstated estate tax.

Determining the basis of property inherited from a decedent in 2010 is complex and outside the scope of the VITA/TCE Program. If a taxpayer sold property that was inherited in 2010, and cannot provide the basis of the property, refer the taxpayer to a professional tax preparer.

Temporary Extension of Alternative Minimum Tax (AMT) Relief

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provides an AMT "patch" by providing higher exemption amounts for 2010 and 2011. The AMT exemption amounts for 2010 are: $47,450 for individual taxpayers, $72,450 for married taxpayers filing jointly and surviving spouses, and $36,225 for married couples filing separately.

In addition, the Act extended the ability of an individual to offset the entire regular tax liability and alternative minimum tax liability by certain nonrefundable credits in 2010 and 2011.

Expired Tax Benefits

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended a number of tax benefits that had expired in 2009. Included in the individual tax benefits that were extended for two years (2010 and 2011) are the following:

- Tax-free distributions from certain individual retirement plans for charitable purposes
- Deduction for educator expenses in figuring AGI
- Tuition and fees deduction in figuring AGI
- Itemized deduction for state and local general sales taxes

Additional information on these extended tax benefits is included in the applicable lesson updates in this training supplement.

A number of other tax deductions and credits due to expire at the end of 2010 were extended, including:

- American Opportunity Tax Credit for two years (through 2012)
- Child tax credit of $1,000 and the earned income threshold of $3,000 for the child tax credit for two years (through 2012)
- Private mortgage insurance deduction for one year (through 2011)
- Nonbusiness energy property credit (with some limitations) for one year (through 2011)
- EITC increased credit for three or more qualifying children for two years (through 2012)

Additional information on these extended tax benefits will be included in the tax year 2011 training products.

Taxpayers impacted by recent tax breaks can file starting February 14.

The tax law changes enacted by Congress and signed by President Obama on December 17, 2010, mean some people need to wait until mid-February to file tax returns in order to give the IRS time to reprogram processing systems.

Those that need to wait include taxpayers claiming:

- Itemized deductions on Schedule A
- Higher education tuition and fees deduction
- The educator expense deduction

While the delay impacts both paper and electronic tax returns, most taxpayers can file immediately. More details are available on www.irs.gov.

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

What is the basis of stock?

This topic is included in the Basis Other than Cost section, and follows the TIP on page 10-4.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reinstated the estate tax for decedents who died in 2010. Together with the reinstatement of the estate tax, the Act eliminates the modified carryover basis rules and replaces them with the stepped-up basis rules that had applied until 2010. Property with a stepped-up basis receives a basis equal to the property's fair market value on the date of the decedent's death (or an alternate valuation date). The Act gives estates of decedents dying after December 31, 2009 and before January 1, 2011, the option to elect not to come under the reinstated estate tax. The IRS determines the time and manner for making the election.

For additional information on the special rules that apply to property inherited from a decedent who died in 2010, see Publication 4895, Tax Treatment of a Property Acquired From a Decedent Dying in 2010. NOTE: This publication is currently under development and will be posted on www.irs.gov when finalized.

Determining the basis of property inherited from a decedent who died in 2010 can be very complex. Refer the taxpayer to a professional tax preparer.

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

How are IRA distributions reported?

This topic follows How are rollovers handled? on page 11-6.

What if the distribution is used for charitable purposes?

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended tax-free distributions from certain individual retirement accounts for charitable purposes for two years (2010 and 2011).

The taxpayer can have a qualified charitable distribution (QCD) made to an organization eligible to receive tax-deductible contributions. If all requirements are met, this action will exclude any part of the distribution that would normally be taxable. Form 1099-R will be issued to the taxpayer; there is no distribution code for box 7 that identifies a QCD.

The requirements for a QCD include:

- The taxpayer must be at least 70½ years old at the time of the distribution
- Distributions from an IRA (other than an ongoing SEP or SIMPLE IRA) are eligible for this treatment
- The distribution must be made by the trustee directly to the eligible organization
- The aggregate amount of QCDs excluded from the taxpayer's gross income cannot be more than $100,000 (On a joint return, the spouse is eligible for the same amount)
- The amount cannot be included with other charitable contributions on Schedule A

To qualify as a QCD, the IRA trustee must make the distribution directly to the qualified charity. Any distributions, including any Required Minimum Distributions (RMDs), that the IRA owner actually receives cannot qualify as QCDs.

IRA owners who have received their 2010 RMDs may not recontribute those distributions to an IRA to have them redistributed directly to a qualified charity as a QCD. However, an IRA owner who received a distribution in excess of his or her 2010 RMD can roll the excess to another or the same IRA within 60 days of receiving the distribution, and then have the funds paid directly to the qualified charity as a QCD.

The taxpayer may have marked the box for "Charitable contributions" on Form 13614-C Intake/Interview Sheet and Quality Review Sheet, or approved alternative form. If there is a Form 1099-R for a traditional IRA account and the taxpayer (or spouse) is at least 70½ years old, ask if any of the funds were a direct transfer to a charitable organization.

Taxpayers should have a written acknowledgment from the recipient stating:

- The organization's name,
- The amount,
- The date, and
- A statement indicating there was no personal benefit to the taxpayer

This amount counts toward the required minimum distribution (see topic Minimum Distributions on page 11-10).

If any part of the distribution is a return of after-tax contributions, Form 8606, Nondeductible IRAs, may need to be completed. Form 8606 requires basis information in IRAs from prior years and can be complex. If Form 8606 is required, refer the taxpayer to a professional tax preparer.

TIP

If a QCD is made in January 2011, the taxpayer can elect to treat it as if it were made in 2010. For more information, see Publication 590, Individual Retirement Arrangements (IRAs).

Tax Software Hint: You must indicate in the software if a qualified charitable contribution was made.

If you are preparing a paper return, enter the total distribution on Form 1040, line 15a. Write "QCD" next to the amount on line 15b. This will indicate that all or part of the distribution is not taxable because it met the requirements of a QCD.

Lesson 15: Other Income

Gulf Oil Spill Payments

This topic follows the text on page 15-1.

Many taxpayers in the Gulf Coast region received payments in 2010 related to the oil spill. However, claims have also been paid to taxpayers residing outside this region. Volunteers nationwide should be aware of the guidance and technical resources available for assisting taxpayers impacted by the oil spill.

Before completing or reviewing any returns for taxpayers who have received payments resulting from the Gulf oil spill, volunteers should review Publication 4906, the Gulf Oil Spill Overview & Guidance. This PowerPoint presentation contains information relating to specific tax issues resulting from the Gulf oil spill, including claims for damages and lost income as well as payments for clean-up activities. For assistance in preparing returns at VITA/TCE sites, Publication 4899, Decision Tree - Gulf Oil Spill Affected Taxpayers can be used. These publications are available electronically on www.irs.gov.

additional information

IRS Publication 4873, The Gulf Oil Spill and Your Taxes

IRS Publication 4873-A, Gulf Oil Spill: Questions and Answers

Also visit the Gulf Oil Spill Information Center on www.irs.gov for the most up-to-date information.

Lesson 17: Adjustments to Income

How do I handle educator expenses?

This topic precedes How do I handle self-employment tax? on page 17-2.

The deduction for educator expenses was extended through 2011 as a result of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

Who is eligible?

Eligible educators can deduct up to $250 of qualified expenses paid in 2010. If the taxpayer and spouse are both eligible educators, they can deduct up to $500, but neither can deduct more than his or her own first $250. Any excess expenses may be treated as an itemized employment-related deduction on Schedule A.

At this point in the interview, you will know if the taxpayer and/or spouse are educators. Probe a little deeper to see if they qualify for this adjustment. Ask questions such as:

- Are you or your spouse a teacher, instructor, counselor, principal, or aide in a school? (Cannot be a home school)
- What grade or grades do you teach? (Must be K-12)
- Were you employed for at least 900 hours during the school year? (Required minimum)

What expenses qualify?

If the taxpayer or spouse is an eligible educator, ask for documentation of qualified expenses. Advise taxpayers who do not have receipts with them, they must have receipts for verification if they get audited. Expenses that qualify include books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. Expenses that do *not* quality are home schooling, nonathletic supplies for physical education, or health courses.

example

Gloria is a 5th and 6th grade teacher who works full-time in a year-round school. She had 1800 hours of employment in 2010. She spent $262 on supplies for her students. Of that amount, $212 was for educational software. The other $50 was for supplies for a unit she teaches sixth graders on health. Only the $212 is a qualified expense. She can deduct $212.

example

Debbie is a part-time art teacher at an elementary school. In 2010, she spent $185 on qualified expenses for her students. Because she has only 440 hours of documented employment as an educator in 2010, she cannot deduct her educator expenses.

What other rules apply?

Continue to probe to learn if the taxpayer or spouse received reimbursement that would reduce the amount of their educator expenses. For example, ask:

- Did you receive reimbursement that is not listed on Form W-2?
- Did you redeem tax-free interest on U.S. Series EE and I Savings Bonds, such as redeeming savings bonds to pay educational expenses?
- Did you receive excludable payments from a Qualified Tuition Program (QTP) or Coverdell Education Savings Account (ESA)?

Educator expenses are reduced by any of these applicable reimbursements.

example

Evelyn managed to work 1000 hours as an educator in 2010 while completing graduate studies. She spent $200 to buy qualified school supplies for her students. She covered $400 of her own educational expenses from her Coverdell ESA. She cannot take the deduction for educator expenses.

How do I report this?

Educator expenses are entered on line 23 of Form 1040. Don’t forget to reduce the total educator expenses by any reimbursements, nontaxable savings bond interest, or nontaxable distributions from an ESA or QTP.

Taxpayer Example

Bob teaches elementary school. His wife Janet teaches high school chemistry. Here is how a volunteer helped them determine if they can take the deduction for educator expenses.

SAMPLE INTERVIEW

VOLUNTEER SAYS...	JANET & BOB RESPOND...
You've already mentioned that you both work full-time as teachers, so you may be able to deduct some of the money you spent on qualified educator expenses. Did you bring your receipts?	[Janet] Yes, all teachers keep careful records of their expenses. Here are my receipts and here are Bob's.
Can you tell me what you purchased? Janet, maybe you could go first.	Sure. Three are for quick reference cards for my chem students. And two are for special reagents the department doesn't stock.
Your receipts add up to $382. Now, we can count only the first $250 of educator expenses, but because you are married and filing jointly, we can count up to $250 for Bob. Bob, tell me about your expenses.	[Bob] These four are for art supplies – paint and brushes, as you can see – and these two are for special papers and sculpting clay.
Yours total $263. Now, did either of you receive any reimbursement that is not listed on Form W-2?	[Janet] No, we paid these expenses out of our own pockets. [Bob] Wait, now that I think about it, I got reimbursed $50 for the clay.
That would bring your total down to $213.	[Janet] Can't we apply some of my excess expense to Bob and bring his total up to $250?
No, I'm sorry, each person's expenses have to stand alone. Did either of you receive any reimbursement that is not listed on a Form W-2, from any other source?	No.
Did you redeem U.S. series EE and I Savings Bonds in 2009?	No, we didn't. What if we had?
We would complete a form to see what percentage of the tax-free interest should be applied as a reimbursement. One more thing: did you receive distributions from a qualified tuition program or a Coverdell education savings account?	[Bob] No, neither of those.
Okay, we can claim $213 for Bob and the maximum $250 for Janet. That gives you a total of $463 on your joint return. Any questions before we go on? [On the approved Intake and Interview Sheet, indicate that the taxpayers are entitled to the Educator Expense Adjustment.]	[Janet] No, I think we understand.

How do I handle tuition and fees?

This topic precedes Is pay for jury duty an adjustment to income? on page 17-12.

The tuition and fees deduction was extended through 2011 as a result of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010.

What is the deduction?

Taxpayers can deduct up to $4,000 in qualified tuition and related expenses paid during the tax year. The amount of the deduction is determined by the taxpayer's filing status, MAGI, and other factors.

Effect of MAGI on maximum tuition and fees deduction

IF you're filing status is:	AND your MAGI is:	THEN your maximum tuition and fees deduction is:
Single, Head of Household, or Qualifying Widow(er)	Not more than $65,000	$4,000
	More than $65,000, but not more than $80,000	$2,000
	More than $80,000	$0
Married Filing Jointly	Not more than $130,000	$4,000
	More than $130,000, but not more than $160,000	$2,000
	More than $160,000	$0

Form 8917, Tuition and Fees Deduction, will help you compute the taxpayer's Modified AGI for this deduction. The tax software will complete this part of Form 8917 automatically.

Form **8917**

Department of the Treasury
Internal Revenue Service

Tuition and Fees Deduction

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

OMB No. 1545-0074
2010
Attachment Sequence No. **60**

Name(s) shown on return | **Your social security number**

CAUTION

*You **cannot** take both an education credit from Form 8863 and the tuition and fees deduction from this form for the **same student** for the same tax year.*

Before you begin:
✔ To see if you qualify for this deduction, see *Who Can Take the Deduction* in the instructions below.
✔ If you file Form 1040, figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. See the 2010 Form 1040 instructions for line 36.

1	**(a)** Student's name (as shown on page 1 of your tax return) First name	Last name	**(b)** Student's social security number (as shown on page 1 of your tax return)	**(c)** Qualified expenses (see instructions)

example

In 2010, Leonard, a single taxpayer who had a total income of $24,000, meets all the requirements to take the deduction. He paid $4,427 in tuition and fees. Because his gross income is well below the MAGI limit, he would be able to deduct the maximum amount ($4,000) for his tuition and fees payments.

example

Juanita is married but uses the Married Filing Separately status. She cannot deduct tuition and fees.

Who is eligible for this deduction?

The deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return), and any dependent (for whom the taxpayer claims a dependency exemption) who attended an eligible educational institution during the tax year.

The tuition and fees deduction *cannot* be claimed by married taxpayers who file as Married Filing Separately or by an individual who is a dependent of another taxpayer.

In order to claim a deduction for expenses paid for a dependent who is the eligible student, the taxpayer must have paid the qualified expenses and claim an exemption for the dependent. If the student is eligible to be claimed as a dependent (even if not actually claimed) and paid his or her own expenses, *no one* can take the adjustment. However, if the student would not qualify as a dependent, he or she can claim the deduction even if tuition and fees were paid by another person. In that case, the student can treat the amounts paid for tuition and fees as a gift.

Taxpayers who are not eligible for the tuition and fees adjustment because of the dependency issue may be eligible for an education tax credit, covered in the Education Credits lesson.

example

Joseph is 30. Although he lives at home and goes to school full time, he earns about $5,000 each year, so his parents cannot claim him as a dependent. Only Joseph can take the tuition and fees adjustment, even if his parents pay his education expenses.

example

Carly is 18 and claimed by her parents as a dependent. She took out student loans and paid all of her own tuition and fees. Carly cannot take the deduction because she is a dependent. Carly's parents can't claim the deduction either because they did not pay the education expenses. Carly's parents should look into the education credits.

What are qualified tuition and fees expenses?

Generally, qualified education expenses are amounts paid for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, credit card, or with borrowed funds.

Qualified education expenses do not include payments for:

- Insurance, room and board, medical expenses (including health fees), transportation, or similar personal, living, or family expenses.
- Course-related books, supplies, nonacademic activities and equipment unless it is paid as a condition of enrollment or attendance
- Any course or other education involving sports, games, hobbies, and noncredit courses unless the course or other education is part of the student's degree program

Ask the taxpayer if the qualified tuition and expenses were offset by distributions from qualified state tuition programs, Coverdell ESAs, or interest from savings bonds used for higher education expenses. Subtract these from the total payments for tuition and fees.

To help you figure the tuition and fees deduction, the taxpayer should have received Form 1098-T, Tuition Statement. Generally, an eligible education institution must send Form 1098-T or a substitute to each enrolled student by January 31. However, the form only reports “amount billed” or “payments received.” You must question the taxpayer to determine the amount of qualified expenses actually paid and adjust this amount by any non-taxable items, such as scholarships or tuition program distributions.

What is an eligible educational institution?

An eligible educational institution is generally any accredited public, nonprofit, or private post-secondary institution eligible to participate in the student aid programs administered by the Department of Education. It includes virtually all accredited public, nonprofit, and privately owned profit-making post-secondary institutions. Taxpayers who do not know if an educational institution is an eligible institution should contact the school.

How do I determine the amount of the deduction?

Use Form 8917, Tuition and Fees Deduction, to figure the MAGI and the resulting deduction amount.

How do I determine the best education benefit for the taxpayer?

If taxpayers claim the tuition and fees adjustment to income, they cannot claim the education tax credit. The education credits include the American Opportunity and Lifetime Learning Credits, which are discussed in more detail in the Education Credits lesson.

For most taxpayers, the tax credit is more beneficial than the adjustment. However, it is important to calculate and compare the education benefits to determine which one is better for the taxpayer.

Complete the entire tax return separately using first the tuition and fees deduction, then the education credit. Compare the returns and choose the best one for the taxpayer.

Taxpayer Scenario

Glenda's Education Expenses

Here is how a volunteer helped Glenda deduct the tuition and fees she paid for a class.

SAMPLE INTERVIEW

VOLUNTEER SAYS...	GLENDA RESPONDS...
Let's talk about your education-related expenses. Were you or someone else in your family going to school?	I took one class in the fall.
You're filing as Head of Household and your income is below the limit for taking the full deduction. Do you have a receipt for the tuition payment?	Yes, these are the receipts from City College.
I see $450 for tuition and $80 for books. Were you required to purchase the books through City College or could you have bought them elsewhere?	Those books were written specifically for the course; I had to purchase them through the school when I registered.
OK, then we can include the books. That totals $530. I just need to ask a few more questions. Did you receive any funds from an educational assistance program from your employer?	Yes, the EAP provided $100.
Did you make any tax-free withdrawals from a Coverdell educational savings account or another qualified tuition program, or from U.S. savings bonds?	No.
Did you get any other nontaxable payments, not counting gifts, bequests, or inheritances, that were specifically for educational expenses?	Well, my mom gave me $100 to help with tuition.
The $100 was a gift, so we don't count it. Your total payments were $530 and then we must subtract the $100 employer benefit. You can deduct $430 for tuition and fees. Do you have any questions about all this?	No, I'm really glad I can deduct that.
There is also a credit for people who are paying for college expenses. You can take one or the other, but not both. When we get to the end of the return, I will ask you some more questions to figure out if the credit would be better for you than this deduction. [Note on the approved Intake and Interview Sheet that you have addressed this adjustment.]	Okay, I'd appreciate that.

Lesson 19: Standard Deduction and Tax Computation

How do I determine which deduction is best for the taxpayer?

This topic follows the first paragraph on page 19-6.

CAUTION

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 does *not* extend the additional standard deduction for real property taxes, which expired at the end of 2009.

Lesson 20: Itemized Deductions

How do I handle taxes that may be deductible?

This topic follows State and Local Taxes on page 20-3.

General Sales Taxes

The option to deduct state and local general sales taxes in lieu of state and local income taxes was extended through 2011 as a result of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Taxpayers can elect to deduct state and local income taxes or general sales taxes, but they cannot deduct both.

If the taxpayer elects to deduct state and local general sales taxes, check box b on Schedule A, line 5. Use either of the following methods:

- Actual (from the taxpayer's receipts), or
- Optional State Sales Tax Tables in the Schedule A Instructions

Taxpayers using the Optional Sales Tax Tables may also add the state and local general sales tax paid on certain specified items, such as motor vehicles (purchased or leased), aircraft, boats, homes (including mobile and prefabricated homes), and materials used to build a home.

Tax Software Hint: To review information related to the software, go to the Volunteer Resource Guide (Tab 4), Deductions.

Lesson 23: Credit for Child and Dependent Care

What is a nonrefundable credit?

This replaces the Caution on page 23-1.

CAUTION

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 allows an individual to offset the entire regular tax liability and alternative minimum tax liability by the nonrefundable personal credits for 2010 and 2011.

Lesson 24: Education Credits

What are education credits?

This replaces the Caution on page 24-1.

CAUTION

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 allows an individual to offset the entire regular tax liability and alternative minimum tax liability by the nonrefundable personal credits for 2010 and 2011.

Lesson 27: Miscellaneous Credits

What is a nonrefundable credit?

This replaces the Caution on page 27-1.

CAUTION

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 allows an individual to offset the entire regular tax liability and alternative minimum tax liability by the nonrefundable personal credits for 2010 and 2011.

TIP

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 did not change the provisions to the Residential Energy Credits for tax year 2010. However, changes for tax year 2011 will be included in next year's training products.