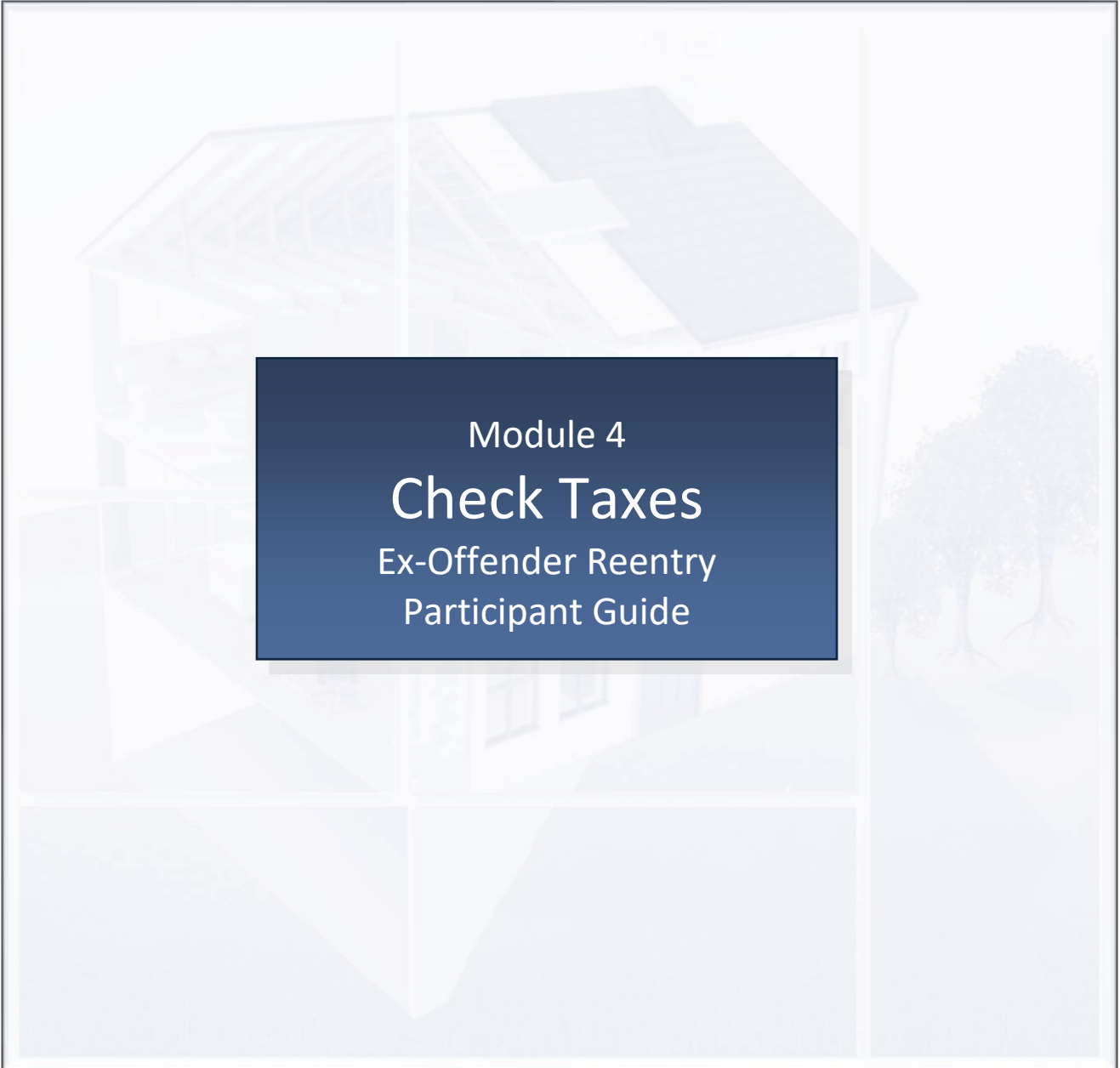


# Building Your Financial House

Set the Foundation of Your Future



Module 4  
**Check Taxes**  
Ex-Offender Reentry  
Participant Guide



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# Self-Assessment and Track Your Progress

ID \_\_\_\_\_

**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.**

<p><b>Current Practices</b> <i>(check all that apply)</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I keep personal and financial records organized.</li> <li><input type="checkbox"/> I understand the difference between a tax deduction and a tax credit.</li> <li><input type="checkbox"/> I understand the difference between total income and taxable income.</li> <li><input type="checkbox"/> I know how tax is calculated according to the progressive method.</li> </ul>	<p><b>Prior to Incarceration</b> <i>(check all that apply)</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I knew the federal income tax rate that I actually paid (my effective rate).</li> <li><input type="checkbox"/> I usually received a tax refund.</li> <li><input type="checkbox"/> I used a Volunteer Income Tax Assistance (VITA) site to prepare my taxes.</li> </ul>
<p><input type="checkbox"/> I set a goal to <i>minimize my taxes</i>.</p> <p>I want to: <i>(what)</i> _____ by: <i>(when)</i> _____</p> <p>because: <i>(impact)</i> _____</p> <p>I need to: <i>(how)</i> _____</p> <p>My roadblocks are: <i>(if any)</i> _____</p> <p>which I can overcome by: <i>(how)</i> _____</p>	
<p><b>Worksheets</b> <i>(check if completed)</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Where Are Your Family Records? <i>(page 7)</i></li> <li><input type="checkbox"/> Review Your 1040* <i>(pages 14 &amp; 15)</i></li> <li><input type="checkbox"/> What Will You Do?* <i>(page 21)</i></li> <li><input type="checkbox"/> IRS Form W-4* <i>(handout)</i></li> </ul> <p><b>*Complete using pages 30 &amp; 31 in the Case Study.</b></p>	<p><b>Actions Taken</b> <i>(check all that apply)</i></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I established/adjusted my record-keeping system.</li> <li><input type="checkbox"/> I have identified the federal income tax deductions and credits that will be relevant to my situation upon my release.</li> <li><input type="checkbox"/> I am prepared to file income taxes 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>
<p><b>Please share any additional comments you may have:</b></p>   	

## Introduction and Objectives

Welcome back to Building Your Financial House! Remember that each module will introduce money concepts (knowledge) and then the actions you can take build your own financial house. As a result of Check Taxes,

<p>You will know:</p> <ul style="list-style-type: none"> <li>• The value in record keeping</li> <li>• The key components of a tax return</li> <li>• The difference between total income and taxable income</li> <li>• The difference between total tax and withholding</li> <li>• The various tax preparation methods and providers</li> </ul>	<p>Actions to take:</p> <ul style="list-style-type: none"> <li>• Establish a manageable record keeping system</li> <li>• Identify credits and deductions overlooked or that may now apply to your situation</li> <li>• Weigh the pros and cons of tax refunds and make adjustments to withholding if appropriate</li> <li>• Select the appropriate tax preparer for your situation and avoid unnecessary fees</li> </ul>
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Forging your path to financial stability and success upon reentry will be hard, *very hard*, but achievable if you are willing to make the commitment. Keep the following in mind as you begin your reentry journey today.



## Path to Successful Reentry

By now, you know it is time to create your path to becoming a successful ex-offender. It starts with making the commitment to becoming a productive member of society, securing gainful and meaningful employment, and living your success. Will you make that commitment?

Remember also that no one can change the past, but you can direct your future. You can choose to do whatever it takes, including getting right with yourself and being in the right place with the right people. Review the key areas of which to pay attention so you can stay on the right path to successful reentry.



Source: Adapted from *New Directions-Reentry Guide* (WA State Employment Security Department)

## Where Are Your Family Records?

Visualize yourself in each of the following situations and record your response(s)

	<b>Yes</b>	<b>No</b>	<b>If yes, where?</b>
1. You lost your credit cards while shopping. Do you have a list of your account numbers and the contact information for each credit card company?	_____	_____	_____
2. The IRS is now auditing your tax returns from 3 years ago. Do you have documents to support an audit of your returns?	_____	_____	_____
3. You are buying a new car and want to trade in your current car. Can you locate the title to the car?	_____	_____	_____
4. Your 60 inch TV isn't working. It was purchased three months ago. Can you find the instruction booklet, warranty, and receipt?	_____	_____	_____
5. Last night, there was a fire in your home. Do you have a list and pictures of household items, furniture, and equipment to use when filing the insurance claim?	_____	_____	_____
6. There's a death in the family. Do you know where to find the documents needed to make final arrangements?	_____	_____	_____
7. You are leaving your current place of employment and there is a question about your benefits. Do you know where to find your employment information?	_____	_____	_____
8. Your wallet is stolen along with your checks, credit cards, driver's license, etc. Do you know the contents of your wallet and the procedure to report stolen identification?	_____	_____	_____

## Where Are Your Family Records – Guide

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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

Record/Event(s)	Where to Keep
Credit Cards	Home Filing System
<p>Keep a list of all credit cards, account numbers and telephone numbers to call if you need to report lost or stolen credit cards.</p>	
Tax Returns	Fire-Proof Home Safe
<p>Keep tax returns with all supporting data:</p> <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> <p>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.</p>	
Automobiles	Home Filing System
<p>Keep the following items in your car and a copy in your home files:</p> <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> <p>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.</p>	
TV Booklet	Home Filing System
<p>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.</p>	

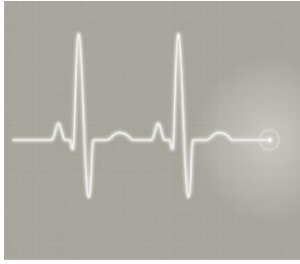
Household Inventory	Safe Deposit Box
<p>It saves time and money if you have a complete inventory and pictures of the house’s contents. Pictures of antiques, electronic equipment, jewelry and coin or stamp collections are some examples. You have a greater chance of getting the full value of your home’s contents if you can provide documentation of what was there before the fire and the cost of the items when purchased.</p>	
Death in Family	Fire-Proof Home Safe
<p>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:</p> <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>• Wills, 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> </ul> <p>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.</p>	
Employment Benefits	Home Filing System
<p>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.</p>	
Wallet	Fire-Proof Safe
<p>You should have a copy of your billfold or wallet’s contents in your files.</p> <p>If your wallet is stolen:</p> <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>• Place a fraud alert on your file with the three major credit reporting agencies.</li> <li>• Report a missing driver’s license to PennDOT at 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>	

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



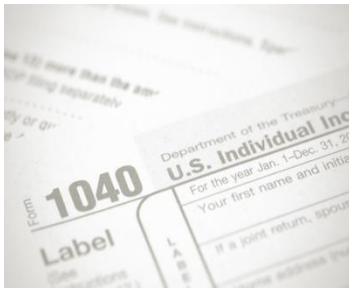
# What to Keep

## Vital



Examples:  
Birth certificates  
Marriage certificates  
Death certificates

## Financial



Examples:  
Bank statements  
Credit card/loan statements  
Taxes  
Insurance policies

## Legal



Examples:  
Bankruptcy records  
Divorce decrees  
Military records  
Wills/trusts/power of attorney

## Property



Examples:  
Deed/title  
Mortgage  
Loan documentation  
Improvements

## Personal



Examples:  
Emergency contacts  
Medical records  
Professional contacts

## Where to Keep It

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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

# 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 Commissions/Tips Self-employment Union strike benefits Long-term disability benefits from a private employer plan ( <i>if received before reaching retirement age</i> )	Interest/Dividends Capital Gains Child Support Pension Social Security	Gifts Debt forgiven Unemployment

## To Tax or Not to Tax

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

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

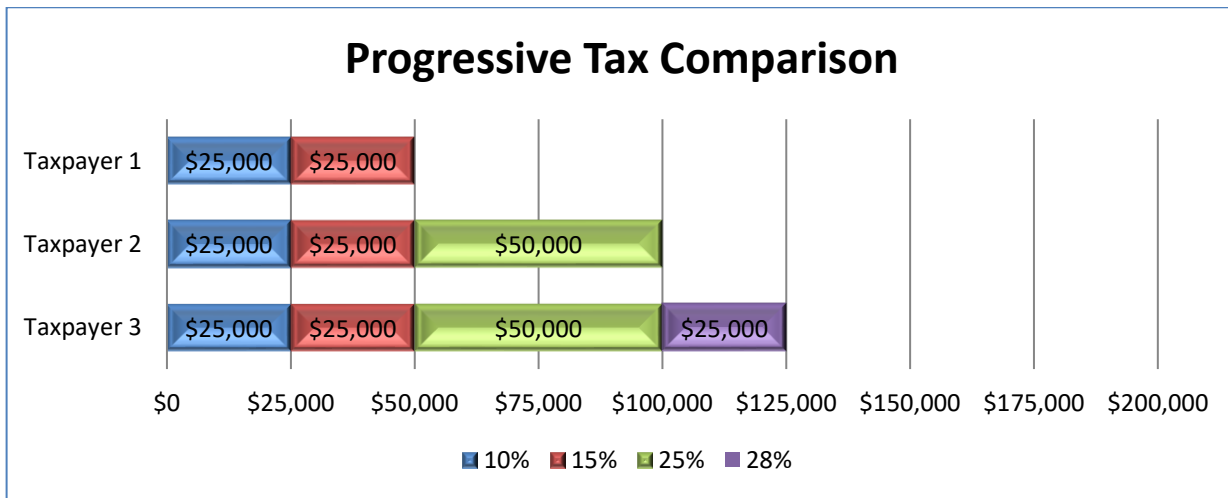
Your Score: \_\_\_\_\_ out of 15. See notes below and IRS Publication 525 for further explanation. *This does not constitute tax advice in any manner. See a tax professional for the impact of any of these income sources on your individual situation.*

Receiving bribes, stolen property, or income from illegal activities is taxable income according to the IRS Tax Code. They should be reported on Schedule 1, line 8z or Schedule C if from self-employment activity.  
Social Security retirement, survivor, and disability benefits are taxable depending on threshold of total income received.  
All hobby income is taxable, but deductions for hobby expenses are limited.  
Alimony is not taxable to the recipient or deductible by payor for divorce/separation agreements executed after 2018.  
Scholarships are generally not-taxable, however amounts for room, board, and optional equipment are taxable.  
Gifts received, whether cash or non-cash, are not taxable to the recipient. The donor is required to report any gifts over \$16,000 (2022).  
Life insurance proceeds are generally not taxable to the beneficiary. Any interest received on the proceeds will be taxable.  
Forgiven debt over \$600 is taxable income.

## 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.\*



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

\*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 (2021)

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. Use the information in the Case Study – pages 31 & 32 to complete this worksheet.

Key Item	Where	Your Numbers
<b>Filing Status</b> It's more like "family status" that affects deductions/credits, tax table, etc.	2021 - Top line	
<b>Dependents</b> The people in your household that are supported with your income (other than you and your spouse).	2021 - Listed below standard deduction question	
<b>Total Income</b> Everyone is subject to tax on income.	2021 - Line 9	
<b>Adjustments</b> Some expenses are <i>encouraged</i> and allowed to reduce income from Schedule 1	2021 - Line 10	
<b>Adjusted Gross Income (AGI)</b> AGI is used for certain tax calculations.	2021 - Line 11	
<b>Deductions</b> Some other expenses reduce income. You are entitled the greater of a standard deduction or itemized list from Schedule A.	2021 - Line 12c	
<b>Taxable Income</b> This is the amount upon which the initial tax calculation is based.	2021 - Line 15	

**\*\*Compare Your Total Income to Taxable Income\*\***

$$\frac{\text{Taxable Income}}{\text{Total Income}} \div \text{Total Income} \times 100 = \text{Percentage of your income that is actually subject to federal income tax.}$$

Key Item	Where	Your Numbers
<b>Tax</b> This is your initial tax calculation from tax table and Schedule 2.	2021 – Page 2, line 18	
<b>Credits</b> There are certain expenses paid and savings that qualify to reduce the taxes owed from Schedule 3.	2021 - Line 21	
<b>Other Taxes</b> The additional taxes on special items, from Schedule 2.	2021 - Line 23	
<b>Total Tax</b> The net total tax you owe for the year.	2021 - Line 24	
<b>Payments</b> This is the amount that you have already paid towards your total tax during the year.	2021 - Line 25d - Line 26	
<b>Refundable Credits</b> Some credits are returned even if you have zero total tax from lines 27-30 and Schedule 3.	2021 - Line 32	
<b>Total Payments</b>	2021 - Line 33	
<b>Refund or Payment Due</b> The final result.	2021 - Line 34 or 37	

**\*\*Compare Your Total Tax to Your Withholding\*\***

$$\left( \frac{\text{Withholding}}{\text{Pay periods per year}} - \frac{\text{Total Tax}}{\text{Pay periods per year}} \right) \div \text{Pay periods per year} = \text{Amount OVER or (UNDER) withheld per pay}$$

Does your withholding reflect your true tax situation?

## Review Your 1040 Guide (2021)

<b>Key Item</b>	<b>What and/or How</b>	<b>Where?</b>
<p><b>Filing Status</b> It's more like "family status" that affects deductions, credits, tax table, etc.</p>	<ul style="list-style-type: none"> <li>- Single,</li> <li>- Married (filing jointly or separately),</li> <li>- Head of Household,</li> <li>- Qualifying widow with dependent child</li> </ul>	2021 - Top line
<p><b>Dependents</b> The people in your household that are supported with your income (other than you and your spouse).</p>	<ul style="list-style-type: none"> <li>- Minor and adult children,</li> <li>- Parents and other relatives</li> <li>- Other adults</li> </ul>	2021 - Listed below standard deduction question
<p><b>Income</b> Everyone is subject to tax on income.</p>	<p>Added up from all sources, such as:</p> <ul style="list-style-type: none"> <li>- W-2's from each employer</li> <li>- 1099's: -C,-DIV,-INT,-R,-SSA,-U</li> <li>- Alimony received</li> </ul>	2021 - Line 9
<p><b>Adjustments</b> Some expenses are <i>encouraged</i> and allowed to reduce income from Schedule 1</p>	<p>Adjustments to income include:</p> <ul style="list-style-type: none"> <li>- Contribution to a traditional IRA</li> <li>- Student loan interest and tuition</li> <li>- Alimony paid and certain self-employment expenses</li> <li>- Charitable deduction for non-itemizing filer</li> </ul>	2021 - Line 10
<p><b>Adjusted Gross Income (AGI)</b></p>	<p>AGI is used for certain calculations and limits such as itemized deductions, earned income tax credit, etc.</p>	2021 - Line 11
<p><b>Deductions</b> Some other expenses reduce income. You are entitled the greater of a standard deduction or itemized list from Schedule A.</p>	<p>The greater of itemized or standard deduction may be used. Itemized deductions include:</p> <ul style="list-style-type: none"> <li>- Medical expenses (over 7.5% of AGI)</li> <li>- Home mortgage interest</li> <li>- Property, state and local taxes</li> <li>- Charitable deductions, theft losses</li> </ul>	2021 - Line 12c
<p><b>Taxable Income</b> This is the amount upon which the initial tax calculation is based.</p>		2021 - Line 15



<b>Key Item</b>	<b>What and/or How</b>	<b>Where?</b>
<p><b>Tax</b> This is your initial tax calculation from tax table and Schedule 2.</p>	<p>There are different rate brackets for each Filing Status. The IRS provides tables to help identify the tax on your taxable income.</p>	<p>2021 – Line 18</p>
<p><b>Credits</b> There are certain expenses paid and savings that qualify to reduce the taxes owed from Schedule 3.</p>	<p>Credits include:</p> <ul style="list-style-type: none"> <li>- Child, childcare, and dependent care</li> <li>- Retirement savings</li> <li>- Education, energy, and foreign taxes</li> </ul>	<p>2021 - Line 21</p>
<p><b>Other Taxes</b> The additional taxes on special items, from Schedule 2.</p>	<p>Special items include:</p> <ul style="list-style-type: none"> <li>- Self and household-employment taxes</li> <li>- Penalties on early IRA distributions</li> <li>- Repayment of prior credits</li> </ul>	<p>2021 - Line 23</p>
<p><b>Total Tax</b></p>	<p>The net total tax you owe for the year.</p>	<p>2021 - Line 24</p>
<p><b>Payments</b> This is the amount that you have already paid towards your total tax during the year.</p>	<p>Payments made include:</p> <ul style="list-style-type: none"> <li>- Withholding from wages</li> <li>- Estimated quarterly payments</li> </ul>	<p>2021 - Line 25d - Line 26</p>
<p><b>Refundable Credits</b> Credits that act like payments and are returned even if you have zero total tax from lines 27-30 and Schedule 3.</p>	<p>Refundable credits include:</p> <ul style="list-style-type: none"> <li>- Earned Income Tax Credit</li> <li>- Additional Child</li> <li>- American Opportunity (Hope Credit)</li> </ul>	<p>2021 - Line 32</p>
<p><b>Total Payments</b></p>		<p>2021 - Line 33</p>
<p><b>Refund or Payment Due</b> The final result.</p>	<p>If Payments are greater than Total Tax, then you have a REFUND</p> <p>If Payments are less than Total Tax, the you have a PAYMENT DUE</p>	<p>2021 - Line 34 or 37</p>

# Check Withholding to *Get Money Now*

If you are getting a large tax refund, consider adjusting your withholding. The Form W-4 tells your employer how much federal income taxes to withhold for you. *Note that the Form W-4 for 2020 is significantly different from prior years. Employees no longer claim withholding allowances in order to reduce the form's complexity and make it easier to have your withholding match your actual tax liability.*

So how can you navigate the new Form W-4? Let's take a look at the five steps on the form, but note that only Step 1 and Step 5 are required for all employees. Completing Steps 2 thru 4 are only necessary if they apply to you.

## Step 1: Enter Your Personal Information-(a) and (b)

Form <b style="font-size: 2em;">W-4</b> (Rev. December 2020) Department of the Treasury Internal Revenue Service	<b style="font-size: 1.2em;">Employee's Withholding Certificate</b> ▶ Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. ▶ Give Form W-4 to your employer. ▶ Your withholding is subject to review by the IRS.	OMB No. 1545-0074 <span style="font-size: 2em; font-weight: bold;">2021</span>
<b>Step 1:</b>	(a) First name and middle initial _____ Last name _____ Address _____ City or town, state, and ZIP code _____	(b) Social security number _____ ▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to <a href="http://www.ssa.gov">www.ssa.gov</a> .
<b>Enter Personal Information</b>	(c) <input type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly or Qualifying widow(er) <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)	

Enter your filing status in area (c). Your withholding will be computed based on your filing status's standard deduction and tax rates, unless adjustments are made in Steps 2 thru 4.

## Step 2: Multiple Jobs or Working Spouse

<b>Step 2:</b>	Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.
<b>Multiple Jobs or Spouse Works</b>	Do <b>only one</b> of the following. (a) Use the estimator at <a href="http://www.irs.gov/W4App">www.irs.gov/W4App</a> for most accurate withholding for this step (and Steps 3–4); or (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; or (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld . . . . . ▶ <input type="checkbox"/>

Complete this step if you have more than one job at a time or if you are married filing jointly and your spouse also works. There are three options for completing this step, but you can **only choose one**.

**Step 2: Multiple Jobs or Working Spouse (continued)**

Choose one of the following:

- (a) Use the IRS’s online estimator @ [www.irs.gov/W4App](http://www.irs.gov/W4App). Have your most recent pay statement available, follow the instructions on How to Adjust Your Withholding, and enter the result in Step 4(c). This will provide the most accurate withholding; **or**
- (b) Use the Multiple Jobs Worksheet on page three of the form and enter the result in Step 4(c), noting that using the worksheet is more tedious and less accurate than (a); **or**
- (c) Check the box if there are only two jobs total, and do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay, otherwise more tax than necessary may be withheld.

Note that you should complete Steps 3 thru 4(b) for only ONE of these jobs; the IRS suggests the highest paying job. Leave those steps blank for the other jobs.

**Step 3: Claim Dependents**

<b>Step 3:</b>	If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):		
<b>Claim Dependents</b>	Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$ _____		
	Multiply the number of other dependents by \$500 . . . . . ▶ \$ _____		
	Add the amounts above and enter the total here . . . . .	<b>3</b>	\$

**Step 4: Other Adjustments**

<b>Step 4 (optional):</b>	(a) <b>Other income (not from jobs).</b> If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . .	<b>4(a)</b>	\$
<b>Other Adjustments</b>	(b) <b>Deductions.</b> If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . .	<b>4(b)</b>	\$
	(c) <b>Extra withholding.</b> Enter any additional tax you want withheld each pay period . . . . .	<b>4(c)</b>	\$

**Step 5: Sign Here (and submit to your employer)**

<b>Step 5: Sign Here</b>	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.		
	▶ _____ <b>Employee's signature</b> (This form is not valid unless you sign it.)	▶ _____	<b>Date</b>
<b>Employers Only</b>	Employer's name and address	First date of employment	Employer identification number (EIN)

Many people automatically want the most withheld from their pay so they will not owe any federal tax when they file their return. They get a tax refund, sometimes very large, due to this decision. However, it's their own money that is being returned.\*

*\* Not including refundable credits such as the Earned Income or Child Tax credits.*

## Tax Credits for Working Families\*



**Earned Income Tax Credit** (Refundable)  
Up to \$6,728 with three or more qualifying children



**Child Tax Credit** (May be refundable)  
\$3,600 per qualifying child age 5 and under  
\$3,000 per qualifying child ages 6 through 17



**Child and Dependent Care Tax Credit** (Non-refundable)  
Up to \$8,000 for expenses paid for two or more qualifying persons



**Saver's Credit** (Non-refundable)  
Up to \$2,000 for contributions to a retirement account may qualify for a maximum credit of \$1,000. (\$2,000 if MFJ)



**Education Tax Credits**  
*American Opportunity Credit* (May be refundable, up to \$1,000)  
Up to \$2500 per eligible student per year  
*Lifetime Learning Credit* (Non-refundable)  
Up to \$2000 per tax return per year

\*Credit amounts for 2021.

## 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. **To practice, use the Case Study – page 32 to complete.**

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!

**HOWEVER I WANT:** things that are nice-to-have (treats, gifts, home upgrades, etc.)  
 How much will I actually spend? \$ \_\_\_\_\_  
 Percentage of refund \_\_\_\_%  
 For what?

**NOW:** must-have necessities (debt, past-due bills, etc.)  
 How much will I actually use for necessities? \$ \_\_\_\_\_  
 Percentage of refund \_\_\_\_%  
 For what?

**FOR LATER:** the unexpected and my future (emergencies, car repairs, long-term savings, etc.)  
 How much will I actually set aside? \$ \_\_\_\_\_  
 Percentage of refund \_\_\_\_%  
 For what?

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

## Preparing and Filing Your Return

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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 \$72,000 you can prepare and file for free through IRS partners with free tax prep software; state returns available, some free ([www.irs.gov/freefile](http://www.irs.gov/freefile))
- If you make over \$72,000 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 \$57,000
- IRS trained volunteers; there are sites all around Pennsylvania
- *1-800-906-9887 or [www.irs.treasury.gov/freetaxprep](http://www.irs.treasury.gov/freetaxprep)*

### **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
- *1-800-906-9887 or [www.irs.treasury.gov/freetaxprep](http://www.irs.treasury.gov/freetaxprep)*

### **Enrolled Agents**

- Federally (IRS) licensed tax preparers ([www.naea.org](http://www.naea.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 (prior COVID-19 in-person)\*\*

*\*2019 National Society of Accountants report: Average for 1040 with Schedule A and state return: \$294; average for 1040 with state return with no itemized deductions: \$188.*

*\*\*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

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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 \$57,000 (2021), individuals with disabilities, non-English-speaking taxpayers, and the elderly (any income, age 60 and older). 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*.



IRS Certified Volunteers Providing  
**FREE TAX PREPARATION**

As volunteers, we are trained and tested in current tax law using IRS material to provide the following services

## Tax and Recordkeeping Calendar

<p><b>January</b></p> <p>Gather your tax records to review and organize. Some examples are medical expenses, childcare 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.</p>
<p><b>February</b></p> <p>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 you own return, carefully study this year's forms and instructions, as well as other sources of information on return preparation.</p>
<p><b>March</b></p> <p>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 in 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.</p>
<p><b>April</b></p> <p>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 14 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.</p>
<p><b>May/June</b></p> <p>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.</p>
<p><b>July/ August</b></p> <p>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 to reduce the overall cost.</p>
<p><b>September</b></p> <p>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.</p>
<p><b>October</b></p> <p>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.</p>
<p><b>November/ December</b></p> <p>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.</p>

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



## Check Taxes Glossary

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**Adjusted Gross Income (AGI)** – gross income minus adjustments to income.

**American Opportunity Credit** – a partially refundable tax credit for qualified education expenses paid for each eligible student for the first four years of higher education. The IRS sets the maximum annual credit amount.

**Child and Dependent Care Tax Credit** – a refundable tax credit for expenses paid in the care of a qualifying child and other dependents which allow the taxpayer to work, look for work, or attend school. The credit is based on a percentage of expenses paid as determined by adjusted gross income. The IRS sets the maximum annual credit amount.

**Child Tax Credit** – a refundable tax credit for parents with qualifying children. The credit is determined by the number of dependent children and the taxpayer's income level.

**Certified Public Accountants (CPAs)** – individuals who passed the Uniform CPA Exam and are licensed by the state board of accountancy. CPAs have unlimited practice rights and can represent clients before the IRS.

**Credits** – a dollar for dollar reduction in taxes owed.

**Deductions** – certain expenses paid that reduce taxable income; taxpayers without these expenses may use a standard deduction which is determined by filing status.

**Dependents** – qualifying persons, other than the taxpayer or spouse, who are supported by the income being reported on the IRS Form 1040.

**Earned Income** – income received as a result of personal effort (employment) including self-employment.

**Earned Income Tax Credit (EITC)** – a refundable tax credit based on income and number of dependents. The IRS sets the maximum annual credit amount.

**Effective Tax Rate** – the percentage of income actually paid in taxes.

**Enrolled Agents** – federally licensed tax preparers who have unlimited practice rights and can represent clients before the IRS.

**Filing Status** – otherwise known as family status that determines the rate at which income is taxed. The five statuses are: single, married filing jointly, married filing separately, head of household (meaning single with dependents), and qualifying widow(er) with dependent child.

**Filing System** – a method to organize and manage important documents such as vital, financial, legal, and personal records.

**IRS Form 1040** – the form used to file personal annual income taxes.

**IRS Form W-2** – the form used by employers to report annual wages, tips, and other compensation paid to employees, as well as, taxes withheld, employee contributions to retirement savings plans, employer-paid health insurance benefits, and other payroll deductions.

**IRS Form W-4: Employee Withholding Certificate** – the form that tells employers how much federal income tax to withhold from an employee’s pay based on filing status, other household income, deductions, and credits to be claimed when filing the IRS Form 1040.

**IRS Form(s) 1099** – a collection of tax forms that report different types of income such as interest, dividends, Social Security, unemployment, etc., paid by an entity that is typically not the taxpayer’s employer.

**Lifetime Learning Credit** – a tax credit for qualified education expenses paid for eligible students enrolled in an eligible institution. The credit is available for undergraduate, graduate, and professional degree courses. There is no limit to the number of years the credit may be claimed, but the IRS sets the maximum annual credit amount per tax return.

**Marginal Tax Rate** – also known as a tax bracket, is the percentage charged in taxes on the last dollar of income.

**Progressive Tax** – a tax system where the applied tax rates increase as taxable income increases.

**Refundable Credit** – a tax credit that is returned to the taxpayer even if they have zero total tax.

**Saver’s Credit** – a tax credit for contributions made to a retirement savings account and is based on taxable income.

**Schedule 1** – the tax form used to report additional income such as business income, rental income and unemployment compensation, and to make adjustments (subtractions) to total income for certain expenses paid or contributions to eligible savings plans.

**Tax** – a financial charge or some type of levy imposed on income, property, inheritance, product sales, etc.

**Tax Attorney** – individuals with a law degree who pass the State Bar Exam and focus on tax-related legal services; tax attorneys have unlimited practice rights and can represent clients before the IRS.

**Taxable Income** – the amount upon which the initial income tax calculation is based.

**TCE (Tax Counseling for the Elderly)** – free tax preparation and electronic filing for all people aged 60 and older.

**Unearned Income** – income received without personal effort, such as interest, dividends, Social Security benefits, unemployment, rental income, etc.

**VITA (Volunteer Income Tax Assistance)** – free tax preparation and electronic filing for taxpayers who generally make less than \$58,000, individuals with disabilities, and those with limited English-speaking skills. The IRS sets the maximum annual qualifying income.

**Withholding** – is a portion of an employee’s wages that is remitted directly federal, state, and local income taxing authorities.

## Additional Resources to: *Check Taxes*

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### **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.

### **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.

#### Choose Your Tax Preparer Wisely

This brief video by the IRS explains the ins and outs of choosing a qualified preparer.

#### Interactive Tax Assistant

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

### **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 Filling 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 information on the benefits of buying US Savings Bonds at tax time.

### **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.

## Pre-session Questionnaire

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ID \_\_\_\_\_

Circle the answer that you believe is correct.

1. Which of the following items should be kept in your wallet?
  - A. Credit card statement
  - B. Social Security card
  - C. Driver's license
  - D. Proof of (automobile) insurance
2. Which of the following is the safest place to keep your birth certificate?
  - A. Wallet
  - B. File cabinet
  - C. Locked dresser drawer
  - D. In-home safe
3. Which of the following is the federal income tax method used in the United States?
  - A. Flat
  - B. Elevate
  - C. Progressive
  - D. Regressive
4. Which of the following is considered the basis for federal income tax filing status?
  - A. Family
  - B. Income
  - C. Expenses
  - D. Withholding
5. True or false: Everyone is subject to income taxes.
6. Which of the following lowers income that is taxed?
  - A. Allowances
  - B. Deductions
  - C. Credits
  - D. Refunds
7. Which of the following reduces the amount of federal tax owed?
  - A. Allowances
  - B. Deductions
  - C. Credits
  - D. Refunds

## Post-session Questionnaire

ID \_\_\_\_\_

Circle the answer that you believe is correct.

1. Which of the following items should be kept in your wallet?
  - A. Credit card statement
  - B. Social Security card
  - C. Driver's license
  - D. Proof of (automobile) insurance
2. Which of the following is the safest place to keep your birth certificate?
  - A. Wallet
  - B. File cabinet
  - C. Locked dresser drawer
  - D. In-home safe
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  - D. Refunds
7. Which of the following reduces the amount of federal tax owed?
  - A. Allowances
  - B. Deductions
  - C. Credits
  - D. Refunds

ID \_\_\_\_\_

Location \_\_\_\_\_

Date \_\_\_\_\_

## Session Evaluation

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

	<i>Excellent</i>	<i>Very Good</i>	<i>Good</i>	<i>Fair</i>	<i>Poor</i>
<b>Overall</b> , I feel the session was:					
<b>Before</b> the session statement:					
My knowledge and skills about the topic were:					
<b>After</b> the session statement:					
My knowledge and skills about the topic are:					
My confidence to apply what I have learned today is:					
<b>During the session statements</b>					
	<i>Strongly Agree</i>	<i>Agree</i>	<i>Not Sure</i>	<i>Disagree</i>	<i>Strongly Disagree</i>
The instructions were clear and easy to follow.					
The time allocated was right for the topic.					
The slides were clear and helped my learning.					
The examples helped my learning.					
The examples were relevant to my situation.					
<b>The instructor:</b>					
was knowledgeable about the topic.					
delivered lesson in a clear and understandable manner.					
was engaging and encouraged interaction.					
was well-prepared.					
was approachable and open to questions.					
<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:					