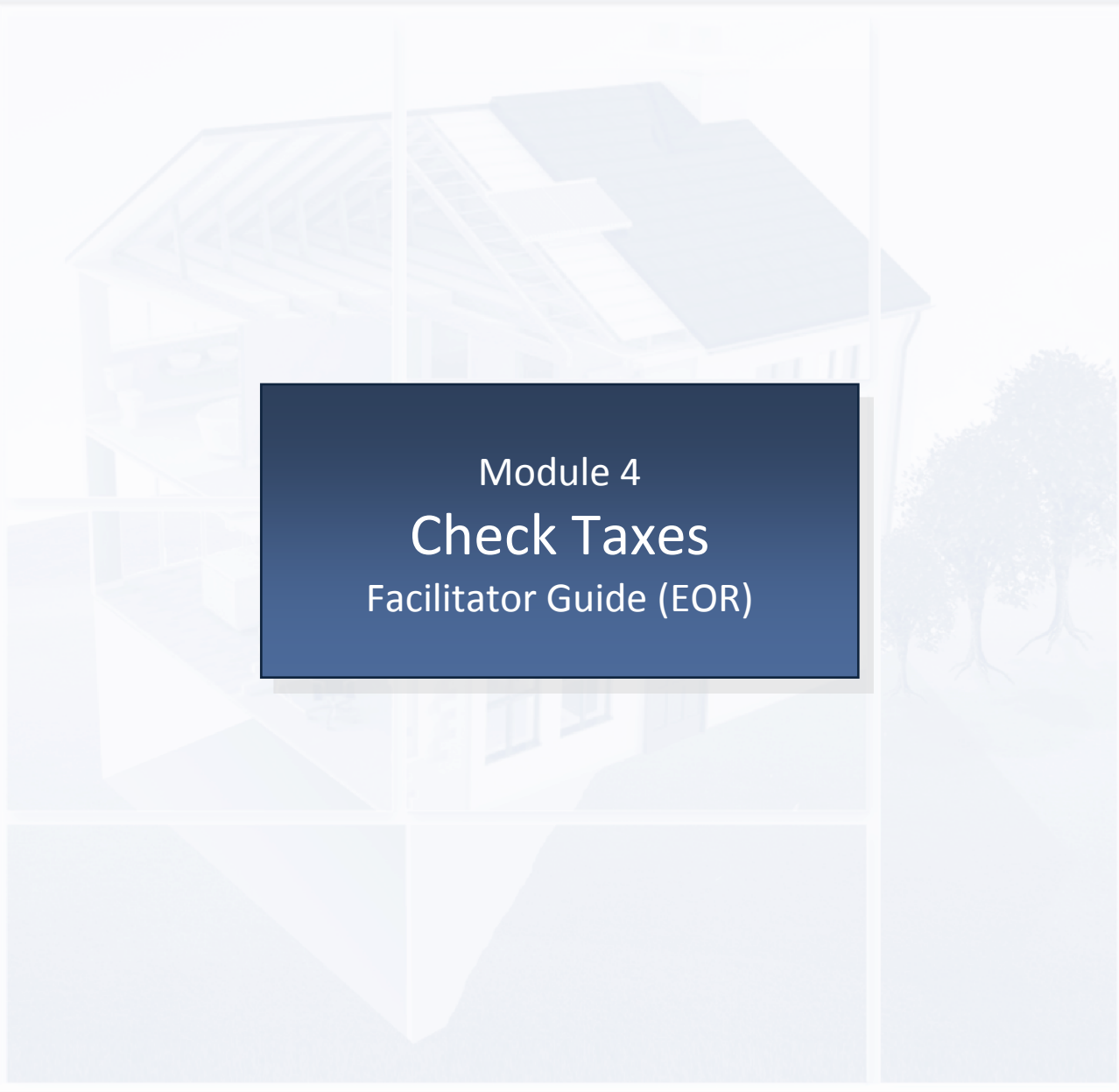


# Building Your Financial House

Set the Foundation of Your Future



## Module 4 Check Taxes Facilitator Guide (EOR)



# Table of Contents

**Objectives and Checklist ..... 3**  
**Visuals..... 4**  
**Session Outline and Activities..... 6**  
**Handout: Home Filing System Organizers ..... 7**  
**Sample Certificate of Participation ..... 8**  
**Presentation Instruction Guide and Script ..... 9**  
**Participant Guide..... 29**

## Objectives and Checklist

According to the Framework, checking a house’s insulation can minimize hidden heat loss, just as checking taxes can minimize dollars lost to overlooked taxes. As a result of Module 4, participants will know how to:

- Recognize the value in record keeping
- Identify the key components of a tax return
- Recognize the difference between total income and taxable income
- Recognize the difference between total tax and withholding
- Become aware of the various tax preparation methods and providers

What we encourage the participants to do with this information is:

- Establish a manageable record keeping system
- Identify tax credits and deductions overlooked or that may now apply
- Weigh the pros and cons of tax refunds and make adjustments to withholding if necessary
- Select the appropriate tax preparer and avoid unnecessary fees

To prepare for the session, refer to the following checklist.

<b>Handouts</b>	<input type="checkbox"/> Module 4 - Participant Guide <input type="checkbox"/> Module 4 - Presentation Slides <input type="checkbox"/> Case Study – Appendix A <input type="checkbox"/> Participant Certificates of Participation <input type="checkbox"/> Handout: Home Filing System Organizers <input type="checkbox"/> Current year IRS Form W-4 ( <a href="http://www.irs.gov">www.irs.gov</a> )
<b>Supplies</b>	<input type="checkbox"/> Computer/laptop, projector, and slide advancer (test prior to start) <input type="checkbox"/> Extension cord <input type="checkbox"/> Visuals <input type="checkbox"/> Four(4) #10 envelopes <input type="checkbox"/> 10"x7" envelopes
<b>Room Set-up</b>	<input type="checkbox"/> Adequate tables and chairs, ideally arranged in a U-shape <input type="checkbox"/> Display “Bucket List” envelopes on a separate table

## Visuals

Below are the visual aids that will be used during the presentation of Module 4: Check Taxes.

### Bucket List – “Buckets”

Print the four pictures from the **Check Taxes Visuals (EOR)** file and affix one to each #10 envelope as shown below.



**Bucket List – Sample Documents**

1. Make several copies of the sample documents from the **Check Taxes Visuals (EOR)** file.
2. Separate and make into sets; make enough sets for participants to work in pairs.
3. Place sets in 10"x7" envelopes.



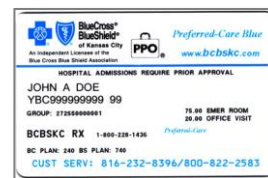
Social Security Card



Driver's License



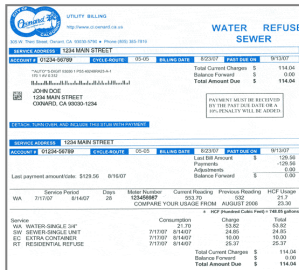
Credit Card



Health Insurance Card



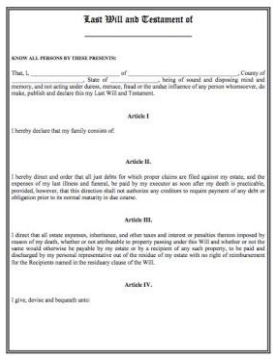
Stock Certificate



Utility Bill



Birth Certificate



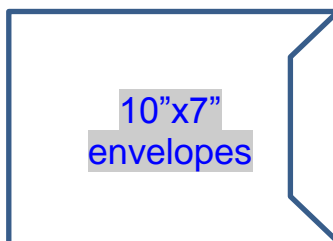
Last Will and Testament



Credit Card Statement



Life Insurance Policy



10"x7"  
envelopes

# Handout: Home Filing System Organizers

These organizers from the Check Taxes Handout document can be printed on plain paper (single sided) and taped or glued to manila folders as show below. They are also formatted to print on shipping labels (Avery 5168 or equivalent) and fit perfectly on the folder tab.



## Session Outline and Activities

Slides	Section	Time Allotted
CT.1-8	Welcome and Recap - Collect and copy page SS-3 for data tracking	15 minutes
CT.9-12	Objectives and Self-Assessment - Pre-Session Assessment, page CT-3	5 minutes
CT.13-17	How is Your Record Keeping?	5 minutes
CT.18-21	The Bucket List - Scavenger hunt activity with sample documents	15 minutes
CT.22-24	Taxes: Who and What	5 minutes
CT.25	To Tax or Not to Tax - Group quiz and discussion	10 minutes
CT.26-28	Taxes: When and How - The Progressive Tax	10 minutes
CT.29-55	Case Study: Anna Taxes, pages 20-25 - Exploring the 1040	20 minutes
CT.56-57	Refund Recipe	5 minutes
CT.58-62	Tax Preparers	10 minutes
CT.63-67	Recap and Take Action	10 minutes
CT.68-69	Session Evaluation and Closing, page CT-25	5 minutes



# Certificate of Participation

*in recognition of your participation on this day,*

*in the*

*module of the*

## Building Your Financial House Financial Education Program



**Presentation Instruction Guide and Script** *(italics)*

Welcome and Recap	Time: 15 minutes
<p>As participants arrive, <b>hand out the Module 4 Participant Guide and Participant Slides.</b></p> <p><b>Discuss</b> any housekeeping issues that may be relevant.</p> <p><b>Next</b></p>	 <p style="text-align: right;"><i>slide CT.1</i></p>
<p><b>Explain:</b></p> <p><i>Remember the objectives of Building Your Financial House:</i></p> <p><b>Read</b> the objectives</p> <p><b>Next</b></p>	 <p style="text-align: right;"><i>slide CT.2</i></p>
<p><b>Explain:</b></p> <p><i>Remember the topic schedule for the entire program; this session, we'll be talking about checking our taxes.</i></p> <p><b>Next</b></p>	 <p style="text-align: right;"><i>slide CT.3</i></p>
<p><b>Explain:</b></p> <p><i>Let's recap what we talked about last session.</i></p> <p><b>Read</b> the points.</p> <p><b>Next</b></p>	 <p style="text-align: right;"><i>slide CT.4</i></p>

Ask participants to turn to page SS-3, Self-Assessment and Track Your Progress, in the Module 3 participant guide and complete the page (goals, worksheets completed, actions taken) if they haven't done so already.

Explain:

Did you set a goal?

Next



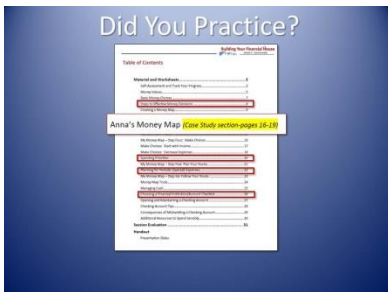
slide CT.5

Explain:

Did you practice?

Ask for any feedback on the homework.

Next



slide CT.6

Explain:

Did you learn more?

Ask for any feedback on the additional resources.

Next



slide CT.7

Explain:

Did you make progress?


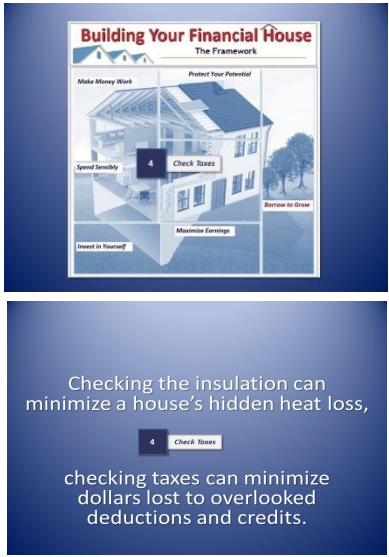
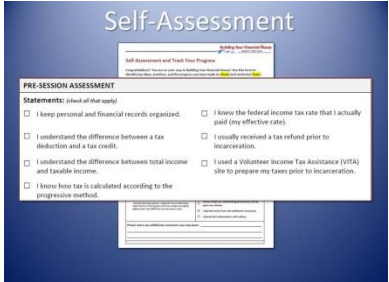
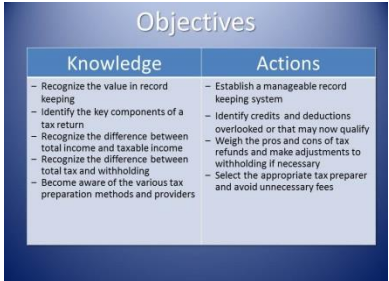
Ask for any feedback on the actions taken. Make sure participants write their anonymous identifier (participant #) in the lower right hand box.





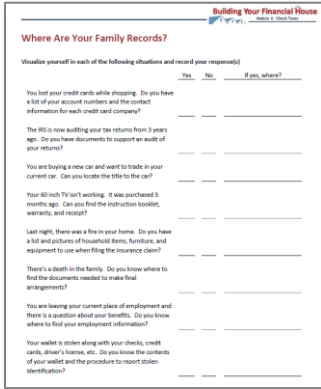
Collect, copy, and return the worksheets before the session is finished.

Next



slide CT.8

Module 4: Objectives and Self-Assessment	Time: 5 minutes
<p>Refer participants to the <b>Module 4 - Participant Guide</b> and <b>Presentation Slides</b> handouts. Again, participants may prefer to follow the slides, but pages in the guide will be referenced during the presentation so both (and the <b>Case Study</b>) should be handy.</p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.9</p>
<p>Remind audience where the module fits in the framework.</p> <p>Read the slide.</p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.10</p>
<p>Refer to page CT-3, <b>Self-Assessment and Track Your Progress</b>.</p> <p>Read the points of the pre-session self-assessment. Ask participants to complete.</p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.11</p>
<p><b>Explain:</b></p> <p><i>Remember that each of the modules in Building Your Financial House will have things that we should know about the topic, but also what we should do with this information, or the actions.</i></p> <p>Read the knowledge objectives.</p> <p>Click and read the action objectives.</p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.12</p>

How is Your Record Keeping?	Time: 5 minutes
<p><b>Explain:</b></p> <p><i>How is your record keeping?</i></p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.13</p>
<p><b>Read the slide.</b></p> <p><b>Explain:</b></p> <p><i>If not, what effect would this have on someone's financial situation?</i>  <i>Answer: You will need to request and pay for a new title from PennDot, in which you will pay replacement and notary fees, and will delay making the purchase.</i></p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.14</p>
<p><b>Read the slide.</b></p> <p><b>Explain:</b></p> <p><i>If not, what effect would this have on someone's financial situation?</i>  <i>Answer: If not, no proof of warranty, no free repair or new tv.</i></p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.15</p>
<p><b>Read the slide.</b></p> <p><b>Explain:</b></p> <p><i>If not, what effect would this have on someone's financial situation?</i>  <i>Answer: If not, you may not receive a claim amount adequate to replace all that you had in your apartment, provided that you have renter's insurance.</i></p> <p><b>Refer to pages CT-5, Where are Your Family Records, and the Guide on pages CT-6&amp;7, and explain that the pages present additional record keeping scenarios and suggestions for addressing each related document.</b></p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.16</p>  <p style="text-align: right;">page CT-5</p>

**Explain:**

What do we keep? Vital records: birth and death certificates, social security information, military history, etc.

**Click**

Financial records: taxes, bank statements, credit card/loans, credit reports, insurance policies

**Click**

Legal records: wills, trusts, marriage/divorce documentation, bankruptcy, criminal history

**Click**

Property records: home and mortgage records, automobile titles and loans, jewelry and collectible appraisals

**Click**

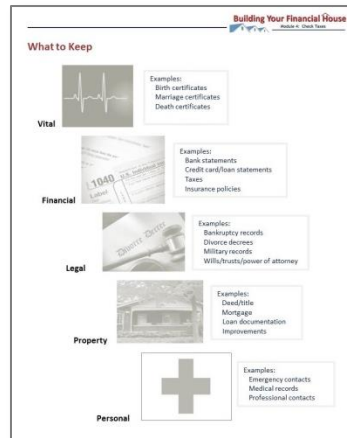
Personal records: who to contact in case of emergency, professional service providers, medical records

Refer to page CT-8, What to Keep, and explain that there is additional information that participants can review on their own.

**Next**



slide CT.17



page CT-8

**The Bucket List**

**Time: 15 minutes**

Set up four (4) 'buckets' around the room, ask participants to pair up, and distribute sample packs of documents to the pairs. Instruct participants to place each sample document into the buckets where they believe it should be kept.

Empty each envelope and discuss consensus and anomalies. The general guide is the harder the document is to replace or the more damage caused if it's lost, the safer the location should be. Note the benefits and drawbacks of using an in-home safe (easy access, can be stolen) vs. a safe-deposit box at a financial institution (limited access, most secure).

Refer to page CT-9, Where to Keep It, and explain that there is additional information that participants can review on their own.

**Next**



slide CT.18



page CT-8





**Explain:**

*The general guide is three years and seven for taxes; however, house/mortgage, vehicle, and other ownership records should be kept until sold or no longer owned. Wills, power of attorney, birth, death, marriage, and divorce certificates, military records, and life insurance policies should be kept indefinitely.*

**Next**



slide CT.19

**Read** the slide. Note that non-discriminatory refers to everyone needing to keep good records, regardless of income, family status, ethnicity, etc.

**Next**



slide CT.20

**Refer** to the handout, **Home Filing System Organizers.**

**Explain:**

*One of our handouts is a set of home filing system labels.*

**Click**

*These labels have suggested contents of the file, suggestions on when it's okay to throw them away, and other online resources.*

**Click**

*They are pretty clever in that affixed directly to a manila folder, the labels show perfectly when the folder is closed.*

**Next**



slide CT.21

**Taxes: Who and What** **Time: 5 minutes**

**Explain:**

*What do you think about when you hear the word taxes?*

**Allow** for responses.

**-continued-**



slide CT.22

**-continued-**

**Click**

*You might feel scared. Angry. Frustrated. Feel like giving up. Tired of the empty pockets or all of the above! We're going to look at the who, what, when, and how of taxes. You just might feel better about taxes when we're done! An important thing to remember is that we are talking about federal income taxes, not sales, property, or school taxes.*

**Next**



slide CT.22

**Explain:**

*So, who is subject to taxation?*

**Click**

*Everyone is subject to taxation. Even things that aren't people, like corporations, estates, and trust accounts are subject to taxes!*

**Next**



slide CT.23

**Explain:**

*Now, what is taxed?*

*We are taxed on our income regardless of its source. There may be exceptions to the source, which we'll talk about in a minute. **Next***



slide CT.24

**To Tax or Not to Tax**

**Time: 10 minutes**

**Refer to page CT-11, To Tax or Not to Tax.” Read each income source and ask group if taxable or not. Click to reveal the answer. Expect lively responses for some of the sources.**

**Note** the following:

- Receiving bribes, stolen property, and prohibited self-employment activities are taxable; it's written in the tax code.
- **Remind** the participants that, “the tax system is based upon the ‘honor system’ in which the government trusts our honesty in reporting income. Even though some of the activities listed are illegal, it doesn't mean they aren't taxable. “
- Social Security is sometimes taxable, based on total income.
- The GIVER is sometime taxed on gifts given, depending on amount.
- The PAYER of alimony gets to deduct payments made to receiver.
- Scholarships are tax exempt, as long as, it only pays for tuition and required fees.

**Next**

To Tax or Not to Tax?


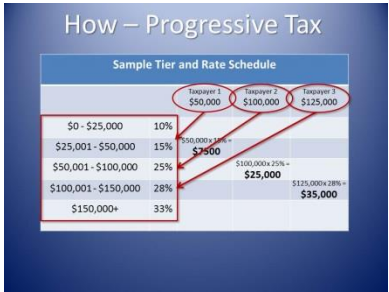

LIHEAP/Energy Assistance	Bribes	Wages	Rental Assistance	Pension
Social Security	Stolen Property	Military Pension	Prohibited self-employment activities	Free School Meals
Cash gifts	Hobbies	Alimony	SNAP/IFC	Scholarships
Unemployment	Child Care Assistance	Medical Benefits	Babysitting	Non-cash gifts
Literary Writings	TAMI/Cash Assistance	402(b) Distributions	Non-cash Prizes	Worker's Compensation
Veterans Disability Benefits	Child Support	Life Insurance	Debt Forgiveness	Overtime Pay

To Tax or Not to Tax?

LIHEAP/Energy Assistance	Bribes	Wages	Rental Assistance	Pension
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Literary Writings	TAMI/Cash Assistance	402(b) Distributions	Non-cash Prizes	Worker's Compensation
Veterans Disability Benefits	Child Support	Life Insurance	Debt Forgiveness	Overtime Pay

slide CT.25



Taxes: When and How	Time: 10 minutes
<p><b>Explain:</b></p> <p><i>We have to pay as we earn. Uncle Sam is impatient and doesn't want to wait for his money until the end of the year!</i></p> <p><b>Click and read</b> items as they appear.</p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.26</p>
<p><b>Explain:</b></p> <p><i>Our income tax system is what is called a progressive system, meaning the higher the income, the higher the rate paid. But what does that really mean?</i></p> <p><b>Click</b></p> <p><i>A progressive tax is really a 'tiered' rate tax. Here is an example. <b>Note</b> the example shown is for illustrative purposes and does not reflect current marginal rates.</i></p> <p><b>Read</b> the tiers and corresponding marginal rates and <b>click</b>.</p> <p><i>Ok, so if a taxpayer has a taxable income of \$50,000, what is the tax bracket? (<b>Allow</b> for response and <b>click</b>.) Their tax bracket would be 15%, so you would expect the tax to be \$7,500.</i></p> <p><b>Click</b></p> <p><i>Ok, so if a taxpayer has a taxable income of \$100,000, what is the tax bracket? (<b>Allow</b> for response and <b>click</b>.) Their tax bracket would be 25%, so you would expect the tax to be \$25,000.</i></p> <p><b>Click</b></p> <p><i>Finally, if a taxpayer has a taxable income of \$125,000, they would be in the 28% bracket, so you would expect the tax to be \$35,000.</i></p> <p><b>Next</b></p>	 <p style="text-align: right;">slide CT.27</p>
<p><b>Explain:</b></p> <p><i>Well...that's not really how it actually works.</i></p> <p><b>Click</b></p> <p><i>For the first \$25,000 that someone earns, the rate is 10%; (<b>click</b>) the next \$25,000 is taxed at 15%; (<b>click</b>) the next \$50,000 is taxes at 25%, and so on. So, let's revisit the person with \$50,000 in taxable income.</i></p> <p><b>-continued-</b></p>	 <p style="text-align: right;">slide CT.28</p>

-continued-

Click

The first \$25,000 is taxed at 10% so that is \$2,500; (click) the next \$25,000 is taxed at 15% so that is \$3,750, which brings the total to \$6,250; that's a real or what's called "effective" rate of 13%!

Click

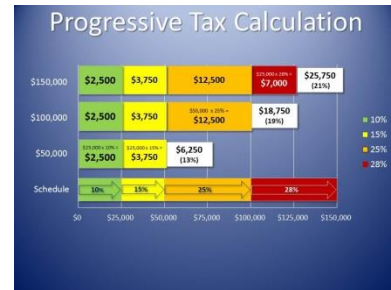
Now let's move to the person with \$100,000 of taxable income. The first \$50,000 is taxed just the same as person with \$50,000 of taxable income, so that is \$6,250; (click) the next \$50,000 is taxed at 25% so that is \$12,500, which brings the total to \$18,750 or a rate of 19%!

Click

Now for \$150,000 of taxable income. The first \$100,000 is taxed just the same as \$100,000; (click) the remaining \$25,000 is taxed at 28% so that is \$7,000, which brings the total to \$25,750 or 21%!

Refer to page CT-12, How – Progressive Tax, and explain that there is additional information that participants can review on their own.

Next



slide CT-28

Taxpayer	Income	Rate	Tax	Total Tax	Effective Rate
1	\$50,000	10%	\$2,500	\$2,500	5%
2	\$100,000	15%	\$3,750	\$6,250	6.25%
3	\$150,000	28%	\$7,000	\$18,750	12.5%

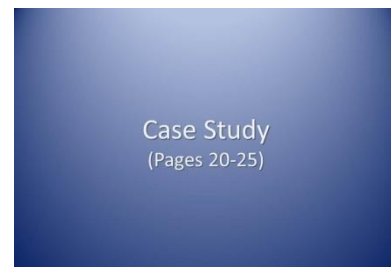
page CT-12

Case Study: Anna's Taxes

Time: 20 minutes

Refer to the Case Study, pages 20-25. Ask for a volunteer to read the first paragraph of page 20, Anna's Taxes. Highlight Anna's W-2's from both of her employers this year.

Next

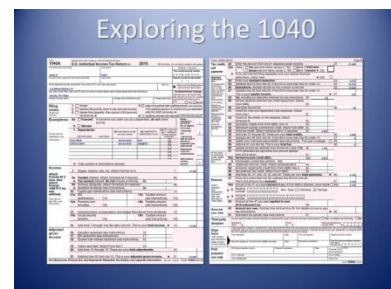


slide CT-29

Explain:

We are going to use Anna's taxes to get a better feel for how income is reported, adjusted, and taxed. Remember when we discussed what 'pre-tax' really means? We saw it pays to understand how taxes work in order to make sure we're not missing opportunities to pay less. After all, who wants to pay MORE than their FAIR share?

-continued-



-continued-

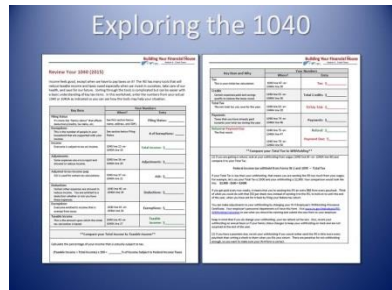
**Explain:**

*The federal tax return forms are complicated. To make this process easier, we've created a worksheet to put the numbers in a simplified form. You will have the opportunity to complete a worksheet for your own taxes in the homework assignment.*

**Click** to reveal the **Review Your 1040** worksheet.

**Refer to pages CT-15 &16, Review Your 1040-Guide**, and explain that the guide provides more information to help participants complete a review of their own taxes upon release.

**Next**



slide CT.30

**Review Your 1040-Guide**

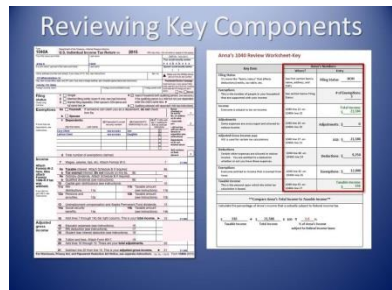
Key Item	What and/or How	Where?
<b>Filing Status</b> ("Where the 'family lives') that affects deductions, credits, tax rates, etc.	Single, Married (filing jointly or separately), head of household, Qualifying widow(er) dependent child, etc.	See first section below name, address, and SSN's
<b>Exemptions</b> This is the number of people in your household that are supported with your income.	You, your spouse, and dependent	See section below Filing Status
<b>Income</b> Everyone is subject to tax on income.	Added up from all sources, such as: - 1099-D from each employer - 1099-INT, DIV, B, G, SA, U - Alimony received	1040 line 22 on 1040A line 20
<b>Adjustments</b> Some expenses are encouraged and allowed to reduce income.	Adjustments to income include: - Contributions to traditional IRA - Student loan interest and tuition - Alimony paid and deductable self-employment expenses	1040 line 26 on 1040A line 26
<b>Adjusted Gross Income (AGI)</b> AGI is used for certain tax calculations.	Subtract adjustments from total income	1040 line 37 on 1040A line 21
<b>Deductions</b> Certain other expenses are allowed to reduce income. You are entitled to a deduction whether or not you have these expenses.	The greater of itemized or standard deduction may be used. Itemized deductions include: - Medical expenses (over 7.5% of AGI) - Home mortgage interest - Property, state and local taxes - Charitable deductions, theft losses	1040 line 40 on 1040A line 28
<b>Exemptions</b> You are entitled to income that is exempt from taxes.	Multiply the number of exemptions (above) by \$4,000 (2013)	1040 line 42 on 1040A line 28
<b>Taxable Income</b> This is the amount upon which the income tax calculation is based.	Subtract deduction and exemption amounts from AGI.	1040 line 43 on 1040A line 27

page CT-15

**Refer to pages 21-25, Anna's 1040A and Anna's 1040 Review Worksheet.** Suggest to participants that they follow both forms side by side as they are discussed.

**Click** to enlarge the entry section of Anna's worksheet.

**Next**



slide CT.31

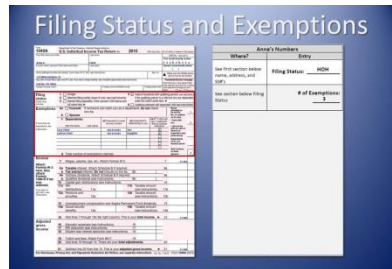
**Explain:**

*Before we get to the numbers, there are a few sections at the top worth mentioning. Starting at the top: Name, address, social security numbers.*

**Click**

*Next, you need to choose your Filing Status, a.k.a. "family status." Your filing status determines certain filing requirements, deduction amounts, correct tax tiers, etc. There are five filing options: single, married filing jointly, married filing separately, head of household, or qualifying widow(er).*

-continued-



slide CT.32

-continued-

Click

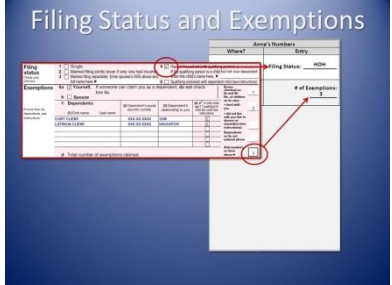
Anna is head of household.

The exemption section is next and where your dependents are listed. Note that you must enter their social security numbers; the IRS will cross reference the numbers to make sure only one person is claiming them as a dependent. This is especially important in cases of custodial and non-custodial parents.

Click

Anna has three exemptions. One for herself and one for each of her kids, Cory and Latricia.

Next



slide CT.32

Explain:

The next section is where to report income. Since Anna is filing the 1040A or short form, there are only a handful of income categories. (Read the seven categories as listed.)

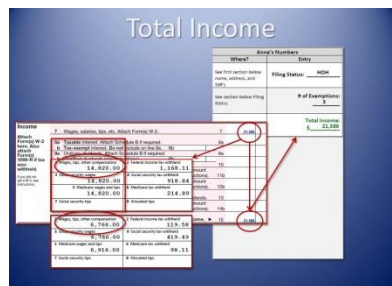
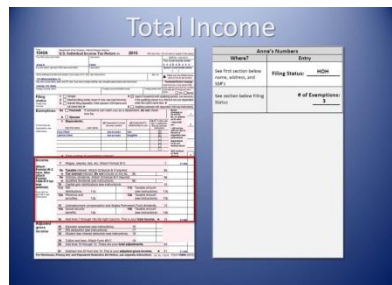
Click

Anna only had income from her jobs as reported on her two W-2 forms, which totaled \$21,586.

Click

Anna's total income from line 15 is reported on the worksheet.

If participants are not familiar with the IRS W-2 form, this would be a good point to discuss the key items found on the form.



slide CT.33

Explain:

Income, is it thumbs up or thumbs down?

Click

Well, maybe a little of both. Income certainly FEELS GOOD, except when we have to PAY TAXES on it! The goal is to minimize taxable income using all of the tools the IRS gives us in the tax code.

Next



slide CT.34



**Explain:**

The next section is adjustments to income, one of the tax reduction tools. The IRS encourages us to use our money for some expenses and allows them to reduce income.

Adjustments to income include:

- Contribution to a traditional IRA
- Student loan interest and tuition
- Alimony paid and certain self-employment expenses

**Click**

Anna has no adjustments, so her adjusted gross income or AGI is the same as her total income, \$21,586. AGI is an important number because is used for certain tax calculations and threshold limits on side two.

Adjusted Gross Income (AGI)

Anna's Numbers	
What?	Entry
Are you married (joint return, separate returns, or QT)?	Filing Status: <b>MFJ</b>
Are you married (joint return, separate returns, or QT)?	# of Exemptions: <b>3</b>
Are you married (joint return, separate returns, or QT)?	Total Income: <b>\$ 21,586</b>
Are you married (joint return, separate returns, or QT)?	Adjustments: <b>\$ 0</b>
Are you married (joint return, separate returns, or QT)?	AGI: <b>\$ 21,586</b>

slide CT.35

**Next**

**Explain:**

Adjustments, are they thumbs up or thumbs down?

**Click**

Thumbs up! Any tool we can use to decrease our income for tax purposes is good!



slide CT.36

**Next**

**Explain:**

On side two of the 1040, the IRS allows two more important reductions to income, deductions and exemptions.

Deductions are certain expenses that are allowed to reduce income. These expenses include out-of-pocket medical expenses, interest paid on a mortgage loan, real estate and state/local income taxes, charitable deductions, etc. This spending is encouraged by the government in order to promote health, stable housing, and benevolence.

The good news is that you are entitled to a deduction whether or not you have these expenses. Anna's deduction is \$9,250. How did we get this number?

Taxable Income

Anna's Numbers	
What?	Entry
Are you married (joint return, separate returns, or QT)?	Filing Status: <b>MFJ</b>
Are you married (joint return, separate returns, or QT)?	# of Exemptions: <b>3</b>
Are you married (joint return, separate returns, or QT)?	Total Income: <b>\$ 21,586</b>
Are you married (joint return, separate returns, or QT)?	Adjustments: <b>\$ 0</b>
Are you married (joint return, separate returns, or QT)?	AGI: <b>\$ 21,586</b>

Taxable Income

Anna's Numbers	
What?	Entry
Are you married (joint return, separate returns, or QT)?	Filing Status: <b>MFJ</b>
Are you married (joint return, separate returns, or QT)?	# of Exemptions: <b>3</b>
Are you married (joint return, separate returns, or QT)?	Total Income: <b>\$ 21,586</b>
Are you married (joint return, separate returns, or QT)?	Adjustments: <b>\$ 0</b>
Are you married (joint return, separate returns, or QT)?	AGI: <b>\$ 21,586</b>

slide CT.37

**Next**

**Explain:**

You are allowed to take a deduction which is the greater of a standard amount which is based upon your filing status or the total of your itemized deductions. Since Anna doesn't have enough deductions to itemize, she is using the standard deduction for her filing status, the \$9,250. Note also that some itemized expenses must be more than a given of AGI before the deduction is allowed.

**Next**

**Deductions (2015)**  
the greater of...

- Standard**
  - \$6,300 for Single or Married, Filing separately
  - \$12,600 for Married, filing jointly or Qualifying Widow(er)
  - \$9,250 for Head of Household
- Itemized**
  - Medical Expenses (over 10% of AGI)
  - Taxes Paid (state/local income, real estate, etc.)
  - Interest Paid (mortgage, investment, etc.)
  - Gifts to Charity
  - Casualty and Theft Losses
  - Job Expenses and Others (over 2% of AGI)

slide CT.38

**Explain:**

Deductions, thumbs up or thumbs down?

**Click**

Thumbs up! Any tool we can use to decrease our income for tax purposes is good!

**Next**

**Deductions**

slide CT.39

**Explain:**

We'll add Anna's standard deduction to the worksheet.

**Click**

Next come exemptions. The IRS says that everyone is entitled to a certain amount of income that is exempt from tax. For the year 2015, that number is \$4,000 per person.

**Click**

Anna's has an exemption total of \$12,000, that's \$4,000 each for Cory, Latricia, and herself.

**Next**

**Taxable Income**

Worksheet showing tax calculations for Anna. Total Income is \$21,988. Deductions are \$9,250. Taxable Income is \$12,738.

slide CT.40

**Taxable Income**

Worksheet showing tax calculations for Anna. Total Income is \$21,988. Deductions are \$9,250. Taxable Income is \$12,738.

**Explain:**

Exemption, are they thumbs up or thumbs down?

**Click**

Thumbs up! Again, any tool we can use to decrease our income for tax purposes is good!

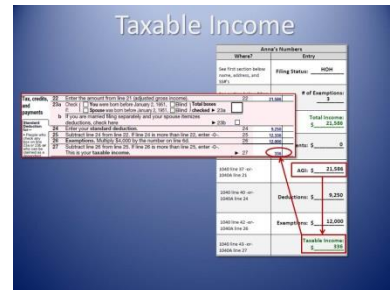
**Next**

**Exemptions**

slide CT.41

**Explain:**

So to arrive at taxable income, starting with AGI, subtract deductions and exemptions. Anna's taxable income is \$336.

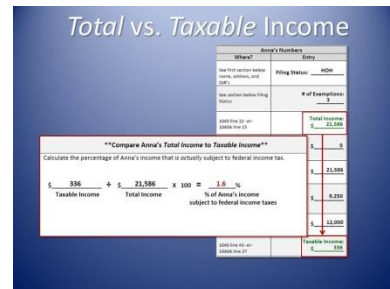


slide CT.42

**Next**

**Explain:**

Remember, income FEELS GOOD until we have to PAY TAXES on it. For Anna, her total income is \$21,586. After adjustments, deductions and exemptions, her taxable income is \$336. That means only 1.6% of her total income is actually taxable! That doesn't feel so bad after all!

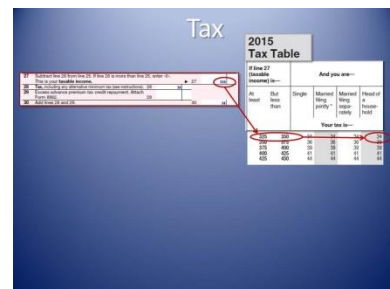


slide CT.43

**Next**

**Explain**

Let's look at what the tax is for Anna. According to the IRS tax table, \$336 of taxable income for a head of household filer results in a tax of \$34.



slide CT.44

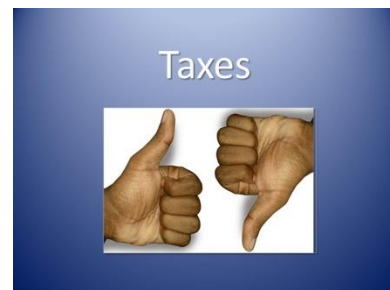
**Next**

**Explain:**

Taxes....thumbs up or thumbs down?

**Click**

Again, a little bit of both. We don't like paying taxes, but our taxes pay for important services, i.e., police, fire, roads, healthcare, etc.

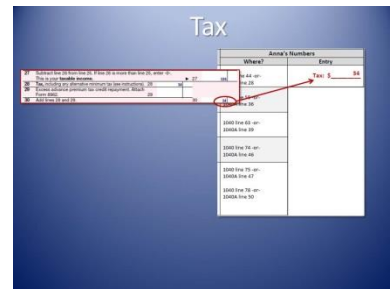


slide CT.45

**Next**

**Explain:**

We're now at the top of the second side of the Anna's 1040 Review Worksheet where the tax is reported. It's not the end of the tax calculation though.



slide CT.46

**Next**

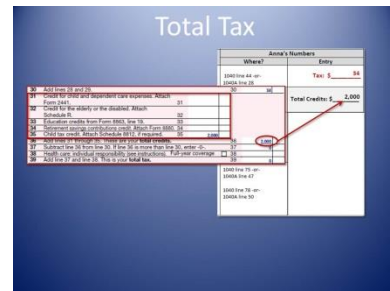
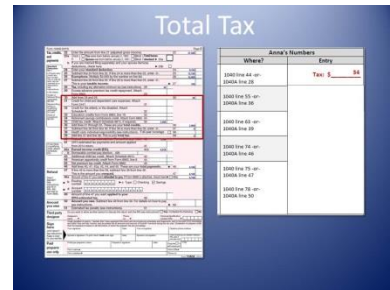


**Explain:**

*Deductions simply reduce the amount of income on which tax is calculated, but tax credits, reduce taxes owed dollar for dollar! These tax credits, come from retirement savings, children, child and dependent care, higher education, energy reduction, etc.*

**Click**

*Anna can claim the \$1,000 child tax credit for both Cory and Latricia, which comes to \$2,000 in tax credits.*



slide CT.47

**Next**

**Explain:**

*Credits, thumbs up or thumbs down?*

**Click**

*Thumbs up! Any tool we can use to decrease taxes owed is good!*



slide CT.48

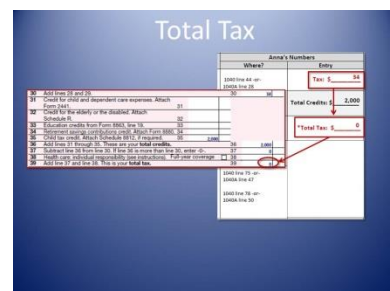
**Next**

**Explain:**

*So Anna's total tax is reduced to zero using the child tax credit.*

**Click**

*She wasn't able to actually use the total amount of her credits, however, they will become more useful as her income increases. Note that you cannot carry over these credits from year to year; you either use them or lose them each tax year.*



slide CT.49

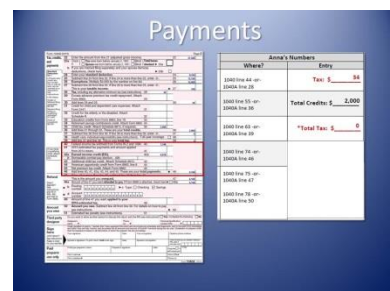
**Next**

**Explain:**

*Now, we're going to look at payments. Remember that Uncle Sam requires us to "pay as we go" or withholdings from our paycheck.*

**Click**

*For Anna, she had money withheld from both jobs, totaling \$1,348.*



slide CT.50

-continued-

-continued-

Click

Anna also qualifies for a work incentive credit known as the Earned Income Tax Credit. You may be asking yourself why more credits here? The Earned Income Tax Credit (EITC) is an example of a special credit that 'acts like' money withheld from pay! These special credits are known as 'refundable' credits.

According to the IRS tables, for Anna, the EITC "acts like" an additional \$4,818 withheld from pay!!

Click

Her total "payments" add up to \$6,166.

Next

What?	Entry
2000 line 44 - on 2000 line 28	Tax: \$ 34
2000 line 45 - on 2000 line 28	Total Credits: \$ 2,000
2000 line 46 - on 2000 line 28	*Total Tax: \$ 0
2000 line 50 - on 2000 line 50	Payments: \$ 6,166

slide CT.50

Explain:

Refundable credits, are they thumbs up or thumbs down?

Click

Double thumbs up!

Next

slide CT.51

Explain:

Since Anna has no tax liability, she will receive all of her withholding back and EITC in its entirety.

Next

What?	Entry
2000 line 44 - on 2000 line 28	Tax: \$ 34
2000 line 45 - on 2000 line 28	Total Credits: \$ 2,000
2000 line 46 - on 2000 line 28	*Total Tax: \$ 0
2000 line 50 - on 2000 line 50	Payments: \$ 6,166
2000 line 51 - on 2000 line 50	Refund: \$ 6,166

slide CT.52

Explain:

Refunds, thumbs up or thumbs down?

Click

Well, maybe a little of both.

Discuss the pros (forced savings, maybe new deductions and/or credits realized, etc.) and cons (lack of control, money could be used now to keep current with bills, etc.).

Next

slide CT.53

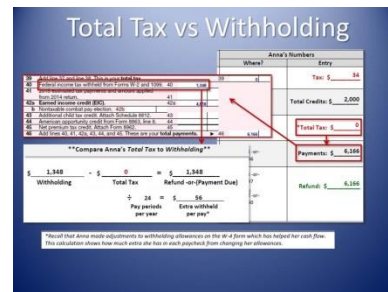
**Explain:**

*Of course, Anna was happy with the tax refund!*

**Click**

*However, let's revisit what it really means. Anna had \$1,348 withheld from her pay but has no total tax. That means that every pay period, she sent \$56 to the IRS, to hold on to until the end of the year, and had to ask for it back by filing a federal tax return. Think of what she could have done with that extra money every month? Again, be caught up on her bills, saving, and planning better for her future. Anna decided to change her withholding allowances to "exempt."*

**Next**



slide CT.54

**Explain:**

*After you prepare your taxes, review your withholding to see if any adjustments are possible. Even if you don't make adjustments, it's still a good idea to review this every January anyway!*

**Next**

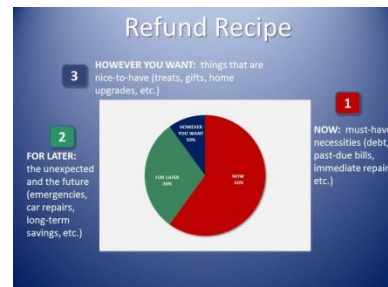


slide CT.55

**Explain:**

*According to the Corporation for Enterprise Development (CFED), here is a suggestion on how to make the most of your tax refund.*

**Click and read points.**



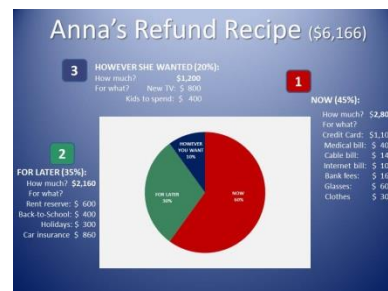
slide CT.56

**Next**

**Explain:**

*So what did Anna do with her tax refund?*

**Click and read the points.**



slide CT.57

**Next**

**Explain:**  
*So now that you know all about taxes, where are you going to get them prepared?*

**Read the points.**

**Next**

**Tax Preparers**

Yourself:

- www.irs.gov/freefile
- Free for those making less than \$62,000 through IRS sponsored software programs
- Online fillable forms for everyone
- Commercial, step-by-step software
- Inexpensive



*slide CT.58*


**Read the points.**

**Next**

**Free Tax Preparers**

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

- www.irs.treasury.gov/freetaxprep
- Free for those making less than \$54,000 or for people age 60 and older
- IRS trained volunteers



*slide CT.59*


**Read the points.**

**Next**

**Paid Tax Preparers**


Enrolled Agents:

- www.naea.org
- Federally *licensed* tax professional
- Can represent client before the IRS
- Cost varies with services provided



Certified Public Accountants:

- www.picpa.org
- Licensed by the state board of accountancy
- Can represent client before the IRS
- Expensive/ varies with services provided



*slide CT.60*


**Read the points.**

**Next**

**Paid Tax Preparers**

Chains:

- Usually trained through company tax courses
- Convenient locations, targeting struggling consumers
- Expensive/refund anticipation products



*slide CT.61*

**Recap and Take Action** **Time: 10 minutes**

**Explain:**  
*You made it through another module! Whew!*

**Next**



**Explain:**  
*Let's recap.*

**Read points.**

**Next**

**Check Taxes**

We've covered:

- The value in good record keeping
- Key components of a tax return
- Differences between total and taxable income; total tax and withholding
- Recipes for tax refunds
- Differences between tax preparers


*slide CT.63*

**Refer back to page CT-3; Self-Assessment and Track Your Progress.**

**Click and read** the goal section. **Clarify** any questions on setting a goal.

**Next**

**Take Action – Set a Goal**



*slide CT.64*

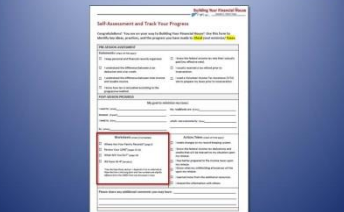
**Highlight** the list of worksheets that are in the module.

**Click and read** the worksheet titles and page numbers on **page CT-2, Table of Contents**. You may want to show the actual pages to clarify.

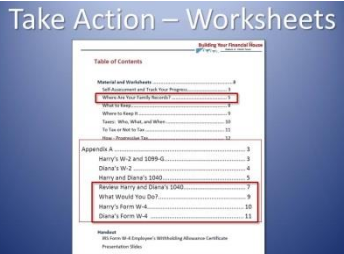
**Distribute** the **Case Study – Appendix A** and explain its use to complete the referenced worksheets.

**Next**

**Take Action – Worksheets**



**Take Action – Worksheets**




*slide CT.65*

**Refer to page CT-23, Additional Resources to Check Taxes** that contains additional resources for those participants that would like to learn more on their own.

**Next**

**Take Action – Learn More**

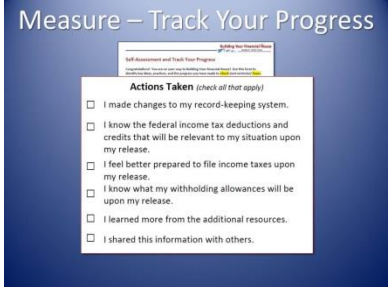


*slide CT.66*



Refer back to **page CT-3**. Click and point out the list of target actions to be taken as a result of the module. Stress the importance of keeping a record of the progress the participants are making.

Next



slide CT.67

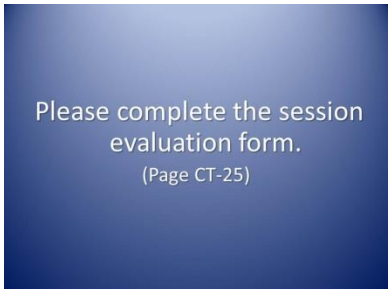
**Session Evaluation and Closing**

**Time: 5 minutes**

Refer to **page CT-25** and ask participants complete the session evaluation.

Return the **Self-Assessment and Track Your Progress** sheet for Spend Sensibly back to the participants.

Next



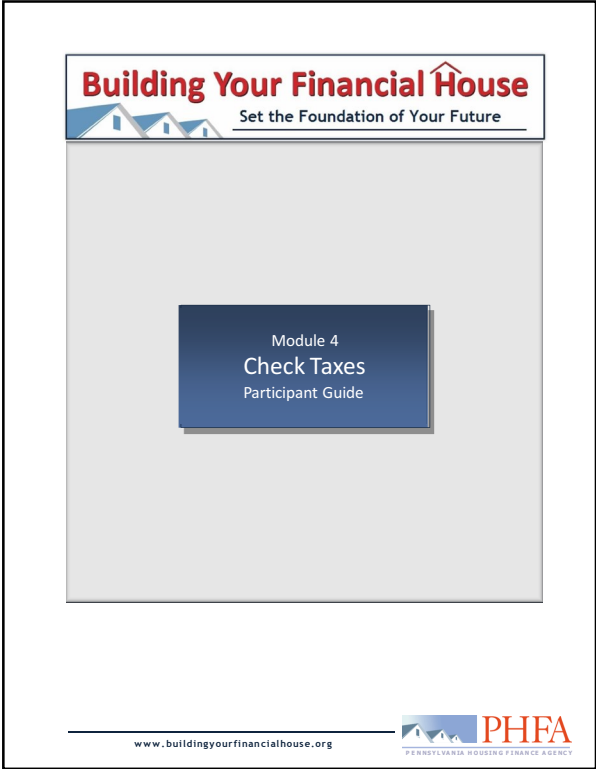
slide CT.68

Collect session evaluation and remind participants of the next session’s date and time, as well as, any additional housekeeping details before dismissing.



slide CT.69

Participant Guide



page CT-1

page CT-3

**Table of Contents**

- Material and Worksheets .....3
- Self-Assessment and Track Your Progress..... 3
- Where Are Your Family Records? ..... 5
- What to Keep..... 8
- Where to Keep It ..... 9
- Taxes: Who, What, and When ..... 10
- To Tax or Not to Tax ..... 11
- How - Progressive Tax..... 12
- Review Your 1040 ..... 13
- Review Your 1040 Guide..... 15
- Tax Credits for Working Families ..... 17
- What Will You Do?..... 18
- Check Withholding to Get Money Now ..... 19
- Preparing and Filing Your Return ..... 20
- Free Income Tax Preparation ..... 21
- Tax and Record Keeping Calendar ..... 22
- Additional Resources to Check Taxes..... 23
- Session Evaluation ..... 25

**Handout**

- IRS Form W-4 Employee's Withholding Allowance Certificate
- Presentation Slides

page CT-2

page CT-4

**Self-Assessment and Track Your Progress**

Congratulations! You are on your way to Building Your Financial House! Use this form to identify key ideas, practices, and the progress you have made to **Check (and minimize) Taxes.**

**PRE-SESSION ASSESSMENT**

**Statements:** (check all that apply)

<input type="checkbox"/> I keep personal and financial records organized.	<input type="checkbox"/> I knew the federal income tax rate that I actually paid (my effective rate).
<input type="checkbox"/> I understand the difference between a tax deduction and a tax credit.	<input type="checkbox"/> I usually received a tax refund prior to incarceration.
<input type="checkbox"/> I understand the difference between total income and taxable income.	<input type="checkbox"/> I used a Volunteer Income Tax Assistance (VITA) site to prepare my taxes prior to incarceration.
<input type="checkbox"/> I know how tax is calculated according to the progressive method.	

**POST-SESSION PROGRESS**

**My goal to minimize my taxes:**

I want to: (what) \_\_\_\_\_ My roadblocks are: (if any) \_\_\_\_\_

because: (impact) \_\_\_\_\_

I need to: (how) \_\_\_\_\_ which I can overcome by: (how) \_\_\_\_\_

by: (when) \_\_\_\_\_

<p><b>Worksheets</b> (check if completed)</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Where Are Your Family Records? (page 5)</li> <li><input type="checkbox"/> Review Your 1040* (pages 13-14)</li> <li><input type="checkbox"/> What Will You Do? (page 18)</li> <li><input type="checkbox"/> IRS Form W-4* (handout)</li> </ul> <p><small>*Use the Case Study section - Appendix A as an alternative. Note that this is the long form and line numbers are slightly different from the 1040A that was discussed in class.</small></p>	<p><b>Actions Taken</b> (check all that apply)</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I made changes to my record-keeping system.</li> <li><input type="checkbox"/> I know the federal income tax deductions and credits that will be relevant to my situation upon my release.</li> <li><input type="checkbox"/> I feel better prepared to file income taxes upon my release.</li> <li><input type="checkbox"/> I know what my withholding allowances will be upon my release.</li> <li><input type="checkbox"/> I learned more from the additional resources.</li> <li><input type="checkbox"/> I shared this information with others.</li> </ul>
--	--

Please share any additional comments you may have: \_\_\_\_\_

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Where Are Your Family Records?

		Yes	No	If yes, where?

page CT-5

page CT-7

Where Are Your Family Records – Guide

The following notes correspond to each of the eight items addressed. Each record or life event is listed, followed by the recommended storage location and additional comments

<b>Credit Cards</b> Keep a list of all credit cards, account numbers and telephone numbers to call if you need to report lost or stolen credit cards.	<b>Home Filing System</b>
<b>Tax Returns</b> Keep tax returns with all supporting data: <ul style="list-style-type: none"> <li>3 years-within this time the IRS can audit your return</li> <li>6 years-within this time, the IRS can audit your return if you fail to report more than 25% of your gross income.</li> <li>Indefinitely-the IRS can audit your return if fraud is suspected</li> </ul> You can get copies of federal returns for the previous 5 to 6 years if tax returns are destroyed or lost. The safest thing to do may be to keep copies of all federal tax returns indefinitely.	<b>Fire-Proof Home Safe</b>
<b>Automobiles</b> Keep the following items in your car and a copy in your home files: <ul style="list-style-type: none"> <li>Insurance identification card</li> <li>Registration card</li> <li>Vehicle identification number (VIN)</li> <li>Year/make of automobile</li> </ul> If you no longer have loan payments and own the vehicle, <i>the title should be in a safe deposit box</i> with a copy in your permanent home file. If the title is with a loan company, keep information about the company (name, telephone number, etc.) in your permanent home file.	<b>Home Filing System</b>
<b>TV Booklet</b> Instruction booklets and warranties of equipment and appliances, especially the refrigerator, range, dishwasher, and electronic/digital equipment, should be kept in the permanent home file. Organizing all appliance/equipment booklets in a notebook is one option used by some families.	<b>Home Filing System</b>
<b>Household Inventory</b> It saves time and money if you have a complete inventory and pictures of the house's contents. Pictures of antiques, electronic equipment, jewelry and coin or stamp collections are some examples. You have a greater chance of getting the full value of your home's contents if you can provide documentation of what was there before the fire and the cost of the items when purchased.	<b>Safe Deposit Box</b>






page CT-6

page CT-8

<b>Death in Family</b> Keep a master list of important records/documents in the event a death occurs. This list should include the names and addresses of individuals to contact. Copies of this master list should be given to the individuals designated to make burial arrangements and to settle the estate. Keep the list in a safe deposit box that has two keys (one that you keep and another that the bank keeps). Contents of the safe deposit box could include: <ul style="list-style-type: none"> <li>Debts and a list of anyone to whom you owe money, along with the amount owed</li> <li>Employee benefits: human resource or similar office number</li> <li>Final arrangements made; burial preferences</li> <li>Professional contacts: attorney or other contact information</li> <li>Retirement accounts: where and whom to contact</li> <li>Social Security numbers</li> <li>Wills</li> </ul> You might choose to have a folder labeled "death" or "final arrangements" for each parent with specific instructions and pertinent information from the above list.	<b>Fire-Proof Home Safe</b>
<b>Employment Benefits</b> Any information that documents retirement and insurance benefits should be kept in the permanent home file. If you have an employment contract it should be kept in a safe deposit box. Check with your employer's human resource office if you cannot locate the contract.	<b>Home Filing System</b>
<b>Wallet</b> You should have a copy of your billfold or wallet's contents in your files. If your wallet is stolen: <ul style="list-style-type: none"> <li>File a report with the police immediately and keep a copy of the report.</li> <li>Cancel credit, debit, and ATM cards immediately. Alert the bank's fraud department.</li> <li>Call the fraud departments of the three major credit reporting agencies and place a fraud alert on your file.</li> <li>Report a missing driver's license to PennDOT-Driver and Vehicle Services: 800-3932-4600.</li> <li>Report any missing information that can jeopardize financial accounts or you personally.</li> <li>If your keys are missing, change the locks on your home and car.</li> </ul>	<b>Fire-Proof Safe</b>

Source: Right on The Money-Talking Dollars and Sense with Parents and Kids (Penn State Extension)

What to Keep

<b>Vital</b>		Examples: Birth certificates Marriage certificates Death certificates
<b>Financial</b>		Examples: Bank statements Credit card/loan statements Taxes Insurance policies
<b>Legal</b>		Examples: Bankruptcy records Divorce decrees Military records Wills/trusts/power of attorney
<b>Property</b>		Examples: Deed/title Mortgage Loan documentation Improvements
<b>Personal</b>		Examples: Emergency contacts Medical records Professional contacts

**Where to Keep It**

We keep our 'records' in a variety of places, primarily based on usage. For example, we carry our driver's license or official identification card in our pocketbooks and wallets to prove who we are at any given time. **There is no hard and fast rule** about where to keep our records, but remember the harder it is to replace (or the more damage can be done if in the wrong hands), the more secure the location should be.



**Wallet/pocketbook**

- Credit cards
- Driver's license
- Insurance cards



**Home filing system**

- Bank statements
- Receipts
- Utility bills



**Fire-proof safe**

- Emergency contact list
- Insurance policies
- Stock certificates



**Safe deposit box**

- Birth certificates
- Social security card
- Wills

page CT-9

**Taxes: Who, What, and When**

**Who**



**Everyone!**

Even things that aren't people are subject to taxation. For example, corporations, trusts, estates, etc.

**When**



**Pay as you go!**

Everything is squared up at the end of the year when your return is filed. April 15<sup>th</sup> is the deadline to file the previous year's return.

**What**



**Earned and Unearned Income**  
 Earned income is received as a result of personal effort (work).  
 Unearned income is received in a more passive manner, without personal effort.

Earned	Unearned
Wages	Interest/Dividends
Commissions/Tips	Capital Gains
Self-employment	Alimony
Union strike benefits	Child
Long-term disability benefits from a private employer plan (if received before reaching retirement age)	Pension
	Social Security
	Gifts
	Debt forgiven
	Inmate pay
	Unemployment

page CT-10

page CT-11

page CT-12

**To Tax or Not to Tax**

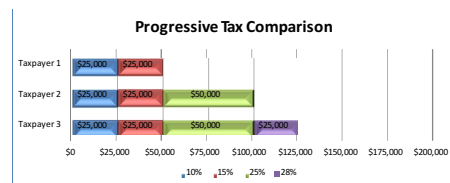
Read each box and cross out the income sources that you think are **not** taxable (federal).

LIHEAP/Energy Assistance	Bribes	Wages	Rental Assistance	Pension
Social Security	Stolen Property	Military Pension	Prohibited Self-Employment Activities	Free School Meals
Cash Gifts	Hobbies	Alimony	SNAP/WIC	Scholarships
Unemployment	Child Care Assistance	Medical Benefits	Babysitting	Non-cash Gifts
Lottery Winnings/Cash Prizes	TANF/Cash Assistance	401(k) Distribution	Non-cash Prizes	Worker's Compensation
Veterans Disability Benefits	Child Support	Life Insurance	Debt Forgiven	Overtime Pay

**How - Progressive Tax**

Our income tax system is what is called a progressive system, meaning the higher the taxable income, the higher the applied tax rate. However, it doesn't mean that every dollar that a higher income taxpayer receives is taxed at the higher rate. Progressive tax is a tiered tax method and aims to tax all dollars in the same tier at the same rate, regardless if the person has income in a higher tier. **What does that really mean?**

Below are three (single) taxpayers with different taxable incomes: \$50,000, \$100,000, and \$125,000. You can see graphically or by the chart below how the taxable amount is broken down into tiers; the amount in the tier is then taxed at the corresponding rate.\*



Tier and Rate	Progressive Tax Comparison Calculations					
	Taxpayer (1) \$50,000		Taxpayer (2) \$100,000		Taxpayer (3) \$125,000	
	Marginal Rate: 15%		Marginal Rate: 25%		Marginal Rate: 28%	
	Expect to Pay: \$7,500		Expect to Pay: \$25,000		Expect to Pay: \$35,000	
	Breakdown Amount in Tiers	Tax	Breakdown Amount in Tiers	Tax	Breakdown Amount in Tiers	Tax
\$25,000	10%	\$2,500	\$25,000	\$2,500	\$25,000	\$2,500
\$50,000	15%	\$3,750	\$25,000	\$3,750	\$25,000	\$3,750
\$100,000	25%	\$0	\$50,000	\$12,500	\$50,000	\$12,500
\$150,000	28%	\$0	\$0	\$0	\$25,000	\$7,000
	Actual Tax: \$6,250		Actual Tax: \$18,750		Actual Tax: \$25,750	
	Actual Rate: 13%		Actual Rate: 19%		Actual Rate: 21%	
	(also called effective rate)					

\*Note this is for illustrative purposes only. Check [www.irs.gov](http://www.irs.gov) for the current tiers and tax rates per filing status.

**Review Your 1040 (2015)**

Income feels good, except when we have to pay taxes on it! The IRS has many tools that will reduce taxable income and taxes owed especially when we invest in ourselves, take care of our health, and save for our future. Sorting through the tools is complicated but can be easier with a basic understanding of key tax items. In this worksheet, enter the numbers from your actual 1040 or 1040A as indicated so you can see how the tools may help your situation.

Key Item	Your Numbers	
	Where?	Entry
<b>Filing Status</b> It's more like "family status" that affects deductions/credits, tax table, etc.	See first section below name, address, and SSF's	<b>Filing Status:</b> _____
<b>Exemptions</b> This is the number of people in your household that are supported with your income.	See section below Filing Status	<b># of Exemptions:</b> _____
<b>Income</b> Everyone is subject to tax on income.	1040 line 22 -or- 1040A line 15	<b>Total Income:</b> \$ _____
<b>Adjustments</b> Some expenses are encouraged and allowed to reduce income.	1040 line 36 -or- 1040A line 20	<b>Adjustments:</b> \$ _____
<b>Adjusted Gross Income (AGI)</b> AGI is used for certain tax calculations.	1040 line 37 -or- 1040A line 21	<b>AGI:</b> \$ _____
<b>Deductions</b> Certain other expenses are allowed to reduce income. You are entitled to a deduction whether or not you have these expenses.	1040 line 40 -or- 1040A line 24	<b>Deductions:</b> \$ _____
<b>Exemptions</b> Everyone entitled to income that is exempt from taxes.	1040 line 42 -or- 1040A line 26	<b>Exemptions:</b> \$ _____
<b>Taxable Income</b> This is the amount upon which the initial tax calculation is based.	1040 line 43 -or- 1040A line 27	<b>Taxable Income:</b> \$ _____
<b>**Compare your Total Income to Taxable Income**</b>		
Calculate the percentage of your income that is <i>actually</i> subject to tax.		
$(\text{Taxable Income} \div \text{Total Income}) \times 100 = \text{_____} \% \text{ of Income Subject to Federal Income Taxes}$		

page CT-13

page CT-15

Key Item and Why	Your Numbers	
	Where?	Entry
<b>Tax</b> This is your initial tax calculation.	1040 line 47 -or- 1040A line 30	<b>Tax:</b> \$ _____
<b>Credits</b> Certain expenses paid and savings qualify to reduce the taxes owed.	1040 line 55 -or- 1040A line 36	<b>Total Credits:</b> \$ _____
<b>Total Tax</b> The net total tax you owe for the year.	1040 line 63 -or- 1040A line 39	<b>TOTAL TAX:</b> \$ _____
<b>Payments</b> Taxes that you have already paid towards your total tax during the year.	1040 line 74 -or- 1040A line 46	<b>Payments:</b> \$ _____
<b>Refund or Payment Due</b> The final result.	1040 line 75 -or- 1040A line 47	<b>Refund:</b> \$ _____
	1040 line 78 -or- 1040A line 50	<b>Payment Due:</b> \$ _____
<b>**Compare your Total Tax to Withholding**</b>		
[1] If you are getting a refund, look at your withholding from wages (1040 line 64 -or- 1040A line 40) and compare it to your Total Tax.		
<b>Federal income tax withheld from Forms W-2 and 1099 – Total Tax</b>		
If your Total Tax is less than your withholding, that means you are sending the IRS too much from your wages. For example, let's say your Total Tax is \$500 and your withholding is \$2,900. Your comparison would look like this: <b>\$2,900 - \$500 = \$2,400</b>		
If you get paid every two weeks, it means that you're sending the IRS an extra \$92 from every paycheck. Think of what you could do with that \$92 per check now instead of sending it to the IRS, to hold on to until the end of the year, when you have ask for it back by filing your federal tax return.		
You can make adjustments to your withholding by changing your W-4 Employee's Withholding Allowance Certificate. Your employer's personnel department will have this form. Visit <a href="http://www.irs.gov/individuals/IRS-Withholding-Calculator">www.irs.gov/individuals/IRS-Withholding-Calculator</a> to see what you should be claiming and submit the new form to your employer.		
Keep in mind that if you do change your withholding, your tax refund will be less. Also, revisit your withholding on annual basis or if your family status changes to keep your withholding on track and are not surprised at the end of the year.		
[2] If you have a payment due, revisit your withholding if you would rather send the IRS a little more every paycheck than writing a check to them when you file your return. There are penalties for not withholding enough, so you want to make sure your W-4 form is correct.		

page CT-14

page CT-16

**Review Your 1040-Guide**

Key Item	What and/or How	Where?
<b>Filing Status</b> It's more like "family status" that affects deductions, credits, tax table, etc.	Single, Married (filing jointly or separately), Head of Household, Qualifying widow with dependent child	See first section below name, address, and SSF's
<b>Exemptions</b> This is the number of people in your household that are supported with your income.	You, your spouse, and dependents	See section below Filing Status
<b>Income</b> Everyone is subject to tax on income.	Added up from all sources, such as: - W-2's from each employer - 1099's: -C, -DIV, -INT, -R, -SSA, -U - Alimony received	1040 line 22 -or- 1040A line 15
<b>Adjustments</b> Some expenses are encouraged and allowed to reduce income.	Adjustments to income include: - Contribution to a traditional IRA - Student loan interest and tuition - Alimony paid and certain self-employment expenses	1040 line 36 -or- 1040A line 20
<b>Adjusted Gross Income (AGI)</b> AGI is used for certain tax calculations.	Subtract adjustments from total income.	1040 line 37 -or- 1040A line 21
<b>Deductions</b> Certain other expenses are allowed to reduce income. You are entitled to a deduction whether or not you have these expenses.	The greater of itemized or standard deduction may be used. Itemized deductions include: - Medical expenses (over 7.5% of AGI) - Home mortgage interest - Property, state and local taxes - Charitable deductions, theft losses	1040 line 40 -or- 1040A line 24
<b>Exemptions</b> Everyone entitled to income that is exempt from taxes.	Multiply the number of exemptions (above) by \$4,000 (2015)	1040 line 42 -or- 1040A line 26
<b>Taxable Income</b> This is the amount upon which the initial tax calculation is based.	Subtract deduction and exemption amounts from AGI.	1040 line 43 -or- 1040A line 27

Key Item	What and/or How	Where?
<b>Tax</b> This is your initial tax calculation.	There are different rate brackets for each Filing Status. The IRS provides tables to help identify the tax on your taxable income.	1040 line 47 -or- 1040A line 30
<b>Credits</b> Certain expenses paid and savings qualify to reduce the taxes owed.	Credits include: - Retirement savings - Child, child care, and dependent care - Education, energy, and foreign taxes	1040 line 55 -or- 1040A line 36
<b>Other Taxes/Total Tax</b> One more chance for taxes on special items to calculate net tax owed for the year.	Special items include: - Self- and household-employment taxes - Penalties on early IRA distributions - Repayment of prior credits  *Subtract Total Credits from the initial Tax and then add the special items to find Total Tax	1040 line 63 -or- 1040A line 39
<b>Payments</b> Taxes that you have already paid towards your total tax during the year.	Payments made include: - Withholding from wages - Estimated quarterly payments - Refundable credits o Earned Income Tax Credit o Additional Child o American Opportunity (Hope Credit)	1040 line 74 -or- 1040A line 46
<b>Refund or Payment Due</b> The final result.	If Payments are greater than Total Tax, then you have a REFUND  If Payments are less than Total Tax, the you have a PAYMENT DUE	1040 line 75 -or- 1040A line 47  1040 line 78 -or- 1040A line 50

### Tax Credits for Working Families\*



**Earned Income Tax Credit** (Refundable)  
Up to \$6,269 with three or more qualifying children



**Child Tax Credit** (May be refundable)  
Up to \$1,000 per qualifying child



**Child and Dependent Care Tax Credit** (Non-refundable)  
Up to \$2,100 for expenses paid for two or more qualifying persons



**Saver's Credit** (Non-refundable)  
Up to \$1,000 for contributions to a retirement account



**Education Tax Credits**  
*American Opportunity Credit* (May be refundable, up to 40%)  
Up to \$2,500 per eligible student per year  
*Lifetime Learning Credit* (Non-refundable)  
Up to \$2,000 per tax return per year

\*Credit amounts for 2015.

Source: Adapted from [www.loweryourfretax.com](http://www.loweryourfretax.com)

page CT-17

page CT-19

### What Will You Do?

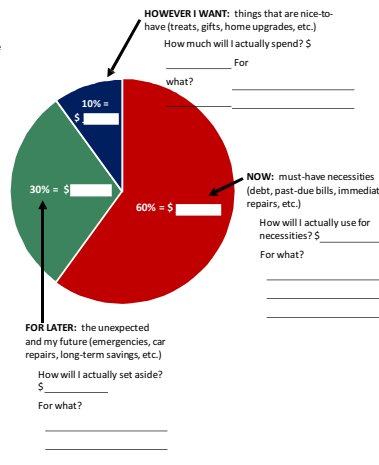
While everyone has different circumstances when it comes to paying off debt, covering basic necessities, and saving money, here is a general rule of thumb for dividing up your tax refund.

Enter your tax refund amount: \_\_\_\_\_

**NOW: 60% to spend on must-haves.** This includes paying off debt or taking care of necessities like rent or food. This percentage may be higher if you have a lot of high-interest debt.

**FOR LATER: 30% to save for your future and the unexpected.** This is to cover life's emergencies or start up a long-term savings goal. You could also save yourself from debt in the future by saving now.

**HOWEVER I WANT: 10% to spend on nice-to-haves.** Use this money for things like shopping, giving money to relatives, or whatever is important to you and your family!



Source: Adapted from Spend Some, Save Some: Making the Most of Your Tax Refund. (CPED)

page CT-18

page CT-20

### Check Withholding to Get Money Now

If you are getting a large tax refund, consider visiting the IRS's **Withholding Calculator** to see if you can get more money in your paycheck *now* rather than *wait* until you file your income tax return. Recall back in the Maximize Earnings module, the calculator can help you determine how many withholding allowances to claim on the Form W-4, Employee's Withholding Allowance Certificate, which is how the amount of money sent to the IRS is calculated.

Remember, that withholding allowances are not the same as exemptions or dependents you actually claim on your federal income tax return. Allowances determines how much of your income will *not* be used for the *withholding calculation*. It's complicated but the important thing to know is the **greater the number of allowances claimed, the less federal tax withholding**. Also remember, the goal of the calculator is to find the right number of allowances which result in a very little refund or very little owed at the end of the year.

#### To Use the Calculator:

- Have your most recent pay stubs handy.
- Have your most recent income tax return handy.
- Estimate values, if necessary, but the results can only be as accurate as the input you provide.

#### To Change Your Withholding:

1. Use your results from the calculator to help you complete a new Form W-4
2. Submit the completed form to your employer.

[www.irs.gov/Individuals/IRS-Withholding-Calculator](http://www.irs.gov/Individuals/IRS-Withholding-Calculator)



### Preparing and Filing Your Return

There are many options when it comes to preparing and filing your tax return. You can do it yourself, use free volunteers, or pay to have someone prepare it for you. The one thing to remember is that you are responsible for the information on your income tax return, regardless of who prepares it. Also, anyone can be a paid tax preparer as long as they have an IRS Preparer Tax Identification Number (PTIN), and preparers have a vastly different skill levels, education, and expertise. Following are some options you have and more information about credentialed preparers.

#### Self-prepared

- If you make less than \$62,000 you can prepare and file for free through IRS partners with free tax prep software; state returns available, some free ([www.irs.gov/ireefile](http://www.irs.gov/ireefile))
- If you make over \$62,000 you can access free fillable electronic forms (must know how to do your taxes yourself); state prep not available
- There is step-by-step software can walk you through your tax situation and complete your return; it's relatively inexpensive (<\$75)

#### Volunteer Income Tax Assistance (VITA)

- Free tax preparation and electronic filing for those that make less than \$54,000
- IRS trained volunteers; there are sites all around Pennsylvania

#### Tax Counseling for the Elderly (TCE)

- Free tax preparation and electronic filing for all people age 60 and older
- IRS trained volunteers; there are sites all around Pennsylvania

#### Enrolled Agents

- Federally (IRS) licensed tax preparers ([www.naao.org](http://www.naao.org))
- Unlimited practice rights and can represent clients before the IRS
- Costs vary depending on services

#### Certified Public Accountants (CPA's)

- Licensed by the state board of accountancy; passed the Uniform CPA Exam
- Unlimited practice rights and can represent clients before the IRS
- Expensive\*

#### Tax Attorney

- Licensed by state bar/courts; have law degree and passed the state bar exam
- Unlimited practice rights and can represent clients before the IRS
- Expensive

#### Chains

- Preparers usually trained through their company's own tax courses
- They may offer refund anticipation products
- Expensive\*\*

\*2010 National Society of Accountants report: Average for 1040 with Schedule A and state returns: \$229; average for 1040 with state return with no itemized deductions: \$129.  
\*\*In their respective 2010 Annual Reports to Shareholders, average fees from H&R Block: \$189 per return and Jackson Hewitt: \$208 per return.

### Free Income Tax Preparation

The IRS-sponsored **Volunteer Income Tax Assistance (VITA)** program and **Tax Counseling for the Elderly (TCE)** program provide free basic income tax return preparation to individuals and families making less than \$54,000 (2015), individuals with disabilities, non-English-speaking taxpayers, and the elderly. In addition to free assistance, many sites offer free electronic filing (e-filing). During the tax season, VITA and TCE sites are located at libraries, churches, community centers, shopping malls, and retirement homes.

To take advantage of these volunteer assistance programs, bring the following information with you when you visit a VITA or TCE site:

- Photo identification
- Social Security cards or Individual Taxpayer Identification cards for you, your spouse, and your dependents (if applicable)
- Birth dates for you, your spouse, and your dependents (if applicable)
- Wage and earning statement(s) Form W-2, W-2G, and/or 1099-R
- Interest and dividend statements from banks or credit unions (Forms 1099)
- Other relevant information about income and expenses
- If claiming day care expenses, total amount paid and day care provider's tax identification number
- A copy of last year's tax return (if available)
- Bank account number and routing number for direct deposit
- All other information relating to this year's return

To obtain the location, dates and hours of the volunteer sites closest to you, call the IRS toll-free locator number 1-800-906-9887 or visit [www.irs.treasury.gov/freetaxprep](http://www.irs.treasury.gov/freetaxprep).



Source: Adapted from Money Smart (FDIC)

page CT-21

page CT-23

### Tax and Recordkeeping Calendar

<b>January</b>	Gather your tax records to review and organize. Some examples are medical expenses, child care receipts, post-secondary education receipts, donations, etc. Be sure to keep careful track of tax documents, W-2's, 1099's, etc. as they come in.
<b>February</b>	Investigate qualified tax return preparers. If your income is less than \$50,000, check for the nearest Volunteer Income Tax Assistance location to get your taxes prepared for free! Make an appointment and deliver your tax records. If you want to prepare your own return, carefully study this year's forms and instructions, as well as other sources of information on return preparation.
<b>March</b>	Review and make copies of your completed tax forms before e-filing or mailing them. If you expect to receive a refund, send in your return immediately; you may receive it as little as 7-14 days if you have it deposited directly into a checking or saving account. If you owe taxes, wait to send in the form and the check until just before April 15. If you need to file an extension, do so now.
<b>April</b>	If you owe taxes, send the form and the check before April 15. If you are expecting a refund and haven't received it after 21 days, follow up with the Internal Revenue Service by phone or online. If you were surprised with the amount of your refund or taxes owed, review your withholding options and make adjustments if necessary.
<b>May/June</b>	Review your situation for ways that you can reduce your "taxable" income in the future. Investigate contributions to an employer-sponsored retirement plan or to a flexible spending account to reduce this year's taxable income. Review your expenses to see if there is some way to increase your deductions without incurring additional costs. For example, record mileage to and from doctor's appointments or donate unused items to a charitable organization.
<b>July/August</b>	Perform a mid-year review of your record-keeping practices. Are you keeping adequate records to substantiate your income, deductions, and credits? Keep taxes in mind when making financial decisions. For example, enrolling in a career program could generate a tax credit that would reduce the overall cost of the program.
<b>September</b>	If you filed an extension, make sure you send in your tax return by September 15 <sup>th</sup> . Review your employee benefits to make sure you are choosing benefits that are appropriate to your needs now and in the future.
<b>October</b>	Review your tax liability for the year and compare it to your withholdings. Adjust your withholding allowances, if necessary. Consult your tax advisor about any year-end tax planning savings or change in the law that may affect your tax situation.
<b>November/December</b>	Make sure you keep receipts from any holiday donations, such as canned good drives, to charitable organizations. Follow-up on the year-end details of tax planning to ensure they are completed by December 31. Resist the temptation to take an advance on your future refund for holiday expenditures.

Source: Adapted from Wealth Care Kit - Income Tax Planning (NEFE)

page CT-22

page CT-24

### Additional Resources to Check Taxes

**Doorways to Dreams (D2D) Fund:** [www.financialentertainment.org](http://www.financialentertainment.org)

[Refund Rush](#)

This online game challenges players to split tax refunds and save during tax time.

**Financial Education & Literacy Advisers:** [www.myfela.com](http://www.myfela.com)

[How Long Should You Keep Important Documents and Papers?](#)

This list gives you a list of important documents such as bank statements and wills, and tells you how long you should keep them.

**Internal Revenue Service:** [www.irs.gov](http://www.irs.gov)

[Earned Income Tax Credit \(EITC\) Assistant](#)

This online questionnaire will help you find out if you are eligible for the EITC and estimate the amount of your credit.

[Directory of Federal Tax Return Preparers](#)

This searchable directory is intended to help you with your choice by providing a listing of preparers in your area who currently have a Preparer Tax Identification Number (PTIN) and hold various professional credentials recognized by the IRS.

[Interactive Tax Assistant](#)

This online tool is a tax resource that provides you responses to tax law questions.

[Choose Your Tax Preparer Wisely](#)

Here are ten tips to keep in mind when choosing a tax preparer.

**PA Housing Finance Agency (PHFA):** [www.buildingyourfinancialhouse.org](http://www.buildingyourfinancialhouse.org)

Building Your Financial House is a commercial free financial resource for Pennsylvanians. Mirroring PHFA's flagship financial education program, the site provides comprehensive information on general financial topics and major milestones in life. The site also has over 40 worksheets, including those found in this module, to help build your own financial house.

[Home Filing System Organizers](#)

This organizer gives you detailed suggestions on how to classify and keep important files and when to discard them.

**Pennsylvania Insurance Department:** [www.insurance.pa.gov](http://www.insurance.pa.gov)

[10 Steps To Complete A Home Inventory](#)

The PA Insurance Department provides ten essential steps to creating a home inventory.

**Tax Time Savings Bonds Campaign:** [www.bondsmakeiteasy.org](http://www.bondsmakeiteasy.org)

[Buying Tax Time Savings Bonds is Easy](#)

This link provides instructions on how to buy savings bonds directly when filing your federal income tax return.

**US Saving Bonds:** [www.ussavingsbonds.gov](http://www.ussavingsbonds.gov)

[Save For The future](#)

Learn how saving bonds work and provides the form to purchase them directly when filling income taxes.

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**Session Evaluation**

Agency: \_\_\_\_\_  
Date: \_\_\_\_\_

We hope you found today's session engaging and of value to your situation. Please share your opinions and comments so we may continue to improve the program. Thank you!

	Excellent	Very Good	Good	Fair	Poor
Overall, I feel the session was:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The location of the session was:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The meeting room and facilities were:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Before the session:</b>					
My knowledge and skills about the topic were:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>After the session:</b>					
My knowledge and skills about the topic are:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My confidence to apply what I have learned today is:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>During the Session:</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
The instructions were clear and easy to follow.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The time allocated was right for the topic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There was ample opportunity to share experiences/ideas.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The overhead slides were clear and helped my learning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The activities and examples helped my learning.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The activities and examples were relevant to my situation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>The instructor:</b>					
Was knowledgeable about the topic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delivered lessons in a clear and understandable manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was engaging and encouraged interaction.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was well-prepared.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was approachable and open to questions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>The session:</b>					
Met my expectations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Was of value to me.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Has motivated me to take action.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Final Questions</b>					
The most valuable thing I learned today was:	What was the least valuable part of the session and how could it be improved?				
Additional comments:					

page CT-25

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page CT-26

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