



# 4696 (PR)

**VITA/TCE Puerto Rico Resource Guide**  
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE)

**2011 RETURNS**



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

### How to Get Technical Updates?

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

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



### Volunteer Standards of Conduct

#### VITA/TCE Programs

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

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

As a volunteer participant in the VITA/TCE Programs, I will:

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

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

- Removal from the VITA/TCE Programs and inclusion on volunteer registry;
- Deactivation of your Partner's VITA/TCE EFIN (electronic ID number);
- Removal of all IRS products, supplies, loaned equipment, and taxpayer information;
- Termination of the sponsoring organizations partnership with IRS;
- Termination of sponsoring organization grant funds; and
- Subjection to criminal investigations.

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### Confidentiality Statement:

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

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# How to Use this Guide

This publication is designed to assist you in preparing an accurate paper or software-prepared return using TaxWise®. It is divided into three major sections—Level I, Level II, and, Software Hints.

The **white tabs** contain **Level I** tax law in the form of decision trees, charts, and interview tips. The **red tabs** contain **Level II** - tax law information. The **blue tabs** contain step-by-step procedures for electronic return preparation using computer software.

The Link & Learn Taxes Puerto Rico course is divided into **Level I** and **Level II**. For volunteers assisting taxpayers in Puerto Rico, volunteers must first pass the **regular Basic VITA/TCE test**. Next they should proceed to the **Level I** of the Puerto Rico test. Students can stop there or proceed to the **Level II** of the Puerto Rico exam. Each course must be passed with a minimum score of 80% for certification.

\*TaxWise is a copyrighted software program owned by Universal Tax Systems, Inc. The screen shots in this publication should not be extracted, copied, or distributed without written approval of the IRS.

Caution: Some of the software screen shots in this guide may not be updated for current tax law. Generally, the screens depicted mirror the current year's version. However, there are some instances where there are embedded references to earlier tax years.

## Are You Ready to Get Started?

Complete this assessment by entering a check mark in the box for “Yes.” Resolve all “No” (unchecked boxes) responses with your site coordinator before assisting taxpayers.

### 1. Have you signed:

- a. The Volunteer Agreement/Standards of Conduct?
- b. The Property Loan Agreement (if applicable)?

### 2. Do you know the following:

- a. Your duties at the site?
- b. Site contacts (emergency, reporting delays, technical issues, etc.)?
- c. When you are expected at the site?
- d. Your site identification number (SIDN)?

### 3. Do you have your:

- a. Volunteer Resource Guide (Publication 4012)?
- b. Guide to Federal Income Tax (Publication 17)?
- c. Wallet card (Form 13645) depicting your certification level (if applicable)?
- d. Puerto Rico Resource Guide (Publication 4696 (PR))?

### 4. Are the following items at the site:

- a. Intake/Interview & Quality Review Sheet (Form 13614-C or equivalent)?
- b. Overprinted return forms, schedules, worksheets, etc.?

## Volunteer Tax Alerts (VTAs)

For the latest volunteer tax law updates and other helpful tips throughout the filing season you can go to **www.IRS.gov**—keyword: Volunteer Tax Alerts. Your site coordinator should share these messages with you.



# The Five-Step Interview Process

Interview Steps	Goal	Suggested Actions
Step <b>1</b>	<b>Cultivate a comfortable environment and put the taxpayer at ease.</b>	<ul style="list-style-type: none"><li>• Introduce yourself; engage in small talk (discuss the weather, difficulty in locating the site, apologize if long wait, etc.).</li><li>• Explain the tax return preparation process—the interview, how the information they provide will assist you in determining whether they must file a return, their eligibility for tax credits, etc.</li><li>• Allow the taxpayers to share any expectations, needs, and/or concerns by asking whether they have questions before beginning and encouraging them to ask questions throughout the process.</li></ul>
Step <b>2</b>	<b>Use active listening skills</b>	<ul style="list-style-type: none"><li>• Watch for nonverbal listening cues (tone of voice, body language, eye contact, etc.).</li><li>• Listen, then respond by restating, paraphrasing, and/or encouraging further dialogue.</li></ul>
Step <b>3</b>	<b>Review the taxpayer's responses to the intake questions (Form 13614-C or equivalent).</b>	<ul style="list-style-type: none"><li>• Confirm all the information completed by the taxpayer on the intake form (Form 13614-C or approved alternative)</li><li>• Review all the information documents presented by the taxpayer including W-2s, 1099s, 1098s, etc.</li><li>• Scan the information for completeness.</li></ul>
Step <b>4</b>	<b>Working with the taxpayer, complete the critical intake questions – page 2 of Form 13614-C or approved alternative.</b>	<ul style="list-style-type: none"><li>• Don't assume—use the interview tips and decision trees in Publication 4012 and Publication 4696(PR) to confirm:<ul style="list-style-type: none"><li>• Marital status (filing status)</li><li>• Number of exemptions</li><li>• Eligibility for Child Tax Credit</li></ul></li></ul>
Step <b>5</b>	<b>Advise taxpayer of the next steps.</b>	<ul style="list-style-type: none"><li>• Restate the return preparation process, quality review procedures, signature and record keeping requirements, etc.</li></ul>



# Form 13614-C, Intake/Interview and Quality Review Sheet (page 2)

**Section A. Please complete – check Yes, No or Unsure to all questions below. Please ask if you need help.**

**Part III. Income – In 2011, did you (or your spouse) receive:**

**Yes No Unsure**

- 1. Wages or Salary? (Form W-2)
- 2. Tip Income?
- 3. Scholarships? (Forms W-2, 1098-T)
- 4. Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)
- 5. Refund of state/local income taxes? (Form 1099-G)
- 6. Alimony Income?
- 7. Self-Employment payments (such as cash received for services, small business)? (Form 1099-MISC)
- 8. Income (or loss) from the sale of Stocks, Bonds or Real Estate (including your home)? (Forms 1099-S, 1099-B)
- 9. Disability Income (such as payments from insurance or workers compensation)? (Forms 1099-R, W-2)
- 10. Distributions from Pensions, Annuities, and/or IRA? (Form 1099-R)
- 11. Unemployment Compensation? (Form 1099-G)
- 12. Social Security or Railroad Retirement Benefits? (Forms SSA-1099, RRB-1099)
- 13. Income (or loss) from Rental Property?
- 14. Other Income: (gambling, lottery, prizes, awards, jury duty, etc.) Specify: \_\_\_\_\_ (Forms W-2 G, 1099-MISC)

**Part IV. Expenses – In 2011 Did you (or your spouse) pay:**

**Yes No Unsure**

- 1. Alimony: If yes, do you have the recipient's SSN?  Yes  No
- 2. Contributions to a retirement account?  IRA  Roth IRA  401K  Other
- 3. Educational expenses paid for yourself, spouse or dependents, such as tuitions, books, fees, etc.? (Form 1098-T)
- 4. Unreimbursed employee business expenses (such as teacher supplies, uniforms or mileage)?
- 5. Medical expenses (including health insurance premiums)?
- 6. Home mortgage interest? (Form 1098)
- 7. Real estate taxes for your home or personal property taxes for your vehicle? (Form 1098)
- 8. Charitable contributions?
- 9. Child/dependent care expenses, such as day-care?

**Part V. Life Events – In 2011 Did you (or your spouse):**

**Yes No Unsure**

- 1. Have a Health Savings Account? (Forms 5498-SA, 1099-A, W-2 with code W in Box 12)
- 2. Have debt from a mortgage or credit card canceled/forgiven by a commercial lender? (Form 1099-C)
- 3. Buy, sell or have a foreclosure of your home? (Form 1099-A)
- 4. Have Earned Income Credit (EIC) disallowed in a prior year? If yes, for which tax year? \_\_\_\_\_
- 5. Purchase and install energy efficient home items (such as windows, furnace, insulation, etc.)?
- 6. Live in an area that was affected by a natural disaster? If yes, where? \_\_\_\_\_
- 7. Receive the First Time Homebuyers Credit in 2008?
- 8. Pay any student loan interest? (Form 1098-E)
- 9. Make estimated tax payments or apply last year's refund to your 2011 tax? If so how much? \_\_\_\_\_
- 10. Attend school as a full time student? (Form 1098-T)
- 11. Adopt a child?
- 12. File a 2010 federal tax return containing a "capital loss carryover" on Form 1040 Schedule D?

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

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

# Form 13614-C, Intake/Interview and Quality Review Sheet (page 3)

## Additional Information and Questions related to the preparation of your return

Many free tax preparation sites operate by receiving grant money. The data from the following questions may be used by this site to apply for these grants. Your answers will be used only for statistical purposes.

Other than English what language is spoken in the home? \_\_\_\_\_

Are you or a member of your household considered disabled?  Yes  No

### If you are due a refund or have a balance due:

- Ask your preparer about Direct Deposit. It is the fastest, easiest way to receive your tax refund. An e-filed return means a fast refund. Taxpayers who combine e-file and Direct Deposit can get their refunds in as few as 10 days.
- Ask your preparer about purchasing Series I U.S. Savings Bonds with part or all of your tax refund. Savings bonds are a safe and secure way to invest in the future. Purchase I Bonds for yourself or others in multiples of \$50 and earn interest for up to 30 years.

If you are due a refund, would you like a direct deposit?  Yes  No

If you are due a refund, would you like information on how to purchase U.S. Savings Bonds?  Yes  No

If you are due a refund, would you like information on how to split your refund between accounts?  Yes  No

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

**Additional comments:**

**STOP HERE!**

**Thank you for completing this form.**

**Please give this form to the certified volunteer preparer for use in preparing your return.**

**Your Civil Rights are Protected:** It is the Internal Revenue Service's mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. Under no circumstances will the Internal Revenue Service tolerate discrimination by its employees, grantees, contractors, and/or subcontractors. NO ONE shall be excluded from participating in, be denied the benefits of, or be subject to discrimination because of race, color, sex, national origin, disability, reprisal, or age in programs or activities funded by the Department of Treasury – Internal Revenue Service. Any person who believes that he/she has been discriminated against on the basis of race, color, sex, national origin, disability, reprisal or age in programs or activities receiving financial assistance (e.g. Low-Income Tax Clinics, Tax Counseling for the Elderly) from the Department of Treasury IRS, may submit a written complaint to: National Headquarters; Office of Equity, Diversity & Inclusion; Internal Revenue Service; Attn: Director, Civil Rights Division (External Civil Rights Team); 1111 Constitution Ave., NW Room 2422; Washington, DC 20224.

### **Paperwork Reduction Act Notice**

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

# Form 13614-C, Intake/Interview and Quality Review Sheet (page 4)

## Section B. For Certified Volunteer Preparer Completion

**Remember:** You are the link between the taxpayer's information and a correct tax return. Verify the taxpayer's information on pages 1, 2 & 3 is complete. All questions must be discussed with the taxpayer and all "Unsure" responses should be changed to "Yes" or "No".

**Must be completed by Certified Volunteer only if persons are listed in Part II Question 2**

Check if persons are listed in Part II Question 2

- Yes  No 1. Can anyone else claim any of the persons listed in Part II, Question 2, as a dependent on their return? **If yes, which ones:**
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Yes  No 2. Were any of the persons listed in Part II, Question 2, totally and permanently disabled? **If yes, which ones:**
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Yes  No 3. Did any of the persons listed in Part II, Question 2 provide more than 50% of their own support? **If yes, which ones:**
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Yes  No 4. Did the taxpayer provide more than half the support for any of the persons in Part II, Question 2? **If yes, which ones:**
- N/A
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- Yes  No 5. Did the taxpayer pay over half the cost of maintaining a home for any of the persons in Part II, Question 2? **If yes, which ones:**
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**Reminders**

Use Publication 4012, *Volunteer Resource Guide* and Publication 17, *Your Federal Income Tax* in making tax law determinations.

**Additional Tax Preparer Notes:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

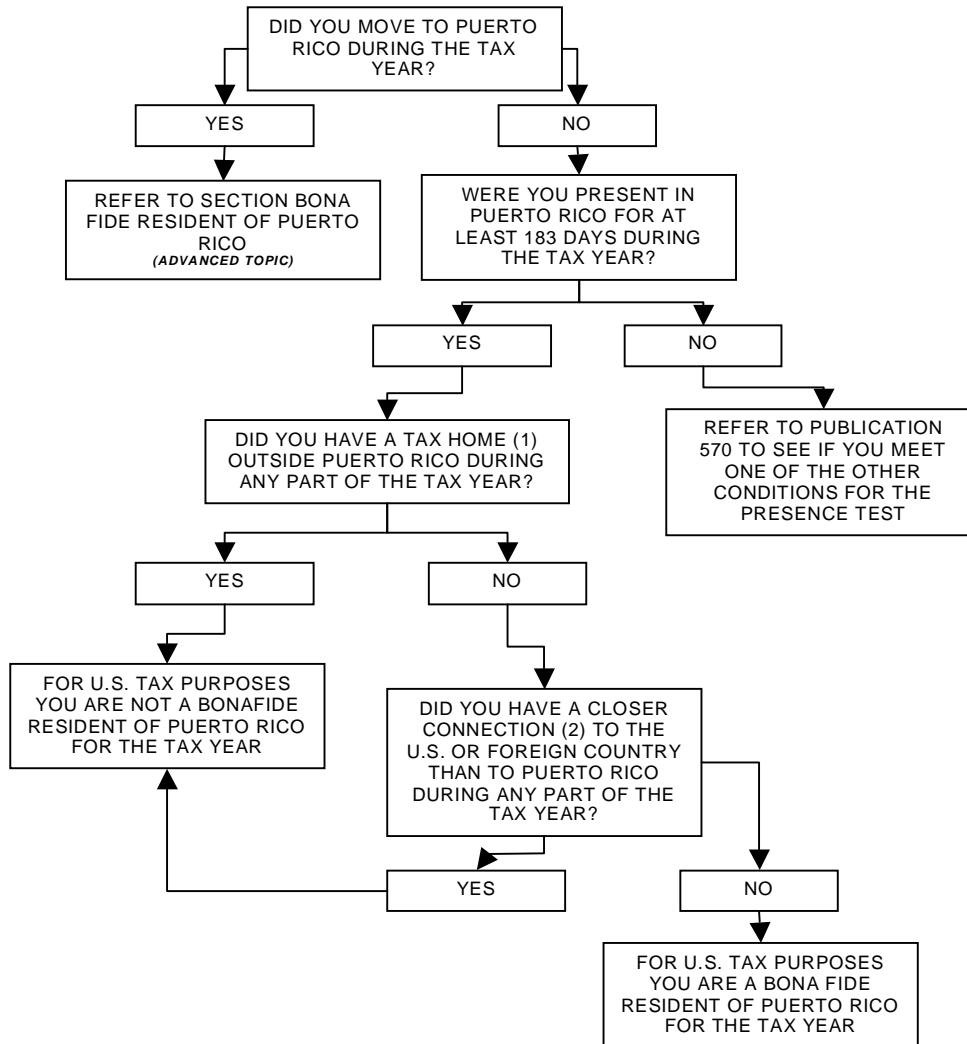
\_\_\_\_\_

## Section C. For Certified Quality Reviewer Completion

**Confirm each item after reviewing the tax return and verifying that it reflects correct tax law application to the information provided by the taxpayer.**

1. **Sections A & B** of this form are complete.
  2. **Taxpayer's identity, address and phone numbers** were verified.
  3. **Names, SSNs, ITINs or EINs, and dates of birth of taxpayer, spouse and dependents** match the supporting documents.
  4. **Filing Status** is correctly determined.
  5. **Personal and Dependency Exemptions** are entered correctly on the return.
  6. All **information** shown on source documents and noted in Section A, Part III is included on the tax return.
  7. Any **Adjustments to Income** are correctly reported.
  8. **Standard, Additional or Itemized Deductions** are correct.
  9. All **credits** are correctly reported.
  10. Withholding shown on Forms W-2, 1099 and **Estimated Tax Payments** are correctly reported.
- All tax law issues above have been addressed and necessary changes have been made.**
- If direct deposit or debit was elected, checking/saving account and routing information match the supporting documents.**
- Correct SIDN and EFIN are shown on the return.**

# Determining Puerto Rico Residency Status For U.S. Tax Purpose



(1) Your tax home is your regular or main place of business, employment, or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

(2) You will be considered to have a closer connection to Puerto Rico than to the United States or to a foreign country if you maintained more significant contacts with Puerto Rico than with the United States or foreign country. In determining if you have maintained more significant contacts with Puerto Rico review the facts and circumstances to be considered in Publication 570.

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## Residents of Puerto Rico

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If you are a resident of Puerto Rico for the entire year, gross income does not include income from sources within Puerto Rico, except for amounts received as an employee of the United States or a U.S. agency. If you receive income from Puerto Rican sources that is not subject to U.S. tax, you must reduce your standard deduction. As a result, the amount of income you must have before you are required to file a U.S. income tax return is lower than the applicable amount.

This computation (allowable portion of standard deduction), must be made before you can determine if you must file a U.S. tax return, because the minimum income level at which you must file a return is based, in part, on the standard deduction for your particular filing status.

Use the following charts to determine if you have to file a U.S. income tax return:

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### Chart A: Who Must File

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Who Must File a U.S. federal income tax return?

In general, under Section 933 of the U.S. Internal Revenue Code (IRC) you must file a return if:

- You are a U.S. citizen or resident alien, and
- You are a bona fide resident of Puerto Rico during the entire taxable year, and
- Receive income from sources outside Puerto Rico, and/or
- Receive income as a civilian employee of the U.S. government, and/or
- Receive income as military employee of the U.S. government in Puerto Rico
- You had net earnings from self-employment of at least \$400.
- You qualify for the additional child tax credit.
- You had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.

Complete the worksheet on the next page to determine if a U.S. return must be filed. After completing the worksheet (Chart B), a return must be filed if the taxpayer's gross income subject to U.S. tax, line 2a, is equal or more than line 4 of the worksheet. If the taxpayer is married filing a separate return, a return must be filed if the taxpayer's gross income subject to U.S. tax is equal to or more than \$3,700.

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## Residents of Puerto Rico (continued)

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### Chart B: Who must file – Worksheet for Bona Fide Residents of Puerto Rico with exempt income (under section 933)

**1. Enter STANDARD DEDUCTION** .....

If your filing status is:

Single	under 65 enter \$5,800 65 or older enter \$7,250
Married filing jointly	both under 65 enter \$11,600 one 65 or older enter \$12,750 both 65 or older enter \$13,900
Head of household	under 65 enter \$8,500 65 or older enter \$9,950
Qualifying widow(er) with dependent child	under 65 enter \$11,600 65 or older enter \$12,750
Married filing separately	See note after line 4 below.

**CAUTION:** If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet for Dependents in Instructions for Form 1040.

**2. Allowable portion of STANDARD DEDUCTION**

- a. Gross income subject to U.S. tax (include taxable social security benefits) .....
- b. Total gross income from all sources (including exempt P.R. Income) .....
- c. Divide line 2a by line 2b. ....
- d. Multiply STANDARD DEDUCTION (line 1) by line 2c. ....

**3. Enter:**

- Married filling jointly \$7,400 .....
- If someone can claim you as a dependent enter "0" .....
- All others enter \$3,700 .....

**\*4. Add lines 2d and 3** .....

\* You must file a return if your gross income subject to U.S. tax (line 2a) is equal to or more than line 4. If you are married filing a separate return, you must file a return if your gross income subject to U.S. tax is equal to or more than \$3,700.

## Source Rules for Income:

- The origin of the income determines the source either the U.S., Puerto Rico, or foreign.
- U.S. citizens and residents are taxed by the United States on their worldwide income, no matter where it originates.
- The source of income is very important to nonresident aliens because they are taxed by the U.S. only on U.S. source income.
- Source rules are also used to determine the foreign tax credit.

The following table will help you to decide the source of income.

**Table 1: Determining Source of Income**

Sources Rule	
Item of Income	Factor Determining Source
Salaries and other compensation	Where the service is performed
U.S. Social Security Benefits	U.S. Source income by definition (IRC Sec. 861)
Pensions	<b>Contributions:</b> Where services were performed that earned the pensions. <b>Investment earnings:</b> Where pension trust is located.
Interest	Residence of the payer
Dividends	Location of the payer
Rents	Location of the property
Royalties: Natural resources	Location of property
Patents, copyrights, etc.	Where the property is used
Sale of stock or other nondepreciable personal property	Seller's tax home (but see <i>Special Rules for Gains From Dispositions of Certain Property</i> in Publication 570 for exceptions)
Sale of real property	Location of the property



# Standard Deduction

## Allocation of the Standard Deduction When the Taxpayer Has Exempt Puerto Rican Source Income

The standard deduction is a dollar amount that reduces the amount of income on which the taxpayer is taxed.

The standard deduction depends on:

- the taxpayer's filing status,
- whether the taxpayer (or the taxpayer's spouse) is 65 or older and/or blind, and
- whether the taxpayer can be claimed as a dependent on another taxpayer's return.

For those taxpayers who do not itemize, the standard deduction must be apportioned on the ratio of gross income subject to federal tax to gross income from all sources. This adjustment must be made prior to entering the standard deduction on Form 1040, Line 40.

Filing status	Standard deduction
Single	\$ 5,800
Married filing jointly, or Qualifying widow(er)	\$11,600
Married filing separately	\$ 5,800
Head of household	\$ 8,500

If the taxpayer is 65 or older at the end of the year and/or blind, he or she is allowed a higher standard deduction.

Standard Deduction  
Tab C

## Chart C. 2011 Standard Deduction Worksheet

**Worksheet For Puerto Rico Filers With Exempt Income Under Section 933 Who Do Not Itemize Deductions**

**1. Enter STANDARD DEDUCTION:** If you checked Form 1040, Filing Status box

1.	enter \$5,800	.....	}	
2 or 5.	enter \$11,600	.....		
3.	enter \$5,800	.....		
4.	enter \$8,500	.....		

**CAUTION:** If you are 65 or over and/or blind, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040A, as applicable;  
or  
If someone can claim you as a dependent, enter amount from the Standard Deduction Worksheet in the instructions for Form 1040 or Form 1040A, as applicable.

**2. Allowable portion of STANDARD DEDUCTION**

a.	Gross income subject to U.S. tax	.....	
b.	Total gross income from all sources (including exempt P.R. income)	.....	
c.	Divide line 2a by line 2b	.....	
d.	Multiply Standard Deduction (line 1) by line 2c and enter this amount on Form 1040, line 40 or Form 1040A, line 24 (allowable portion of STANDARD DEDUCTION)	.....	

Write the following above line 40, Form 1040 or line 24 of Form 1040A. "Standard Deduction modified due to exempt income under section 933."



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## Additional Child Tax Credit

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### Highlights

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Refundable credit available to taxpayers who have social security and medicare taxes withheld from their wages or who pay self-employment tax.

This credit is available even though the taxpayer does not have income subject to federal income tax laws.

This is a refundable credit and is claimed by filing a tax return with the Internal Revenue Service.

Beginning in 2009, the definition of qualifying child changed. The taxpayer must claim the child as a dependent to be a qualifying child for the child tax credit.

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### Requirements - Who Qualifies?

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To qualify, the taxpayer must meet the following conditions:

- Be a bona fide resident of Puerto Rico, and
  - Have paid social security and medicare taxes, and
  - Have three or more qualified children under age 17 at end of the tax year. However, federal employees qualify with one or two children.
- 

### Any limits on this credit?

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There is also an income limitation on this credit. The credit begins to phase out at the following income levels:

- \$110,000 for married filing a joint return
- \$55,000 for married filing separately
- \$75,000 for all other filers

For the purpose of this limitation you must consider all income received in Puerto Rico. If you exceed these income levels you must obtain a worksheet for the additional child tax credit and complete instructions from Publication 972 to figure your credit.

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### How to claim the credit

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- If the taxpayer has social security and Medicare taxes withheld from wages or pays self employment tax use Form 1040-PR.
  - If the taxpayer has income subject to federal income tax laws complete Form 1040 and Form 8812.
- 

## American Opportunity Tax Credit

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Caution: Bona fide residents of Puerto Rico will receive the refundable part of this credit from the Puerto Rico Treasury Department.

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# Interview Tips for the Additional Child Tax Credit

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## Qualified Child

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- |  |  |
|--|--|
| 1. Is this child your son, daughter, adopted child, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, your grandchild, niece, or nephew)?  | If YES, go to step 2.<br>If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.   |
| 2. Is this child under age 17 at end of the tax year?  | If YES, go to step 3.<br>If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.   |
| 3. Did the child provide over half of his or her own support for the tax year?   | If NO, go to step 4.<br>If YES, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.   |
| 4. Did the child live with you for more than half of tax year? If did not live with you for the required time, exceptions apply such as; <ul style="list-style-type: none"><li>• Exception to Time-Lived-with-You</li><li>• Kidnapped Child</li><li>• Children of Divorced or Separated or Never Married Parents.</li></ul>          | If YES, go to step 5.<br>If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.   |
| 5. Is this child a U.S. citizen, U.S. national, or resident of the United States?<br>Note: A national is an individual who, although not a U.S. citizen, owes his or her allegiance to the United States. U.S. nationals include American Samoans and Northern Mariana Islanders who become U.S. nationals instead of U.S. citizens. | If YES, go to step 6.<br>If NO, you cannot claim the additional child tax credit for this child. STOP if the taxpayer has no other children.<br>Questions<br>:Refer to Publication 972 |
| 6. Are you excluding income from Puerto Rico?  | If NO, go to step 7.<br>If YES, you must use Publication 972 to figure the credit.   |
| 7. Is the amount of AGI more than: <ul style="list-style-type: none"><li>• \$110,000 if you are married filing jointly,</li><li>• \$75,000 if you are filing as single, head of household, or as a qualifying widow(er), or</li><li>• \$55,000 if you are married filing separately?</li></ul>                                       | If NO, go to step 8.<br>If YES, you must use Publication 972 to figure the credit.   |
| 8. Are you a bona fide resident of Puerto Rico and all or part of your income is from Puerto Rico sources?   | If YES, go to step 9.<br>If NO, you must use Publication 972 to figure the credit.   |
| 9. Are you a bona fide resident of Puerto Rico and/or self-employed with all your income considered from Puerto Rico sources?  | If YES, you are encouraged to file Form 1040PR and follow the applicable instructions to calculate the credit<br>If NO, you must use Publication 972 to figure the credit.             |
-

## Bona Fide Residents of Puerto Rico

In order to be able to exclude the income sourced in Puerto Rico, the taxpayer must be a bona fide resident of Puerto Rico for the entire tax year.

Generally, taxpayers are considered bona fide resident of Puerto Rico if during the tax year, the taxpayer:

- Meet the presence test,
- Do not have a tax home outside Puerto Rico during any part of the tax year, and
- Do not have a closer connection, during any part of the tax year, to the U.S. or to a foreign country than to Puerto Rico.

Rules to determine if a taxpayer qualifies as a bona fide resident of Puerto Rico for the entire tax year were changed by the American Jobs Creation Act of 2004.

The American Jobs Creation Act of 2004 added section 937(b) to the U.S. Internal Revenue Code. Code section 937(b) clarifies and provides source rules for U.S. possessions, including Puerto Rico.

### Presence Test

If you are a U.S. citizen or resident alien, you will satisfy the presence test for the entire tax year if you meet one of the following conditions.

1. You were present in the relevant possession for at least 183 days during the tax year.
2. You were present in the relevant possession for at least 549 days during the 3-year period that includes the current tax year and the 2 immediately preceding tax years. During each year of the 3-year period, you must be present in the relevant possession or at least 60 days.
3. You were present in the United States for no more than 90 days during the tax year.
4. You had earned income in the United States of no more than a total of \$3,000 and were present for more days in the relevant possession than in the United States during the tax year. Earned income is pay for personal services performed, such as wages, salaries, or professional fees.
5. You had no significant connection to the United States during the tax year.

### Tax Home

You will have met the tax home test if you did not have a tax home outside the relevant possession during any part of the tax year. Your tax home is your regular or main place of business, employment, or post of duty regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. If you do not fit either of these categories, you are considered an itinerant and your tax home is wherever you work.

### Closer Connection

You will have met the closer connection test if, during any part of the tax year, you do not have a closer connection to the United States or a foreign country than to the relevant U.S. possession.

You will be considered to have a closer connection to a possession than to the United States or to a foreign country if you have maintained more significant contacts with the possession(s) than with the United States or foreign country. In determining if you have maintained more significant contacts with the relevant possession, the facts and circumstances to be considered include, but are not limited to, the following:

- The location of your permanent home.
- The location of your family.

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## Bona Fide Residents of Puerto Rico (continued)

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### Closer Connection (continued)

- The location of personal belongings, such as automobiles, furniture, clothing, and jewelry owned by you and your family.
- The location of social, political, cultural, professional, or religious organizations with which you have a current relationship.
- The location where you conduct your routine personal banking activities.
- The location where you conduct business activities (other than those that go into determining your tax home).
- The location of the jurisdiction in which you hold a driver's license.
- The location of the jurisdiction in which you vote.
- The location of charitable organizations to which you contribute.
- The country of residence you designate on forms and documents.
- The types of official forms and documents you file, such as Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding, or Form W-9, Request for Taxpayer Identification Number and Certification.

Your connections to the relevant possession will be compared to the total of your connections with the United States and foreign countries. Your answers to the questions on Form 8898, Part III, will help establish the jurisdiction to which you have a closer connection.

Refer taxpayer to Publication 570 for more details.

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## Special Rules in the Year of Move

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Taxpayers moving to Puerto Rico during the year may still be able to meet the tax home and closer connection test for that year.

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## Year of Move to Puerto Rico

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Taxpayers will satisfy the tax home and closer connection test in the tax year of move to Puerto Rico if he/she meets all of the following:

- Taxpayer has not been a bona fide resident of Puerto Rico in any of the 3 tax year immediately preceding the move.
- In the year of move, taxpayer does not have a tax home outside Puerto Rico or a closer connection to the U.S. or foreign country than to Puerto Rico during any of the **last 183 days of the tax year**.
- Taxpayer is a bona fide resident of Puerto Rico for each of the 3 tax years immediately following the move

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## Year of Move from Puerto Rico

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Taxpayer will be considered a bona fide resident of Puerto Rico for the part of the tax year preceding their move from Puerto Rico if:

- Taxpayer is a U.S. citizen,
- Taxpayer is a bona fide resident of Puerto Rico for at least 2 tax years immediately preceding the tax year of move,
- Cease to be a bona fide resident of Puerto Rico during the tax year,
- Cease to have a tax home in Puerto Rico during the tax year, and
- Have a closer connection to Puerto Rico than to the U.S. or a foreign country throughout the part of the tax year preceding the date on which the taxpayer ceases to have a tax home in Puerto Rico.

**Taxpayers who meet the above conditions can exclude the income sourced in Puerto Rico prior to their move from Puerto Rico.**

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## Reporting a Change in Bona Fide Residence

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Beginning with tax year 2001, taxpayers who become or ceased to be a bona fide resident of a U.S. possession may need to file Form 8898. “Statement for Individuals who begin or end bona fide residence in a U.S. Possession”.

See Publication 570 for the requirements to file this form.

One of the conditions of filing this form is having worldwide gross income in that tax year of more than \$75,000. These taxpayers are out of the scope of the VITA program.

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## Adjustments to Income

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Adjustments to income are amounts that a taxpayer can subtract from total income. The result is an “adjusted gross income”, that the taxpayer use to compute some deductions limitations.

There are four adjustments to income that mostly affect Puerto Rican residents:

- Self-employment tax deduction
- Student loan interest deduction
- Alimony Paid
- IRAs

What do I need?

- Taxpayer’s Intake and Interview Sheet
- Publication 970
- Form 1098 – E (Student Loan Interest Statement)



## Puerto Rico Exempt Income

Adjustments that apply to exempt Puerto Rico income are not deductible on a federal tax return.

### Self-Employment Tax Deduction

Individuals who have no filing requirement with the United States, but have income connected with a trade or business in Puerto Rico:

- Must file Form 1040PR U.S. Self Employment Tax Return or Form 1040SS U.S. Self Employment Tax Return to report their self-employment income
- May have to pay self-employment tax
- Cannot take the deduction on Form 1040, line 27 because this deduction is related to excluded income

### Student Loan Interest Deduction

Taxpayers, who paid interest on a student loan during the tax year, may be able to deduct up to \$2,500 of the interest paid. If the taxpayer paid \$600 or more in interest to a single lender, the taxpayer should receive a statement from the lender showing the amount of interest paid.

### Alimony Paid

Taxpayers who paid alimony to a resident of Puerto Rico during the tax year may deduct their payments regardless of whether the recipient reports their income.

### IRAs

Puerto Rican residents may be able to contribute money to an IRA and take the IRA adjustment on their U.S. income tax return. To take the adjustment:

- The taxpayer must have earned income from U.S. sources. Income excluded under IRC 933 is not eligible for an IRA deduction.
- All other rules for IRA contributions are met.
- The IRA trust account must be in the U.S.

# Itemized Deductions

Definition: Expenses that can be deducted to reduce the adjusted gross income. Itemized deductions include medical expenses, taxes, deductible interest, charitable contributions, casualty and theft losses, unreimbursed employee expenses and miscellaneous deductions.

The itemized deductions are recorded on Schedule A and then transferred to Form 1040. Schedule A should include only the allowable portion of each deduction.

Formula to calculate the allowable portion of a deduction for each itemized deduction. Enter these deductions on the taxpayer's Schedule A.

$$\text{Formula: } \frac{\text{Gross Income Subject to U.S. Tax}}{\text{Gross Income from all sources (Including P.R. exempt Income)}} \times \text{Deduction} = \text{Allowable portion}$$

**NOTE: Round all fractions to four places:**

The numerator of the fraction is the gross income reported to the U.S. and the denominator is the total gross income from all sources.

US Schedule A		Itemized Deductions		2010
Name: <b>ROBERT SAN JUAN &amp; ELENA PONCE</b>		SSN: <b>589-98-0006</b>		
<b>Medical and Dental Expenses</b>				
<b>1</b>	Unreimbursed medical and dental expenses .....		<b>2,500.</b>	
<b>2</b>	Amount from Form 1040, line 38 .....	<b>25,000.</b>		
<b>3</b>	Multiply line 2 by 7.5% .....		<b>1,875.</b>	
<b>4</b>	Subtract line 3 from line 1 .....			<b>625.</b>



## Puerto Rico Exempt Income

Deductions that apply to exempt Puerto Rico income are not deductible on a federal tax return.

### Determining the Allowable Portion

## Allowable Portion



For Puerto Rican filers who itemize, the itemized deductions must be allocated based on total gross income from all sources (including Puerto Rico source income). This allocation decreases each itemized deduction. You should refer to Publication 1321 for special instructions and examples for bona fide residents of Puerto Rico.

## Itemized Deductions (continued)

Deductions that do not specifically apply to a particular type of income must be apportioned between gross income subject to U.S. tax and total gross income from all sources. Examples of deductions that do not apply to a particular type of income are alimony payments and certain itemized deductions, such as:

- Medical expenses
- Charitable contributions
- Real estate taxes on the taxpayer's home
- Mortgage interest on the taxpayer's home

### Example

Robert and Elena are filing a joint return. They are bona fide residents of Puerto Rico. Robert works for the federal government and Elena for a bank in Puerto Rico. During 2011, Robert earned \$ 25,000 as a federal employee and Elena earned \$15,000 from her job. They have itemized deductions of \$16,000 that do not apply to any specific type of income (medical and dental \$ 4,000, real estate taxes \$5,000, mortgage interest on their home of \$6,000 and charitable contributions \$1,000 (cash contributions). Each deduction is apportioned as follow:

### Effect of Puerto Rico exempt income on itemized deductions:

Itemized Deduction	Expense Amount	Formula	Allowable Portion of Each Deduction
Medical and Dental	\$ 4,000	$(25,000 \div 40,000) \times 4,000$	\$2,500
Real Estate Taxes	\$ 5,000	$(25,000 \div 40,000) \times 5,000$	\$3,125
Mortgage Interest	\$ 6,000	$(25,000 \div 40,000) \times 6,000$	\$3,750
Charitable Contributions	\$ 1,000	$(25,000 \div 40,000) \times 1,000$	\$ 625
Total	\$16,000		\$8,125

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# Social Security Benefits

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Social security benefits are payments made under Title II of the Social Security Act. They include OASDI (old age, survivors, disability insurance), and some workers' compensation benefits. Generally, if social security benefits are the taxpayer's only source of income, then the benefits are not taxable and the taxpayer probably does not need to file a federal income tax return.

If the taxpayer received social security benefits plus other income (including exempt Puerto Rico income), some portion of the social security benefit may be taxable.

Social security benefits are reported to the taxpayer on Form SSA-1099, Social Security Benefit Statement. To correctly calculate the taxable portion, you need to know the amount in box 5 (Net Benefits).

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## Calculating the Taxable Portion

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### When Benefits Are Taxable

Tax rules for determining the taxable part of social security benefits apply to residents of Puerto Rico.

To determine whether social security benefits are taxable, use the Worksheet 1 in Publication 915: Figuring your taxable benefits to compare taxpayers':

- Base amount (assigned by their filing status), and
- Total of their income (including exempt income and interest) and half their social security benefits

If that total of your income is more than the base amount for your filing status, part of their social security benefits may be taxable. In general, the higher that total, the greater the taxable part of the benefits.

### Base Amounts

Taxpayers' base amounts are determined by filing status.

Filing Status	Base Amount
Married Filing Separately (and taxpayer lived with spouse for any part of tax year)	\$0
Single Head of Household Qualifying Widow(er)	\$25,000
Married Filing Separately (and taxpayer lived separately from spouse for entire tax year)	
Married Filing Jointly	\$32,000

# Calculating the Taxable Portion (continued)



**For taxpayers who plan to file as Married Filing Separately, be sure to ask whether they lived with their spouse for any part of the tax year, as that changes the base amount.**

## Filing Status

<b>Filing Status</b> Check only one box.	1	<input type="checkbox"/> Single	4	<input type="checkbox"/> Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____
	2	<input type="checkbox"/> Married filing jointly (even if only one had income)	5	<input type="checkbox"/> Qualifying widow(er) with dependent child (see page 16)
	3	<input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ _____		

### When Benefits Are Taxable (continued)

#### Income Calculation

When Calculaing the taxable portion of taxpayers' social security benefits, compare the base amount to the total of:

- Exempt income earned by Puerto Rico residents
- All other income, including tax-exempt interest
- Half their
  - Social security net benefit for the year (from Form SSA-1099, box 5)
  - Social security equivalent of the Railroad Retirement Benefits (from Form RRB-1099, box 5)

<b>20a</b> Social security benefits	<b>20a</b>	<b>0.</b>	<b>b</b> Taxable amount (see page 27)	<b>20b</b>	
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### Figuring Your Taxable Benefits Worksheet

- Residents of Puerto Rico with exempt Puerto Rico source income must use the worksheet in Publication 915 to calculate the taxable portion of social security benefits, not the workseet included with Form 1040's instructions.
- Social security benefits are reported to taxpayers on Form SSA-1099, Social Security Benefit Statement.
- Enter the amount from box 5 of each of the Form(s) SSA-1099s on line 1 of the Figuring Your Taxable Benefits worksheet in publication 915, Social Security and Equivalent Railroad Retirement Benefits.
- Include benefits received by both spouses if filing married Filing Jointly
- Exclude any dependents' SSA-1099s
- Give the completed worksheet to the taxpayer for their records

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# Foreign Tax Credit

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**Probe/action:** To determine what is the foreign tax credit and who may take the credit review the following information.

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## **What is the Foreign Tax Credit?**

The foreign tax credit was created to avoid double taxation when foreign source income is taxed by both the U.S. and the country or Possession from which it is derived.

For Puerto Rico residents, the foreign tax credit reduces a taxpayer's tax liability by some or all of the Puerto Rico taxes paid or accrued during the tax year.

## **What Form is used to claim the Foreign Tax Credit?**

Form 1116 is used to claim the Foreign Tax Credit

## **Who May Take the Credit?**

Taxpayers who have foreign or Puerto Rican source income taxable to the United States may take the foreign tax credit.

## **QUALIFYING TAXES**

The Foreign Tax Credit, generally include taxes paid to a foreign country or possession on:

- Wages
- Dividends
- Interest
- Royalties
- Annuities

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## Foreign Tax Credit (continued)

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**TIP**

Ask the taxpayer:

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<b>STEP 1</b>	<b>Did you receive income from Puerto Rico or foreign sources?</b> <b>Note: Consider chart “Source of Income” to determine where the income was sourced</b>	<b>If Yes, go to Step 2</b> <b>If No, Stop. You can not claim FTC</b>
<b>STEP 2</b>	<b>Was this income taxable to the United State?</b> <b>Note: Consider chart “Source of Income” to determine where the income was sourced</b>	<b>If Yes, go to Step 3</b> <b>If No, Stop. You can not claim FTC. Explain to the taxpayer you can not take the credit on exempt Puerto Rico income</b>
<b>STEP 3</b>	<b>Did you pay taxes to Puerto Rico or foreign country?</b>	<b>If Yes, explain to the taxpayer the categories of income.</b> <b>If No, explain to the taxpayer they can not take the credit because the credit is limited to the allocated amount of U.S. taxes imposed on the foreign income, or the actual amount of foreign tax paid (after reductions on line 12, whichever is less*</b>

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\* Carryback and forward rules may allow a taxpayer to use excess foreign taxes paid in prior years to be used in current year Form 1116 when there is foreign income taxable to the U.S. and not enough foreign taxes. This is a very advanced topic not discussed in the volunteer program. Publication 514 “Foreign Tax Credit for Individuals” explains in detail the computation to claim the unused foreign taxes paid or accrued.

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## Foreign Tax Credit (continued)

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### CATEGORIES OF INCOME

**Probe/action:** A separate Form 1116 must be completed for each category of income listed in the heading section and only one income category can be checked per form.

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#### Examples of Categories of Income

**Passive Income:** Includes dividends, interest, royalties, rents and annuities

**General category Income:** Includes wages and salaries.

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## Taxable Income from Sources Outside the United States

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### FOREIGN TAX CREDIT - Part 1

**Probe/action:** Determine the taxable gross income sourced in the foreign country or Possession taxable to the United States.

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#### Gross Income from sources outside the United States :

Amount entered on Part I, Line 1 of form 1116 are gross income figures.

Gross income does not include:

- exempt income from foreign or possession sources exempt under section 933 or the COLA earned by federal employees which is exempt under section 912 of the Internal Revenue Code.

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## Foreign Tax Credit – Allocation of Income

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### COMPENSATION FOR SERVICES OR RETIREMENT INCOME PERFORMED WITHIN AND OUTSIDE THE UNITED STATES

**Probe/action:** If you can not segregate compensation for services or retirement income performed partly within and partly outside the United States, use the following formulas to compute the foreign income.

---

#### Allocation of Income

In order to determine how much income should be considered foreign for purposes of Form 1116, an apportionment should be made on a time basis. That is, you must include foreign gross income, or the amount that results from multiplying the total amount received by a fraction, the numerator of which is the number of days services performed in foreign countries, and the denominator of which is the total number of days of service for which payment was received.

#### Formula for compensation for services:

$$\frac{\text{Days in Puerto Rico and/or foreign country}}{\text{Total number of days for total payment}} \times \text{Total Compensation} = \text{Amount of foreign income Part 1 line 1a Form 1116}$$

#### Formula for retirement Income:

$$\frac{\text{Years in Puerto Rico and/or foreign country}}{\text{Total years of service}} \times \text{Annual pension} = \text{Amount of foreign income Part 1 line 1a Form 1116}$$

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# Deductions and Losses

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## FOREIGN TAX CREDIT- Part I

**Probe/action:** In order to arrive at the taxable income from foreign sources you must determine the deduction and losses from the foreign or possession income reported in Part I of Form 1116.

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### **Expenses definitely related to the foreign income; (line 2 of Part I Form 1116)**

Examples of some of the deductions that are definitely related to specific income:

- Business expenses
- Moving expenses
- Individual retirement accounts and Keogh contributions
- Professional and union dues

### **Pro rata share of other deductions not definitely related; (lines 3a-3g of Part I form 1116)**

Foreign gross income must be reduced by an allowable portion of other expenses and deductions (such as the adjustments for alimony paid, certain itemized deductions, or the standard deduction) which are not definitely related to specific items of income. No allocation is necessary for personal exemptions.

### **Standard Deduction**

If not itemizing, enter the standard deduction. If the standard deduction was modified due to exempt income under IRC 933 (Puerto Rican source income), enter on line 3a of Form 1116 the allowable portion of the standard deduction as figured on line 2d of the Publication 1321 worksheet.

### **Certain Itemized Deductions- (line 3a part I form 1116)**

If itemizing deductions, enter on line 3a (**part II form 1116**) certain itemized deductions such as medical expenses, general sales taxes, and real estate taxes. These amounts are taken from lines 4, 5b, and 6 of Schedule A. Note that Schedule A will already show deductions modified due to exempt income under IRC Section 933 (Puerto Rican source income).

### **Other deductions (line 3b)**

Enter any other deductions that do not definitely relate to any specific type of income ( for example, the deduction for alimony paid or any other deductions shown on Form 1040, lines 23 - 35).

### **Gross Foreign Source Income- (line 3d part I form 1116)**

Enter on line 3d gross **foreign** source income (Puerto Rico source income) from the category checked above Part I of Form 1116. Do not include the COLA on line 3d. For purposes of this allocation only, gross foreign income includes the income exempt under IRC Section 933 but do not include any other exempt income.

### **Gross Income from all sources- (line 3e part I form 1116)**

Enter on line 3e gross income from all sources and all categories, both U.S. and foreign. Do not include the COLA on line 3e. For purposes of this allocation **only**, gross income includes the income exempt under IRC Section 933 (Puerto Rican Source income but do not include any other exempt income). If the taxpayer does not have income source in the U.S. and is only completing Form 1116 for one category of income, line 3d and 3e will be the same. **Line 3F** - Round off the result to at least four decimal places. Enter the result, but do not enter more than 1.

# Deductions and Losses



## FOREIGN TAX CREDIT- Part I INTEREST EXPENSE

**Probe/action:** Complete worksheet for Home Mortgage Interest

### Pro rata share of Interest Expense - (line 4 of Part I, form 1116)

The interest expense is subject to a separate allocation on Form 1116, line 4. If your gross income (including Puerto Rico exempt income) does not exceed \$5,000, all of the mortgage interest expense can be allocated to U.S. source income and does not need to be included in this part. Otherwise, deductible home mortgage interest (including points) is apportioned using a gross income method. Use the following worksheet to apportion this interest.

#### Worksheet for Home Mortgage Interest —Line 4a

*Keep for Your  
Records*

**Note:** Before you complete this worksheet, read the instructions for line 4a on this page.

1. Enter gross foreign source income\* of the type shown on Form 1116. **Do not** enter income excluded on Form 2555 or Form 2555-EZ . . . . . **1.** \_\_\_\_\_
2. Enter gross income from all sources. **Do not** enter income excluded on Form 2555 or Form 2555-EZ . . . . . **2.** \_\_\_\_\_
3. Divide line 1 by line 2 and enter the result as a decimal (rounded to at least four places) . . . . . **3.** \_\_\_\_\_
4. Enter deductible home mortgage interest (from lines 10 through 13 of Schedule A (Form 1040)) . . . . . **4.** \_\_\_\_\_
5. Multiply line 4 by line 3. Enter the result here and on the appropriate Form 1116, line 4a . . . . . **5.** \_\_\_\_\_

\*If you have to report income from more than one country on Form 1116, complete a separate worksheet for each country. Use only the income from that country on line 1 of the worksheet.

**Other interest expense - (line 4b)** Other interest expense includes investment interest, interest incurred in a trade or business, and passive activity interest. See Publication 514 for more information.

**Losses from foreign sources - (line 5)** If you have capital losses from foreign sources, see Publication 514 for more information.

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## When the Credit May Be Taken

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### Part II, Form 1116

**Probe/action:** To determine when the taxpayer can take the credit review the following information. This information is used to complete Part II of Form 1116.

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### Cash Basis Taxpayers

Cash basis taxpayers may choose to take the Foreign Tax Credit for their Puerto Rico taxes in the year those taxes were paid or accrued.

- If they take the Foreign Tax Credit the year the taxes are paid, then they can claim payments and withholdings of taxes to the Puerto Rico government for their Foreign Tax Credit. Additional taxes owed to the Puerto Rico government for that tax year are not included.
- If they take the Foreign Tax Credit the year the taxes are accrued, then they can claim their entire Puerto Rico tax liability as of December 31 for their Foreign Tax Credit, regardless of whether they have paid the taxes.
- Most U.S. government employees who live in Puerto Rico use the accrual method to determine their Foreign Tax Credit because Puerto Rico taxes are paid after the end of the year.

***All Puerto Rican taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116 when computing the credit.***

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## Figuring the Credit

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### Part III, Form 1116

**Probe/action:** Review the following information to determine how to complete Part III of Form 1116

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### Reduction in Foreign Taxes

Taxpayers cannot claim a foreign tax credit for taxes paid on **excluded Puerto Rico income**.

The taxes allocated to the exempt Puerto Rican income **should be included in Part III, line 12 of Form 1116, as a reduction in foreign taxes**.

### Formula to complete reduction in foreign taxes, line 12 of Form 1116

Taxes paid on exempt income **are not allowed** as part of the foreign tax credit. To find the amount allocable to the exempt income, multiply the taxes paid or accrued to Puerto Rico by a fraction. The numerator of the fraction is the exempt income from Puerto Rican sources under IRC Section 933, less deductible expenses allocable to that income. The denominator is the total amount of income subject to Puerto Rico tax less deductible expenses allocable to that income. This fraction is multiplied by the tax paid or accrued to Puerto Rico.

### Formula:

$$\frac{\text{Income from Puerto Rican sources not subject to federal tax under IRC Section 933 less deductible expenses allocable to that income}}{\text{Total Income subject to Puerto Rico tax, less deductible expenses allocable to that income}} \times \text{Tax Paid or accrued to Puerto Rico} = \text{Reduction in foreign taxes}$$

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## Foreign Tax Credit Redeterminations

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If you claim a credit for foreign taxes paid, and you receive a refund of all or part of those taxes in a later year, you must file an amended return reducing the taxes credited by the amount refunded.

If you claim the foreign tax credit based on foreign taxes accrued instead of foreign taxes paid, your credit must be redetermined in any of the following situations.

1. Your accrued taxes when paid differ from the amount you claimed as a credit.
2. You do not pay the accrued taxes within 2 years after the close of the tax year to which they relate.
3. After you pay the accrued taxes, you receive a full or partial refund of them.

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# Self Employment Tax

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## Earnings Subject to Self Employment Tax

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### Includes

- Net earnings from self-employment from other than a church employee of \$400 or more.
- Partnership income and guaranteed payments.
- Wages of employees of churches and other religious organizations (not ministers), if you earned at least \$108.28.
- Services performed as a minister, member of religious order who has not taken a vow of poverty, or a Christian Science practitioner (unless IRS approval for exemption has been obtained).
- Income from farm rental if you materially participated in the production or management of farm products on such land.
- Cash or a payment in kind from the Dept of Agriculture for participating in a land diversion program.
- Fees and other payments received for services as a director of a corporation.
- Income from the retail sale of newspapers if you were age 18 or older and kept the profits.
- Income received as a direct seller.
- Income of certain crew members of fishing vessels with crews of normally fewer than 10 people.
- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a federal-state social security coverage agreement.
- Fees received as a professional fiduciary, or as a non-professional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

### Does Not Include

- Salaries, fees, etc subject to Social Security and Medicare withholding received for performing services as an employee.
- Fees received for services performed as a notary public.
- Income from real estate rental not in the course of a trade or business as a real estate broker.
- Income from farm rental if you did not materially participate in the production or management of farm products on such land.
- Dividend and interest income earned not in the course of a trade or business as a dealer in stocks and securities.
- Net operating losses from previous years.
- Gain or loss from the sale or exchange of capital assets, or other property not held as stock or inventory in a trade or business, or held primarily for sale in the course of an ordinary trade or business.
- **Caution:** Neither the owner's contribution for a Keogh plan nor the Self-Employed Health Insurance deduction are allowed for S/E tax on Schedule SE or Form 1040PR.

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# Self Employment Tax (continued)

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## Overview of the Methods for Calculating Self-Employment Tax

### Methods for Figuring Net Earnings

There are three ways to figure your net earnings from self-employment:

1. The regular method
2. The nonfarm optional method
3. The farm optional method

You must use the regular method unless you are eligible to use one or both of the optional methods.

**Why use an optional method?** You may want to use the optional methods when you have a loss or a small net profit and any of the following applies:

- You want to receive credit for social security benefit coverage.
- You are entitled to the additional child tax credit (An optional method may increase your earned income, which could increase your credit.)
- You incurred child or dependent care expenses for which you could claim a credit (An optional method may increase your earned income, which could increase your credit.)
- You are entitled to the earned income credit (An optional method may increase your earned income, which could increase your credit.)

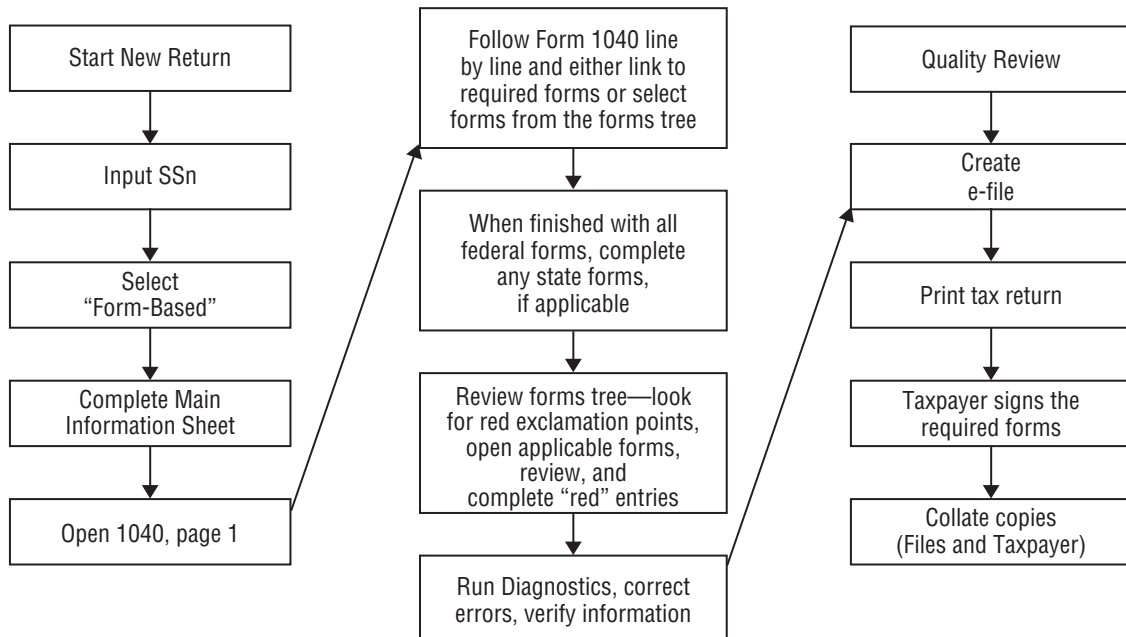
**Effects of using an optional method.** Using an optional method could increase your SE tax. Paying more SE tax could result in your getting higher benefits when you retire.

If you use either or both optional methods, you must figure and pay the SE tax due under these methods even if you would have had a smaller tax or no tax using the regular method.

The optional methods may be used only to figure your SE tax. To figure income tax, include your actual earnings in gross income, regardless of which method you use to determine SE tax.

For VITA scope purposes, you will not be using the farm optional method.

## Starting - New Return Flow Chart



## Main Information Screen

**Taxpayer Information**

Special processing ..... [REDACTED]

Are you excluding Puerto Rico income from this tax return? .....  Yes  No

If "Yes", enter the amount of income excluded ..... 0. [REDACTED]

	<b>Taxpayer</b>	<b>Spouse</b>
Check if blind .....	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes
Check if totally and permanently disabled .....	<input type="checkbox"/> Yes	<input type="checkbox"/> Yes

Date of death, ONLY if in 2010 or 2011 ..... [REDACTED]

This tax return is being filed by  the surviving spouse or  someone else.

Excluded income under Section 933.

**US Main Information Sheet**

This return can be filed on Form **1040**

Check form you are using:  1040  1040A  1040EZ  1040PR  1040NR  1040NREZ

Check one:  Spanish forms on the screen and printed.  Spanish forms printed only

Always use Form 1040, except for bona fide residents of Puerto Rico filing a U.S. return just to claim the additional child tax credit.



# Additional Child Tax Credit (ACTC)

## A. Residents of Puerto Rico who files a Federal Tax Return just to claim the ACTC

U.S. Self Employment Tax Return – Form 1040 – PR (English version)

Select Form 1040 PR if the taxpayer files a federal tax return just to claim the additional child tax credit (ACTC).

Verify names and social security numbers with social security cards.

U.S. Self Employment Tax Return – Form 1040 – PR (English version)

All of the following tests must be met to claim someone as a qualifying child:

- Relationship test
- Residency test
- Age test
- Support test
- Citizen, resident, or national test

U.S. Self Employment Tax Return – Form 1040 – PR (English version)

Type account numbers exactly as shown on check. Use a voided check as proof of account.

For savings account obtain a statement from the financial institution to verify the routing number and account number.

Form 1040 – PR (English version)– Page 2

Include all income under IRC Section 933.

Main Screen

A resident of Puerto Rico who files a federal tax return just to claim the ACTC should include all income under IRC Section 933.

# Additional Child Tax Credit (ACTC) (continued)

## B. Taxpayers with U.S. Taxable Earned Income

US 8812		Additional Child Tax Credit	
Name: <b>ROBERT SAN JUAN &amp; ELENA PONCE</b>		SSN: <b>589-98-0006</b>	
<b>Part I: All Filers</b>			
1	Amount from line 7 of the child tax credit worksheet .....		2,000.
2	Amount from Form 1040, line 51; Form 1040A, line 33; or Form 1040NR, line 48 .		0.
3	Subtract line 2 from line 1. If -0-, STOP. You cannot take this credit .....		2,000.
4a	Total earned income .....		35,000.
	Enter any amount included in line 4a that was received by penal institution inmates for their work .....	0.	
b	Nontaxable combat pay .....	0.	
5	Is the amount on line 4 more than \$3,000?		
	<input type="checkbox"/> No. Leave line 5 blank and enter -0- on line 6.		
	<input checked="" type="checkbox"/> Yes. Subtract \$3,000 from the amount on line 4a .....	32,000.	
6	Multiply the amount on line 5 by 15% .....		4,800.
	<b>Next.</b> Do you have three or more qualifying children?		
	<input checked="" type="checkbox"/> No. If line 6 is -0-, STOP; you cannot take this credit. Otherwise, skip Part II and enter the smaller of line 3 or line 6 on line 13.		
	<input type="checkbox"/> Yes. If line 6 is equal to or more than line 3, skip Part II and enter the amount from line 3 on line 13. Otherwise, go to line 7.		

If the taxpayer has income subject to federal income tax laws, the credit must be claimed using Form 1040 along with Form 8812.

Part II: Certain Filers Who Have Three or More Qualifying Children			
7	Withheld social security, railroad tier 1, and Medicare taxes from Form(s) W-2. If married filing jointly, include your spouse's amounts with yours .....		0.
8	Amounts from Form 1040, lines 27 and 57, or Form 1040NR, lines 27 and 55, plus any uncollected social security and Medicare or RRTA taxes included on Form 1040, line 60, or Form 1040NR, line 59. Form 1040A filers, enter -0- .....		0.
9	Add lines 7 and 8 .....		0.
10	Total of Earned Income Credit and excess FICA / RRTA .....		0.
11	Subtract line 10 from line 9 .....		0.
12	Larger of line 6 or line 11 .....		0.
<b>Part II: Your Additional Child Tax Credit</b>			
13	Additional child tax credit .....		2,000.

# Adjustments to Income

Adjustments to Income		
23	Educator expenses .....	0.
24	Certain business expenses of reservists, qualified performing artists, and fee-based government officials. Form 2106 or 2106-EZ .....	0.
25	Health savings account deduction. Form 8889 .....	0.
26	Moving expense. Form 3903 .....	0.
27	One-half of self-employment tax .....	0.
28	Self-employed SEP, SIMPLE, and qualified plans .....	0.
29	Self-employed health insurance deduction .....	0.
30	Penalty on early withdrawal of savings .....	0.
31	Alimony paid	
	Recipient's SSN: [REDACTED] and amount [REDACTED] .....	0.
32	IRA deduction .....	0.
33	Student loan interest deduction .....	0.
34	Tuition and fees deduction .....	0.
35	Domestic production activities deduction. Form 8903 .....	0.
	Other: Reforestation .....	0.
	Sub-pay (Trade Act) .....	0.
	Jury duty pay you gave to your employer .....	0.
	501(c)18 pension plan .....	0.
	PPR .....	0.
	Form 2555, line 50 .....	0.
	Archer MSA deduction. Form 8853 .....	0.
	Deduction for whistleblower fees .....	0.
36	<b>Total adjustments</b> .....	<b>0.</b>
37	<b>Adjusted gross income</b> .....	<b>25,000.</b>

Can not take a deduction on Line 27, if the deduction is related to excluded income for U.S. income tax purpose.

IRA trust account must be in the U.S.



# Deductions

Name: Robert San Juan SSN: [REDACTED]

**Taxable Income and Tax**

38 Amount from line 37 (adjusted gross income) ..... 16,875.

39 a Taxpayer  65 or older  Blind Spouse:  65 or older  Blind  
Total boxes checked: 0

b If you are married filing separately and your spouse itemizes deductions, or you are a dual-status alien, check here  or F3:

40 **Itemized deductions or standard deduction.** If you elect to itemize deductions even though the standard deduction is larger, check here . If you were or are a resident of Puerto Rico and are excluding Puerto Rico income, or you are excluding income on Form 4963, check here (section 933)

41 Subtract line 40 from line 38 ..... 16,875.

42 **Exemptions.** Multiply \$3,650 by the total number of exemptions on line 6d ..... 9,475.

43 **Taxable income** ..... 9,475.

44 **Tax.** From  the tax table or schedule  Form 6615

Only the allowable portion of standard or itemized deductions.  
 "Deduction modified due to exempt income under section 933".

## Effect of Puerto Rico exempt income on itemized deductions:

Itemized Deduction	Expense Amount	Formula	Allowable Portion of Each Deduction
Medical and Dental	\$4,000	$(25,000 \div 40,000) \times 4,000$	\$2,500
Real Estate Taxes	\$5,000	$(25,000 \div 40,000) \times 5,000$	\$3,125
Mortgage Interest	\$6,000	$(25,000 \div 40,000) \times 6,000$	\$3,750
Charitable Contributions	\$1,000	$(25,000 \div 40,000) \times 1,000$	\$625
<b>Total</b>	<b>\$16,000</b>		<b>\$8,125</b>

TaxWise® Deductions Tab 4

## Exhibit Allocation of itemized deduction for Robert and Elena – Medical Expenses

**US Schedule A Itemized Deductions 2010**

Name: ROBERT SAN JUAN & ELENA PONCE SSN: 589-98-0006

**Medical and Dental Expenses**

1 Unreimbursed medical and dental expenses ..... 2,500.

2 Amount from Form 1040, line 38 ..... 25,000.

3 Multiply line 2 by 7.5% ..... 1,875.

4 Subtract line 3 from line 1 ..... 625.

Include only the allowable portion.

## Deductions (continued)

Exhibit Allocation of itemized deduction for Robert and Elena – Real Estate Taxes

Taxes You Paid			
<b>5</b>	State and local taxes. Only one box can be checked.		
<b>a</b>	<input type="checkbox"/> Income taxes	0.	
<b>b</b>	<input type="checkbox"/> General sales tax	0.	0.
<b>6</b>	Real estate tax remainder from Form 8829	0.	
	Real estate tax remainder from part rental worksheets	0.	
	Real estate taxes on your principal residence, not listed above	3,125.	
	Other real estate taxes you paid, not listed elsewhere in this tax return	0.	3,125.
<b>7</b>	New motor vehicle taxes for certain vehicles purchased in 2009. Skip this line if box 5b is checked	0.	
<b>8</b>	Other taxes (including personal property tax)		
	Personal property tax remainder from business vehicle worksheet	0.	
	Type	0.	0.
<b>9</b>	Add lines 5 through 8		3,125.

Exhibit Allocation of itemized deduction for Robert and Elena – Home Mortgage

Interest You Paid			
<b>10</b>	Home mortgage interest remainder from Form 8829	3,750.	
	Home mortgage interest remainder from part rental worksheets	0.	
	Form 8396 credit, if applicable	0.	
	Home mortgage interest and points from Form 1098, not listed above	0.	3,750.
<b>11</b>	Home mortgage interest not reported on Form 1098. If paid to an individual, show the person's name, ID number, and address.		
	Individual's name		
	ID number		
	Address		
	Amount	0.	0.
<b>12</b>	Points not reported on Form 1098	0.	0.
<b>13</b>	Total mortgage insurance premiums	0.	
	Allowed mortgage insurance premiums	0.	
<b>14</b>	Investment interest. Attach Form 4952, if required	0.	
<b>15</b>	Add lines 10 through 14		3,750.

Exhibit Allocation of itemized deduction for Robert and Elena – Charitable

Gifts to Charity			
<b>16</b>	Gifts by cash or check	625.	
<b>17</b>	Other than by cash or check	0.	
<b>18</b>	Carryover from prior year	0.	
<b>19</b>	Add lines 16 through 18		625.

Exhibit Allocation of itemized deduction for Robert and Elena – Total Allowable Itemized Deductions

Total Itemized Deductions			
<b>29</b>	Total itemized deductions	8,125.	8,125.
	Line 29 amount for state returns	8,125.	

# Foreign Tax Credit – Form 1116

**US 1116 Foreign Tax Credit**

Name: [Redacted] SSN: 589-98-0006

**Simplified Limitation Election**  
 The simplified method cannot be used if you file Form 4563 or exclude income from Puerto Rico. If ALL of your foreign source income is from dividends and interest and all of that income is reported to you on Forms 1099-DIV or 1099-INT and your qualified foreign taxes are not more than \$300 (\$600 if married filing jointly), you do not need to fill out this form. You can enter the foreign tax amount here: [Redacted] or directly on Forms 1040 or 1040NR. By making this election, you forego any carryover of excess foreign taxes to or from a taxable year to which this election applies and this election applies to all later tax years and can only be revoked with IRS consent. Enter the amount of foreign income on Schedules B, as applicable and also on line 16 of Form 1116AMT.

Check only one box: Use a separate Form 1116 for each category of income.

a  Passive category income    c  Section 901(j) income    e  Lump sum distributions  
 b  General category income    d  Income re-sourced by treaty

f Resident of (name of country): [Redacted]

**Part I: Taxable Income or Loss from Sources Outside United States for Category Above**

g Name of country or possession. Limit to 10 characters for printing.  
 A [Redacted]    B [Redacted]    C [Redacted]

1a Gross income from sources within country shown above. Type: [Redacted]	A	B	C	Total
Income other than capital gains . . . . .	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Only one category of income can be selected in each Form 1116. General category includes wages and salaries.

Gross income does not include exempt Puerto Rico income nor COLA.

If you can not segregate compensation for services or retirement income performed partly within and partly outside the United States, use the formula to compute the foreign gross income.

## Taxable Income or Loss from Sources Outside United States

**Part I: Taxable Income or Loss from Sources Outside United States for Category Above**

g Name of country or possession. Limit to 10 characters for printing.  
 A [Redacted]    B [Redacted]    C [Redacted]

1a Gross income from sources within country shown above. Type: [Redacted]	A	B	C	Total
Income other than capital gains . . . . .	[Redacted]	[Redacted]	[Redacted]	[Redacted]

# Foreign Tax Credit – Form 1116 (continued)

## FORM 1116 – “Standard or Itemized Deductions”

Deductions and losses.				
2	Expenses definitely related to the income on line 1d	0.	0.	0.
3	Prorate share of other deductions not definitely related.			
a	Certain itemized or standard deduction.			
	Deductions from 1040	11,800	7,250	0.
b	Other deductions	0.	0.	0.
c	Add lines 3a and 3b	7,250	0.	0.
d	Gross foreign source income	40,000	0.	0.
e	Gross income from all sources	40,000	0.	0.
f	Divide line 3d by line 3e	1.0000	0.0000	0.0000
g	Multiply line 3c by line 3f	7,250	0.	0.
4	Prorate share of interest expense. See instructions.			
a	Home mortgage interest. Schedule A amount	0.	0.	0.
b	Other interest expense	0.	0.	0.
5	Losses from foreign sources	0.	0.	0.
6	Add lines 2, 3g, 4a, 4b, and 5	7,250	0.	0.
7	Subtract line 5 from line 1a			7,750

Part II: Foreign Taxes Paid or Accrued					
Credit if claimed for taxes: (h) <input type="checkbox"/> Paid (i) <input checked="" type="checkbox"/> Accrued					
Foreign taxes paid or accrued in foreign currency					
(j) Date paid or accrued	(k) Taxes withheld at source			(n) Other foreign taxes paid or accrued	F9 to explain
	(l) Dividends	(m) Rents / royalties	(o) Interest		
A					<input checked="" type="checkbox"/>

If not itemizing, Taxwise enters the standard deduction in line 3a (margin).

To complete this line you must transfer the allowable portion from the margin to column A line 3a (green entry). TaxWise computes the modified standard deduction. It is important that in the main information screen you enter the total amount of “Puerto Rico income excluded from the tax return”.

Itemized deductions should be modified on Schedule A, only the allowable portion is included.

TaxWise computes the mortgage interest expenses on line 4a, automatically.

TaxWise enters certain itemized deductions such as real estate taxes, charitable contributions and medical expenses on line 3a.

# Foreign Tax Credit – Form 1116 (continued)

## Foreign Taxes Paid or Accrued

**Cash Basis Taxpayers:** Have the option to take the Foreign Tax Credit for their Puerto Rico taxes in the year those taxes were paid or accrued.

**Part II: Foreign Taxes Paid or Accrued**

Credit if claimed for taxes (check one): (h)  Paid (i)  Accrued

**Foreign taxes paid or accrued in foreign currency**

	(j) Date paid or accrued	Taxes withheld at source			(n) Other foreign taxes paid or accrued	File to explain
		(k) Dividends	(l) Rents / royalties	(m) Interest		
A						<input type="checkbox"/>
B						
C						

**In U.S. dollars**

	Taxes withheld at source			(i) Other foreign taxes paid or accrued	(s) Total foreign taxes paid or accrued
	(o) Dividends	(p) Rents / royalties	(q) Interest		
A	0.	0.	0.	0.	0.
B	0.	0.	0.	0.	0.
C	0.	0.	0.	0.	0.

8 Total of Part II ..... 0.

This facsimile form is not approved for filing directly to the IRS.  
Print IRS form using "Print Return" or "Print Current Form".

Check the appropriate box to indicate whether the foreign tax was actually paid during 2011 or if the tax was billed in one year but paid in another ("accrued").

If the taxpayer takes the taxes paid, he/she can claim payments and withholding of taxes to the Puerto Rico government during 2011.

If the taxpayer takes the taxes accrued, then he/she can claim the entire Puerto Rico tax liability as of December 31, regardless of whether the taxes are paid the following year.

The taxpayer must continue to use the accrual method for the Foreign Tax Credit on all future returns.

All Puerto Rican taxes paid or accrued on both exempt and non-exempt income may be shown in Part II of Form 1116.

# Foreign Tax Credit – Form 1116 (continued)

## Taxpayer without exempt income

This page show how to figure out the foreign tax credit for a taxpayer without exempt income. Assume that the taxpayer is single, received \$31,000 in wages taxable to U.S. from sources outside the United States (Puerto Rico) and the taxes paid to Puerto Rlce were \$3,900.

## Figuring the Credit

Part III – Form 1116

Part III: Figuring the Credit		
9 Amount from line 8 .....		
10 Carryback or carryover. Attach computation . . . . . F9 to statement <input type="checkbox"/>	0.	
11 Add lines 9 and 10 .....	3,900.	
12 Reduction in foreign taxes .....	0.	
13 Subtract line 12 from line 11 Foreign taxes available for credit .....		3,900.
14 Amount from line 7 .....		
15 Adjustments to line 14. See instructions .....	0.	
16 Combine lines 14 and 15 .....	25,200.	
17 Taxable income. If you used Schedule D to figure your tax, the special computation for line 17 has been calculated .....		
18 Divide line 16 by line 17 .....		1.0000

Part IV: Summary of Credits From Separate Parts III		
Lines 22 through 26 should only be filled in if there is more than one Form 1116, and all totals must be calculated on the first Form 1116.		
22 Credit for taxes on passive category income .....		
23 Credit for taxes on general category income .....	0.	
24 Credit for taxes on certain income re-sourced by treaty .....	0.	
25 Credit for taxes on lump sum distributions .....	0.	
26 Add lines 22 through 25 .....		0.
27 If using multiple Forms 1116, enter the smaller of line 19 or line 26. If this is the only Form 1116, enter line 21 .....		3,359.
28 Reduction of credit for international boycott operations .....	0.	
29 <b>Foreign tax credit.</b> Subtract line 28 from line 27 .....		3,359.

This facsimile form is not approved for filing directly to the IRS.  
Print IRS form using "Print Return" or "Print Current Form".

The foreign tax credit is limited to the allocated amount of U.S. taxes imposed on the foreign income, or the actual amount of foreign tax paid (after reductions on line 12), whichever is less. The Foreign Tax Credit is not a refundable credit.

# Foreign Tax Credit – Form 1116 (continued)

## Foreign Tax Credit

**Taxpayer with exempt income.** Assume that the taxpayer is single and a bona fide resident of Puerto Rico who receives \$20,000 in wages taxable to U.S. from Puerto Rico sources and \$5,000 exempt income under IRC Section 933. The Puerto Rico tax liability was \$3,135.

Part III: Figuring the Credit		
9	Amount from line 6	3,135
10	Carryback or carryover. Attach computation. F9 to statement: <input type="checkbox"/>	0
11	Add lines 9 and 10	3,135
12	Reduction in foreign taxes	627
13	Subtract line 12 from line 11. Foreign taxes available for credit	2,508
14	Amount from line 7	15,360
15	Adjustments to line 14. See instructions	0
16	Combine lines 14 and 15	15,360
17	Taxable income. If you used Schedule D to figure your tax, the special computation for line 17 has been calculated	15,360
18	Divide line 16 by line 17	1.0000
19	Amount from Form 1040, line 44, or Form 1040NR, line 42	1,881
20	Multiply line 19 by line 18	1,881
21	Smaller of line 13 or line 20. LSO: <input type="checkbox"/>	1,881
Part IV: Summary of Credits From Separate Parts III		
Lines 22 through 26 should only be filled in if there is more than one Form 1116, and all totals must be calculated on the first Form 1116.		
22	Credit for taxes on passive category income	0
23	Credit for taxes on general category income	0
24	Credit for taxes on certain income re-sourced by treaty	0
25	Credit for taxes on lump sum distributions	0
26	Add lines 22 through 25	0
27	If using multiple Forms 1116, enter the smaller of line 19 or line 26. If this is the only	0

TaxWise subtracts line 12 from line 11 and enters the result here. This is the amount of foreign taxes available for credit.

Taxpayers cannot claim a foreign tax credit for taxes paid on excluded Puerto Rico income.

The taxes allocated to the exempt Puerto Rico income should be included in Part III, line 12, as a reduction in foreign taxes.

**Formula:** To complete reduction in foreign taxes, line 12 of Form 1116

Taxes paid on exempt income are not allowed as part of the foreign tax credit. To find the amount allocable to the exempt income, multiply the taxes paid or accrued to Puerto Rico by a fraction. The numerator of the fraction is the exempt income from Puerto Rican sources under IRC Section 933, less deductible expenses allocable to that income. The denominator is the total amount of income subject to Puerto Rico tax less deductible expenses allocable to that income.

$$\frac{\text{Income from PR sources not subject to Federal tax under IRC 933 less deductible Expenses allocable to that income}}{\text{Total income subject to Puerto Rico tax, less Deductible expenses allocable to that income}} \times \text{Tax paid or accrued to Puerto Rico} = \text{Reduction in foreign taxes}$$







# Link & Learn Taxes



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

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

## Link & Learn Taxes for 2011 includes:

- Access to seven VITA/TCE courses
- Easy identification of the VITA/TCE courses with the course icons
  - As you progress through a lesson, the Basic, Intermediate, Advanced, Military, and International icons will display, depending on your level of certification.
- Two optional modules:
  - Cancellation of Debt for Credit Cards and Mortgages — open to students with Advanced, Military or International certifications.
  - Health Savings Accounts (HSAs) — open to students who have completed Intermediate certification.
- The Practice Lab
  - Gives volunteers practice with an early version of the IRS-provided tax preparation software
  - Lets volunteers complete workbook problems from Publication 4491-W
  - Lets volunteers prepare test scenario returns for the test/retest

**Explore** Go to [www.irs.gov](http://www.irs.gov), type "Link & Learn" in the Keyword field and click Search. You'll find a detailed overview and links to the courses.



## Facilitated Self-Assistance Model

**FAST**, Free Assisted Self-Service Tax Preparation, is a facilitated self-assistance model of tax preparation that allows computer-savvy taxpayers to input their own return at a VITA/TCE site. Certified volunteers act as coaches, assisting taxpayers with questions and helping them with computer issues that may arise. Partners market the program to taxpayers as Free File/VITA/TCE.

For more information contact your Relationship Manager (RM) to see if you should start a FAST site in your community. You may also request Publication 4907 (*Free File for VITA Partners*) for further details.

# www.irs.gov

## Your online resource for volunteer and taxpayer assistance

### The Volunteer Resource Center

(Keyword: Community Network)

- Hot topics for volunteers and partners
- Site Coordinator's Corner
- Volunteer Tax Alerts
- Volunteer Training Resources
- EITC Information for Partners
- e-file Materials and Outreach Products

### Tax Information for Individuals

(Keyword: Individuals)

- 1040 Central (What's new this filing season)
- Where's My Refund
- EITC Assistant - Available in English and Spanish
- Tax Trails for Answers to common tax questions
- Alternative Minimum Tax (AMT) Assistant
- Interactive Tax Assistant (ITA)

and much more!

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