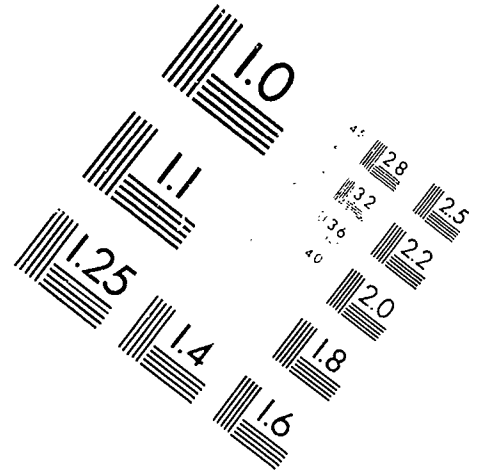
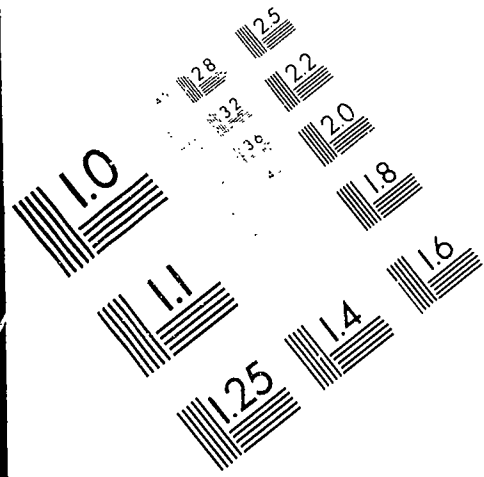




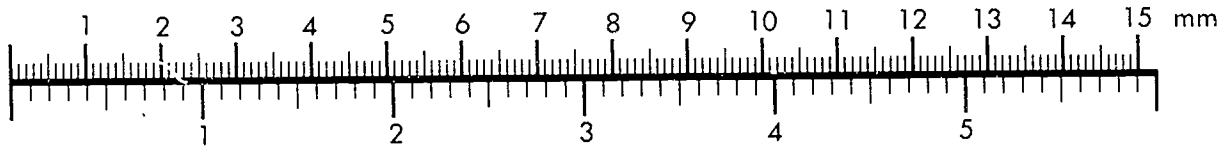
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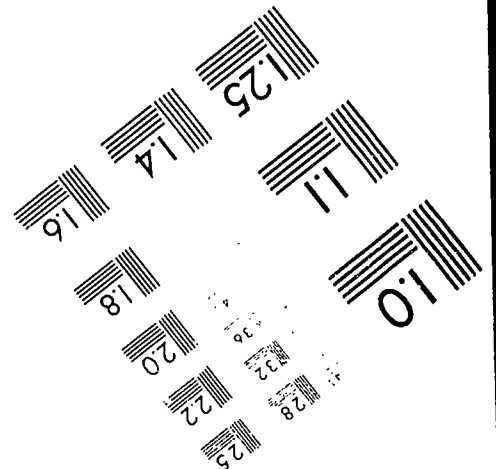
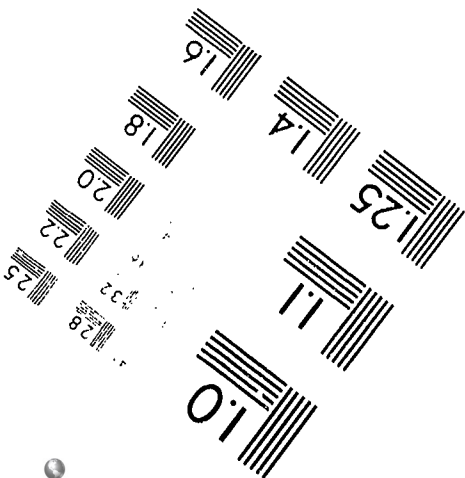
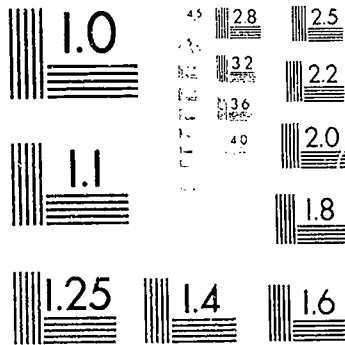
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TITLE Understanding Taxes. Teacher's Resource Kit. 1995 Annual Revision.

INSTITUTION Internal Revenue Service (Dept. of Treasury), Washington, D.C.

PUB DATE Nov 94

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AVAILABLE FROM Internal Revenue Service, Understanding Taxes High School Program, P.O. Box 127, Glen Burnie, MD 21060 (teacher's resource kit including videocassette and software program).

PUB TYPE Guides - Classroom Use - Teaching Guides (For Teacher) (052)

EDRS PRICE MF01/PC04 Plus Postage.

DESCRIPTORS Classroom Techniques; Course Content; Definitions; High Schools; *Learning Activities; Lesson Plans; Tax Allocation; Tax Credits; Tax Deductions; *Taxes; Tax Rates; Teaching Methods; Units of Study

IDENTIFIERS *Income Taxes; Internal Revenue Service

ABSTRACT

This packet contains revisions of the following sections of the "Understanding Taxes" teacher's resource kit: complete revisions of lessons 3 and 4; updated student handouts for lessons 2, 9, and 11; new glossary; and revised software user's guide. Lesson 3, "From W-4 to 1040A," is designed to acquaint students with the basic tax-related forms they are likely to encounter. Lesson objectives include the following: students should be able to: (1) discuss the use and importance of Forms W-4, W-2, 1040EZ, and 1040A; (2) determine, when given sufficient information, whether an individual must file a return; (3) identify the specific tax return form that is most appropriate for each of a selection of taxpayers; and (4) define and use relevant concepts and terms in order to fill out Forms W-4, 1040EZ, and 1040A correctly and appropriately. The lesson includes 16 student handouts. Lesson 4, "State and Local Taxes," is designed to help students understand that state and local governments need revenues to provide goods and services for their residents. After participating in the suggested activities, students should be able to identify the kinds of taxes most commonly collected by state and local governments and give examples of goods and services most commonly provided by state and local tax revenues. Two handouts are provided. The Software User's Guide describes the following: equipment needed, setup, starting up, parts of the program, and main menu activities. (KC)

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**Understanding Taxes
Teacher's Resource Kit
1995 Annual Revision**

Internal Revenue Service

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

ASSISTANT COMMISSIONER
(TAXPAYER SERVICES)

Dear Educator:

Enclosed is the 1995 Annual Revision for the Understanding Taxes Teacher's Resource kit. We believe the Understanding Taxes Program materials will be a welcome addition to your teaching of U.S. history and the politics and economics of our nation's tax system and how to prepare basic tax forms. The materials are designed for use in a variety of classrooms: history, economics, math, consumer education, government, civics, business education and etc.

The printed materials for Lesson 3: "Form W-4 to 1040A" contain the information needed to teach students how to prepare basic Forms W-4, 1040EZ and 1040A. The updated software and software user's guide walk students through the process of completing the tax forms. The software is compatible with IBM and Apple II computers. The software can be used along with Lesson 3 or it may be used as a stand alone program for self-tutorial purposes. If you do not have access to a computer, this will not interfere with teaching the program in your classroom. Please note that the forms contained in the update are marked "proof copy" as they may be subject to changes occurring later in the year. If changes do occur, this will not affect your teaching of the subject matter.

Just a reminder for those who are on the mailing list, you will automatically receive the annual updates and instructions on incorporating the materials into the kit.

Should you need any information or assistance with the Understanding Taxes High School Program, we would be pleased to hear from you. Just refer to the enclosed listing of addresses and telephone numbers for the IRS Taxpayer Education Coordinator nearest you.

To help us better serve your needs and ensure that you receive the materials, please contact us if any of the following circumstances occur:

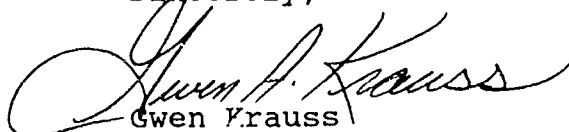
1. Any changes to your address.
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3. You no longer wish to receive the kit.

(Complete the appropriate box on the enclosed Understanding Taxes High School Program Order Form (FORM 1742) and mail it to the nearest IRS office shown on the enclosed list of addresses and telephone numbers).

Dear Educator, con't.

The above information is important to us and we appreciate your taking the time to contact us. We wish you and your students a most successful school year.

Sincerely,

A handwritten signature in cursive script that reads "Gwen A. Krauss". The signature is written in dark ink and is positioned above the typed name.

Gwen Krauss
Assistant Commissioner
(Taxpayer Services)

Enclosure(s)

HOW TO UPDATE YOUR TEACHER'S RESOURCE KIT

PLEASE REMOVE THE OLD MATERIALS FROM YOUR RESOURCE KIT AND INSERT THE CORRESPONDING NEW MATERIALS:

LESSON 2: TAXPAYER RIGHTS & RESPONSIBILITIES --
STUDENT HANDOUT 2.2

LESSON 3: FORM W-4 TO 1040A --
INSTRUCTOR BOOK & STUDENT HANDOUTS 3.1 - 3.16

LESSON 4: STATE AND LOCAL TAXES --
INSTRUCTOR BOOK AND STUDENT HANDOUTS 4.1 & 4.2

LESSON 9: TAXES RAISE REVENUE --
STUDENT HANDOUT 9.1 & 9.2

LESSON 11: TAXES INFLUENCE BEHAVIOR --
STUDENT HANDOUT 11.2

SOFTWARE USER'S GUIDE

COMPUTER DISKETTES

FORM. 1742 -- UNDERSTANDING TAXES ORDER FORM

ONLY THE MATERIALS LISTED ABOVE NEEDED TO BE REPLACED. ALL OTHER MATERIALS IN YOUR KIT SHOULD BE RETAINED.

Addresses and Telephone Numbers for IRS Taxpayer Education Coordinators

Unless otherwise noted, telephone numbers are not toll free and will involve long distance charges to callers outside of the local calling area. Contacts by mail should be made to the attention of the "Taxpayer Education Coordinator."

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Catalog Number 17697J

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Complete both sides and mail to the nearest IRS office listed on this form.

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Attention: Taxpayer Education Coordinator

FROM W-4 TO 1040A

Revised November, 1994

Note: This lesson is designed to be taught over a three- to five-day period. It is presented in three parts. Each of these parts can be taught in one day, but they will require more time if the software component is used to give students further practice in using tax forms.

PURPOSE

To help students understand (1) that taxpayers are responsible for paying income taxes through withholding as income is earned; (2) that they voluntarily report their income to the government by "filing" a tax return; and (3) that there are specific forms to help taxpayers in different situations do this. This three-part lesson will acquaint students with the basic tax-related forms they are likely to encounter.

OBJECTIVES

After participating in the suggested activities, students will be able to:

- discuss the use and importance of Forms W-4, W-2, 1040EZ, and 1040A
- determine, when given sufficient information, whether an individual must file a return
- identify the specific tax return form that is most appropriate for each of a selection of taxpayers
- define and use relevant concepts and terms in order to fill out Forms W-4, 1040EZ, and 1040A correctly and appropriately

MATERIALS

- Student Handout 3.1, "Glossary of Key Terms"
- Student Handout 3.2, "IRS Form W-4"
- Student Handout 3.3, "Are You Exempt from Withholding?"
- Student Handout 3.4, "The Dependency Tests"
- Student Handout 3.5, "IRS Form W-2" and "IRS Form 1099-INT"
- Student Handout 3.6, "Case Studies"
- Student Handout 3.7, "Should You File a Tax Return?"
- Student Handout 3.8, "Which Tax Return Form Should You Use?"
- Student Handout 3.9, "IRS Form 1040EZ" (also used in Lesson 2)
- Student Handout 3.10, "Tax Tables 1994" (pages 1 and 2)
- Student Handout 3.11, "Form 1040EZ Step-by-Step"
- Student Handout 3.12, "Form 1040A" (pages 1 and 2)
- Student Handout 3.13, "Schedule 1"
- Student Handout 3.14, "Form 1040A Step-by-Step" (two pages)
- Student Handout 3.15, "The Tax Maze"
- Student Handout 3.16, "Lesson Summary" (two pages)
- Software Supplement (for use with Apple II+, IIe, IIc, or GS and PCs)
- Understanding Taxes Software Supplement User's Guide

UNDERSTANDING
Tax Forms

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Adjusted Gross Income

Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Credits

A direct reduction of the tax owed. Credits are allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent

A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Dividends

Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income

Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit

A refundable credit for low-income workers. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a qualified taxpayer must file a tax return.

Exempt (from Withholding)

Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (from Tax Liability)

Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

Gross Income

Money, goods, and property you received that must be included in taxable income.

Interest Income

Income received from savings accounts or from lending money to someone else.

Standard Deduction

An amount fixed by law and based on filing status and age, which taxpayers may deduct from their adjusted gross income before tax is determined.

Tax Withholding

Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income

The income on which tax is computed.

Withholding Allowance

Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status, to determine how much income tax to withhold from wages.



Opening the Lesson:

Voluntary Compliance, Pay-as-you-go, and Tax Withholding

Distribute copies of Student Handout 3.1, "Glossary of Key Terms"

The following discussion is designed to clarify three main concepts that lie behind the use of the forms discussed in this lesson. These are touched on in other lessons in Understanding Taxes, but it is important for students to understand them here.

Permit a minute or so of debate of the question. Then elicit, if possible, or explain the concept of "voluntary compliance."

Ask, "Do you have to file a tax return and pay taxes?"

The U.S. income tax system is built on the idea of "voluntary compliance." This means that it is left to the taxpayer to keep the necessary records, file a return on time, pay any required taxes, and meet other requirements of the tax law. The system is built on trust in citizens to know their responsibilities and to do what needs to be done. Taxpayers follow the steps the tax system suggests on their own—voluntarily. Failure to do so, however, can result in penalties.

Elicit, if possible, or explain the concept of "pay-as-you-go" or "tax withholding."

Ask, "How do most taxpayers pay their income taxes?"

Most people's income comes from salary or wages earned in a job. In the "pay-as-you-go" method of tax payment, a taxpayer must pay the tax as income is earned or received during the year. An employer withholds tax based on wages paid and information the employee provides on Form W-4. This system is called "tax withholding."

Elicit or explain the advantage for taxpayers of not being "hit" with a sudden tax bill all at once and the Government's need for uninterrupted revenues.

Ask, "What is the advantage of withholding for taxpayers? For the Government?" Without tax withholding many people would find it difficult to save enough money to pay their income taxes all at once. Government services might be disrupted and undependable if they were not funded on a continuous basis.



Developing the Lesson

Activity 1—Filling Out a W-4 Form

Distribute copies of Student Handout 3.2, "IRS Form W-4" or use an overhead projector to display it. If you haven't previously distributed Student Handout 3.1, "Glossary of Key Terms," do so now.

Have the students look over the form. They should notice that on the front there are directions and two parts, and on the back two parts and a table.

(The optional software supplement and the User's Manual that accompanies it are suggested for use as review and reinforcement on a second class period—see page 8. Depending on the availability of computers and software copies, however, you may wish to have students work through the software program first, then proceed with the paper forms following the steps suggested here.)

Ask whether any of the students has filled out a W-4. Ask one of them who has responded positively, "What did you do with it after you filled it out?"

The bottom part of the front side is cut off and given to the employer (or the personnel officer, etc.).

Ask, "Why does an employer need this form from each employee?"

The form helps the employer figure how much withholding to take from the employee's paycheck.

Ask, "What is the rest of the form for?"

The other parts are instructions and worksheets. The worksheets help you figure out how to fill in the part of the form you give to your employer.

Tell the students that the W-4 is used by all employees, including some whose tax situations are very complex. It is assumed that most taxpayers will not need to use all parts of each worksheet.

Oversee the students as they fill out the distributed copies of the W-4 forms, or demonstrate how to fill one out if you are projecting it on an overhead, using the following steps.

Have the students fill in lines 1 and 2.

Ask, "What could happen if you don't write your social security number correctly, or make a mistake on your name or address?"

Errors and inaccuracies might delay or prevent a tax refund.

Ask, "If you don't have a social security number, where can you get one?"

You apply for one at the social security office (check the local phone book) where you fill out form SS-5.

Have the students look at line 7.

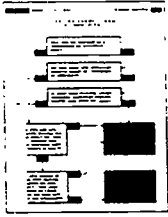
Ask, "Who can explain the phrase, 'exempt from withholding'?"

People who are "exempt from withholding" don't need to have anything taken out of their paychecks, usually because they earned very little income.

Encourage discussion.

Ask, "How do you know whether you are 'exempt from withholding'?"

Distribute copies of Student Handout 3.3, "Are You Exempt from Withholding?"

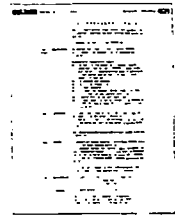


Have a volunteer read the two bulleted sentences following line 7 on the W-4 form while the class looks at the diagram on Student Handout 3.3.

Have students trace the sequence on Handout 3.3 to illustrate the conditions for exemption from withholding.

Distribute Student Handout 3.4, "The Dependency Tests."

Ask, "Who may be claimed as a dependent?" Students are likely to respond that dependents are usually underage children



Have the students look at "Test 1: Relationship or Member of Household" on the handout.

Ask, "How many of these dependents described are not underage or not the taxpayer's child?"

Students should conclude that "dependents" encompass many different near relatives, and even non-relatives in some circumstances.

Quickly review the other tests for dependent status: (a) age, (b) citizenship or resident; (c) gross income (including student status); (d) support. You may want to pause over Test 2, gross income, and discussion of the dependency status of students.

A student dependent is a child whose income can be more than the exemption amount (\$2,450 in tax year 1994) during the tax year. The child may be claimed as a dependent if he or she is under 19 at the end of the tax year or under 24 and a full-time student for some part of each of five months during the tax year.

Return to line 7 on the W-4 form.

Ask, "Suppose your parents plan to claim you as a dependent. Can you claim an exemption from withholding?"

No, not unless your total income from interest and dividends, etc., plus wages is likely to be less than the minimum standard deduction for dependents, \$600 for 1994.

State that if all the conditions are met, the employee can enter "EXEMPT" at box 7 and sign and date the form. Most employees, however, will need to fill out the remaining lines.

Have the students look at line 5 of the W-4 form.

Ask a volunteer to read about "withholding allowance" from Student Handout 3.1, "Glossary of Key Terms."

"Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages."

Discuss "withholding allowance" as students look at the upper part of the front side of the W-4 Form, "Personal Allowances Worksheet."

Run through lines A through G quickly.

Ask students to fill out the worksheet as it applies to their own situation. Some may have to review the definition of "dependent."

Have the students enter the number from line 3 of the worksheet in box 3 of the single rate part of the W-4 form.

Have the students look at line 3 on the W-4 form.

Explain that taxes may be higher for a single person than for a married couple filing a joint return. Emphasize that the tables that tell them how much to withhold for employees who are married or single.

Call attention to the third box in line 3. "Married, but withhold at higher Single rate."

Point out that the tax rate for single people may be higher than for married people.

Call attention to line 6 ("Additional amount, if any, you want withheld from each paycheck").

Ask, "Why would anyone want to be subject to a higher withholding rate, or have extra deductions made from a paycheck?" Some people may have considerable income from a spouse's earnings, or from investments, rents, interest, or other sources. If more is withheld, more of their tax liability will be paid "as they go," and they will not have to come up with a large lump-sum payment or possibly pay estimated taxes.

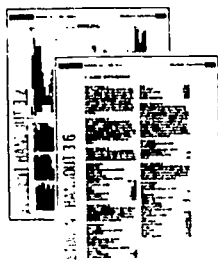
Emphasize that tax withheld may not be equal to the total tax owed.

Some people may have more withheld than they owe. They will get a refund when they file their returns.

Other people may owe more tax than is covered by withholding from wages. They will have to send a check with their return. Some may be subject to a penalty for underpayment of their taxes.

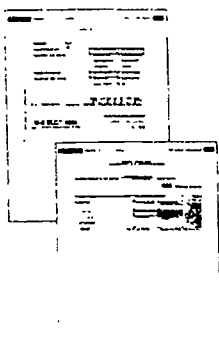
Distribute copies of Student Handout 3.6, "Case Studies" and fresh copies of Handout 3.2, "IRS Form W-4."

Have the students work individually or in small groups to fill out Form W-4 for Case Study A, Jay R. Jones.



Activity 2: The W-2 Form

Distribute copies of Student Handout 3.5,
"IRS Form W-2 and IRS Form 1099-INT"



Explain to the students that by law, employers must give their employees a copy of this form by January 31 of each year. Employees with more than one employer should get one from each employer.

Point out the most important sections or boxes of the W-2 form:

- Box c: Name and address of the employer
- Box e-f: Name and address of the employee
- Box d: Employee's social security number
- Box 1: The employee's actual pay for the year from this employer
- Box 2: The amount of money withheld for federal income tax

Tell students that one copy of the W-2 form (called Copy B) must accompany the federal tax return that each taxpayer files. It is in taxpayers' interest to double-check the information contained on their W-2 forms for correctness and to report any problems to their employers right away.

Optional: Ask, "Can anyone explain the term 'unearned income'?"

Unearned income is income other than pay from work performed, such as interest or dividends from savings or investments.

Point out IRS Form 1099-INT on Student Handout 3.5 to the students. A bank or other financial institution might send such a form to taxpayers who have "unearned income" to show how much interest income has been earned by their savings accounts. A copy is also sent to the IRS. Taxpayers must include such unearned income in the total income they report on their return.



Regional

Second Class Period

Have students, working individually, use the software supplement to review or practice filling out Form W-4. They can look at the User's Guide for directions. In the software program, they should open and read through Section A, "Introduction," first, and then go on to Section B and Section C.

If any class time remains, you want to have the students begin working on the first of the Case Studies (Student Handout 3.6) used in the Extending the Lesson section.



Filing a Return and Form 1040EZ

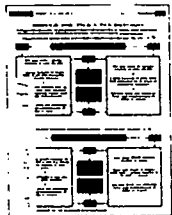
1. Deciding Whether To File

Ask, "What does file a tax return mean?"

To file a tax return means to mail or send to a regional IRS Service Center the appropriate IRS form(s)—the return—on which the taxpayer has entered information about income and tax liability.

Ask, "Does everyone need to file a tax return?"

No, some people do not need to file a return, but even if they owe no taxes, if they have federal income tax withheld from their paychecks, they should file a return to get their refund.



Distribute copies of Student Handout 3.7, "Should You File a Tax Return?"

Have students work through the series of questions and answers to decide whether they, or someone in a hypothetical situation, should file a return.

To make sure students understand filing requirements, ask for a show of hands in response to such questions as, "How many of you are claimed as a dependent on the return of your parent(s) or someone else?"

Students may need to review the definition of dependent by looking at Student Handouts 3.1, "Glossary of Key Terms" and 3.4, "The Dependency Tests."

Students claimed as dependents by someone else should look at question 1 on the upper half of Handout 3.7 and study the diagram underneath it.

“How many of you are not claimed as a dependent?”

Students who are not claimed as someone's dependent should look at question 2 and the diagram on the lower half of Handout 3.7.

“How many of you are married?”

Students who are married should look at the question in the left hand box of the appropriate diagram.

“How many of you are not married?”

Students who are not married should look at the question in the right hand box of the appropriate diagram.

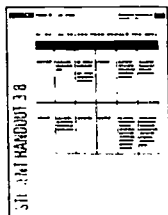


The optional software supplement, Section D, contains information to help students decide whether they should file a tax return. You may want to have them work through this section now.

2. Deciding Which Form To File

Ask, “Suppose you've decided that you need to file a tax return. What form do you use?”

Everyone who files a tax return uses some version of Form 1040. Besides the standard 1040, there are two easier versions, 1040A and 1040EZ. These are for people whose tax situations are relatively simple.



Distribute copies of Student Handout 3.8, “Which Tax Return Form Should You Use?”

Have the students look again at Student Handout 3.1, “Glossary of Key Terms.” Call their attention to the definition of “Exempt (from Tax Liability)” and make sure they understand the distinction between this term and withholding allowance used in Lesson 3.

Exemption, as it is used on tax returns, is a set amount for each taxpayer and each eligible dependent that is subtracted from adjusted gross income to reduce the amount on which tax is figured.

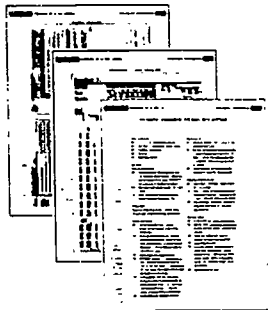
Ask students, “Which form are most high school students likely to use?”

Unless they are married and have dependents or have considerable amounts of unearned income, most high school students will use Form 1040EZ.

Ask, “Which form would the chief executive of a large real estate corporation be most likely to use?”

Anyone with income from rent, buying and selling houses, or similar sources would need to use Form 1040.





3. Filling Out Form 1040EZ

To lead your students through Form 1040EZ itself, you will need to make sure each has a copy of Student Handout 3.9, "IRS Form 1040EZ" and Student Handout 3.10, "Tax Tables 1994." You may want to display the form using an overhead projector. Distribute copies of Student Handout 3.11, "Form 1040EZ Step-by-Step."



The optional software supplement, Section E, contains complete information about Form 1040EZ and provides practice in filling it out. Even if it is not possible for your students to use the software, you may wish to use it yourself to prepare.

Lead your students as they start filling in Form 1040EZ. Have them use either Handout 3.11 or the instructions on the back of the 1040EZ.

If they try to follow both simultaneously, they may become confused. (If you prefer that they fill out the form for someone fictitious rather than themselves, see the alternative activity, below.) They will need to make use of Handout 3.10, "Tax Tables 1994," to fill out the form.

In the "Income" section of the form, students will need to decide whether they can be claimed as a dependent by someone. Have them review Student Handout 3.4, "The Dependency Tests," if they are in doubt. Students must check "yes" on line 4 if someone can claim them as a dependent, whether or not that person does.

If they can be claimed as a dependent, they will probably use the worksheet on the back of 1040EZ. They will probably want to know the meaning of \$600 printed on line B. (If they use Handout 3.11, they will be able to fill out 1040EZ without using the worksheet, but they won't have much understanding about where the figures come from.)

\$600 is the minimum standard deduction for a dependent. At line D, the 1994 maximum standard deduction is \$3,800 for single people and \$6,350 for married people filing a joint return. The worksheet is a way of showing that all dependents may deduct at least \$600 and no more than \$3,800, depending on how much they earned. Those who can be claimed as dependents of others may not take an exemption for themselves, because that exemption can be or is claimed by the other person.

Have students complete filling out Form 1040EZ, checking off each step on Handout 3.11 if they are using it.

Alternative or additional activity:

Distribute Student Handout 3.6, "Case Studies."

Have students fill out Form 1040EZ for Joseph Day, Case Study C.

Joseph K. Day
615 Poplar Drive
Goodtown, OH 45201 987-00-4321
Check "yes" for presidential campaign contribution

1. 2,250
2. 0
3. 2,250
4. check "yes" 2,250
5. 0
6. 30
7. 0
8. 30
9. 0
10. 30

Signature, date, occupation (student)



1040A and Beyond

Ask students to look again at Student Handout 3.8, "Which Tax Return Form Should You Use?"

Ask the students to look at the situations that make Form 1040A the better choice for certain taxpayers than Form 1040EZ.

Form 1040A should be used instead of Form 1040EZ if the taxpayer has more than one exemption, has more than \$400 of interest and/or income from dividends, annuities, unemployment compensation, or certain other sources, and is entitled to certain income adjustments and credits.

Distribute copies of Student Handout 3.12, "Form 1040A," and Student Handout 3.13, "Schedule 1."

Have the students look over Form 1040A. Call their attention to lines 7 through 14 in the section, "Figure your total income."

Have the students look at line 8a, "Taxable Interest Income." Point out that to fill out some of these lines, you have to fill out other forms or worksheets first. If your interest income is more than \$400, for example, you have to complete and attach Schedule 1, Part 1.

On Form 1040A, there is space to report income from a variety of sources, including line 8b, "Tax-exempt interest"; line 10a, "Total IRA distributions"; and line 12, "Unemployment compensation."

(You may want to provide a copy of the 1040A instruction booklet for students to examine. It can be obtained at your local IRS office, certain public libraries, or by calling 1-800-TAX-FORM.)

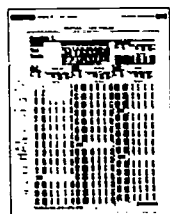
The reference on line 8a to "page 25" tells taxpayers to look on page 25 of the instruction book for Form 1040A for help in filling out this line.

Line 9 may require completion of Schedule 1, Part II. Lines 10b, 11b, and 15b refer taxpayers to pages in the instruction book. Tax Tables, used to complete Form 1040EZ and necessary for filling out 1040A as well (line 23), are in the instruction book.

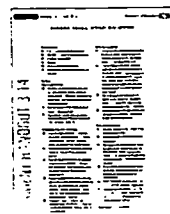
Point out that there are several other places on Form 1040A where specific schedules are required for taxpayers to get special credits.

Students who might need more information about dividend income, child care expenses, or the earned income credit should be directed to the Form 1040A instruction book and the appropriate schedules and worksheets.

Line 24a provides for credits for child care expenses with completion of Schedule 2. Line 24b asks for Schedule 3 to compute the credit for elderly or disabled people. Line 28c asks for yet another schedule. Accurate completion of any of these will lower the taxes owed.



Distribute copies of Student Handout 3.14, "Form 1040A Step-by-Step," and Student Handout 3.10, "Tax Tables," or use a projector to show them to the class.



You may wish to have students use Student Handout 3.6, "Case Studies." Students can use the information in Case Study E to practice filling out Form 1040A instead of putting in information about themselves.

Have the students use Handout 3.14 to fill out Form 1040A, either individually, or as a class. In the latter case you may want to demonstrate how to complete the form accurately by filling out the form you have projected, or by talking through the steps aloud.

Students should check each item on Handout 3.14 as they complete each step of the process of filling out Form 1040A.



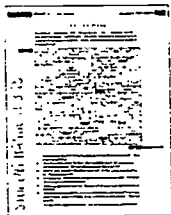
Concluding the Lesson

Distribute copies of Student Handout 3.15, "The Tax Maze." Have students use any remaining class time to work the puzzle, or encourage them to take it home and try it.

Maze question answers:

1. no
2. six
3. 1040EZ
4. W-2
5. 1099-INT
6. 1040A
7. Schedule 1

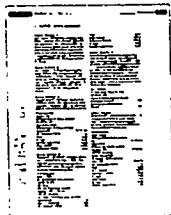
Distribute copies of Student Handout 3.16, "Lesson Summary." Make sure that any students who were absent from the lesson receive all the handouts as well as this summary.



Extending the Lesson (homework assignment)

Distribute copies of Student Handout 3.6, "Case Studies," if students don't already have them, and two additional copies each of "IRS Form W-4" and "IRS Form 1040EZ" and "Tax Tables."

Have the students complete Form W-4 for Case Studies A (if they haven't already done it) and B, and Forms 1040EZ for the Case Studies C (if not yet done) and D. If students are interested and able, give them copies of Form 1040A and Schedule 1 as well.



Form W-4 (1995)

Want More Money In Your Paycheck?

If you expect to be able to take the earned income credit for 1995, you can have part of it added to your take-home pay. For details, get Form W-5 from your employer.

Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 7 of the certificate below to see if you can claim exempt status. *If exempt, complete line 7; but do not complete lines 5 and 6.* No Federal income tax will be withheld from your pay. Your exemption is good for 1 year only. It expires February 15, 1996.

Note: You cannot claim exemption from withholding if (1) your income exceeds \$600 and includes unearned income (e.g., interest and dividends), and (2) another person can

claim you as a dependent on their tax return.

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES.

Otherwise you may find that you owe additional tax at the end of the year.

Two Earners/Two Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check Your Withholding. After your W-4 takes effect, you can use Pub. 919, *Is My Withholding Correct for 1995?*, to see how the dollar amount you are having withheld compares to your estimated total annual tax. We recommend you get Pub. 919 especially if you used the Two Earner/Two Job Worksheet and your earnings exceed \$150,000 (Single) or \$200,000 (Married). Call 1-800-829-3676 to order Pub. 919. Check your telephone directory for the IRS assistance number for further help.

Personal Allowances Worksheet

A Enter "1" for yourself if no one else can claim you as a dependent A _____

B Enter "1" if:
 { • You are single and have only one job; or
 • You are married, have only one job, and your spouse does not work; or
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. } B _____

C Enter "1" for your spouse. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) C _____

D Enter number of dependents (other than your spouse or yourself) whom you will claim on your tax return D _____

E Enter "1" if you will file as head of household on your tax return (see conditions under Head of Household above) E _____

F Enter "1" if you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit F _____

G Add lines A through F and enter total here **Note:** This amount may be different from the number of exemptions you claim on your return ▶ G _____

For accuracy, do all worksheets that apply.
 { • If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
 • If you are single and have more than one job and your combined earnings from all jobs exceed \$XX,XXX OR if you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
 • If neither of the above situations applies, stop here and enter the number from line G on line 5 of Form W-4 below.

..... Cut here and give the certificate to your employer. Keep the top portion for your records.

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate	OMB No. 1545-001C 1995
▶ For Privacy Act and Paperwork Reduction Act Notice, see reverse.			
1 Type or print your first name and middle initial TAU R.		Last name TONES	2 Your social security number 200 70 1234
Home address (number and street or rural route) 100 FIRST STREET		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <small>Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.</small>	
City or town, state, and ZIP code METROPOLIS, ID 83603		4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for more information. ▶ <input type="checkbox"/>	
5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply)		5 1	
6 Additional amount, if any, you want withheld from each paycheck		6 \$ 0	
7 I claim exemption from withholding for 1995 and I certify that I meet BOTH of the following conditions for exemption: • Last year I had a right to a refund of ALL Federal income tax withheld because I had NO tax liability; AND • This year I expect a refund of ALL Federal income tax withheld because I expect to have NO tax liability. If you meet both conditions, enter "EXEMPT" here ▶		7 EXEMPT	
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.			
Employee's signature ▶ Jay P. Jones		Date ▶ January 3, 1995	
8 Employer's name and address (Employer Complete 8 and 10 only if sending to the IRS)		9 Office code (optional)	10 Employer identification number

Form W-4 (1995)

Want More Money In Your Paycheck?

If you expect to be able to take the earned income credit for 1995, you can have part of it added to your take-home pay. For details, get Form W-5 from your employer.

Purpose. Complete Form W-4 so that your employer can withhold the correct amount of Federal income tax from your pay.

Exemption From Withholding. Read line 7 of the certificate below to see if you can claim exempt status. *If exempt, complete line 7; but do not complete lines 5 and 6.* No Federal income tax will be withheld from your pay. Your exemption is good for 1 year only. It expires February 15, 1996.

Note: You cannot claim exemption from withholding if (1) your income exceeds \$600 and includes unearned income (e.g., interest and dividends), and (2) another person can

claim you as a dependent on their tax return.

Basic Instructions. Employees who are not exempt should complete the Personal Allowances Worksheet. Additional worksheets are provided on page 2 for employees to adjust their withholding allowances based on itemized deductions, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply to your situation. The worksheets will help you figure the number of withholding allowances you are entitled to claim. However, you may claim fewer allowances than this.

Head of Household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals.

Nonwage Income. If you have a large amount of nonwage income, such as interest or dividends, you should consider making estimated tax payments using Form 1040-ES.

Otherwise, you may find that you owe additional tax at the end of the year.

Two Earners/Two Jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. This total should be divided among all jobs. Your withholding will usually be most accurate when all allowances are claimed on the W-4 filed for the highest paying job and zero allowances are claimed for the others.

Check Your Withholding. After your W-4 takes effect, you can use Pub. 919, *Is My Withholding Correct for 1995?*, to see how the dollar amount you are having withheld compares to your estimated total annual tax. We recommend you get Pub. 919 especially if you used the Two Earner/Two Job Worksheet and your earnings exceed \$150,000 (Single) or \$200,000 (Married). Call 1-800-829-3676 to order Pub. 919. Check your telephone directory for the IRS assistance number for further help.

Personal Allowances Worksheet

- A Enter "1" for yourself if no one else can claim you as a dependent A _____
- B Enter "1" if:
 - You are single and have only one job; or
 - You are married, have only one job, and your spouse does not work; or
 - Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. B _____
- C Enter "1" for your spouse. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) C _____
- D Enter number of dependents (other than your spouse or yourself) whom you will claim on your tax return D _____
- E Enter "1" if you will file as head of household on your tax return (see conditions under Head of Household above) E _____
- F Enter "1" if you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit F _____
- G Add lines A through F and enter total here. **Note:** This amount may be different from the number of exemptions you claim on your return ► G _____

For accuracy, do all worksheets that apply.

- If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are single and have more than one job and your combined earnings from all jobs exceed \$XX,XXX OR if you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If neither of the above situations applies, stop here and enter the number from line G on line 5 of Form W-4 below.

..... Cut here and give the certificate to your employer. Keep the top portion for your records.

Form W-4 Department of the Treasury Internal Revenue Service	<h2>Employee's Withholding Allowance Certificate</h2> <p>► For Privacy Act and Paperwork Reduction Act Notice, see reverse.</p>	OMB No. 1545-0010 <h1 style="font-size: 2em;">1995</h1>
1 Type or print your first name and middle initial <div style="text-align: center; font-size: 1.2em;">JANE J.</div>		2 Your social security number <div style="text-align: center; font-size: 1.2em;">999 00 5678</div>
Home address (number and street or rural route) <div style="text-align: center; font-size: 1.2em;">24 STRAIGHT STREET</div>		3 <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. <small>Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.</small>
City or town, state, and ZIP code <div style="text-align: center; font-size: 1.2em;">BIGTOWN, ME 04748</div>		4 If your last name differs from that on your social security card, check here and call 1-800-772-1213 for more information <input type="checkbox"/>
5 Total number of allowances you are claiming (from line G above or from the worksheets on page 2 if they apply)		5 3
6 Additional amount, if any, you want withheld from each paycheck		6 \$ 0
7 I claim exemption from withholding for 1995 and I certify that I meet BOTH of the following conditions for exemption: <ul style="list-style-type: none"> • Last year I had a right to a refund of ALL Federal income tax withheld because I had NO tax liability; AND • This year I expect a refund of ALL Federal income tax withheld because I expect to have NO tax liability. If you meet both conditions, enter "EXEMPT" here ► 7		
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or entitled to claim exempt status.		
Employee's signature ► <i>Jane J. Johnson</i>		Date ► JANUARY 3, 1995
8 Employer's name and address (Employer Complete 8 and 10 only if sending to the IRS)		9 Office code (optional)
		10 Employer identification number

Department of the Treasury—Internal Revenue Service
Form 1040EZ **1994**

Use the IRS label (See page 11. Otherwise, please print.)

Name JOSEPH K. DAY
Address 615 POPLAR DR. E.
GOODTOWN, OH 45701
City DAYTON, OH
State OH
Zip 45424
SSN [redacted]

OMB No 1545-0045

Your social security number [redacted]

Spouse's social security number [redacted]

Married? Yes No

See instructions on back and in Form 1040EZ booklet.

Presidential Election Campaign Do you want \$3 to go to this fund? If a joint return, does your spouse want \$3 to go to this fund?

Income 1. Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s).

2. Taxable interest income of \$400 or less. If the total is over \$100, you cannot use Form 1040EZ.

3. Add lines 1 and 2. This is your adjusted gross income. If less than \$9,000, see page 15 to find out if you can claim the earned income credit on line 7.

4. Can your assets or someone else claim you on their return? Yes. Do worksheet on back enter 6,250.00 amount from Form 1040EZ. No. If single, enter 6,250.00. If married, enter 11,250.00. For explanation of these amounts, see back of form.

5. Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your taxable income.

Payments and tax 6. Enter your federal income tax withheld from box 2 of your W-2 form(s).

7. Earned income credit (see page 15). Enter type and amount of refundable earned income credit from the table on this line.

8. Add lines 6 and 7. These are your total payments.

9. Tax. Use the amount on line 6 to find your tax in the tax table on pages 28-32 of the booklet. Then enter the tax from the table on this line.

Refund or amount you owe 10. If line 8 is larger than line 9, subtract line 9 from line 8. That is your refund.

11. If line 9 is larger than line 8, add line 8 to line 9. This is the amount you owe. See page 20 for details on how to pay and what to write on your payment.

Sign your return I have read this return, I understand its contents, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately shows all amounts and sources of income. I received during the tax year this amount and source of income. I received during the tax year this amount and source of income. I received during the tax year this amount and source of income.

Your signature: [Signature] Spouse's signature (if joint return): [Signature]

Your occupation: [redacted] Spouse's occupation: [redacted]

For IR-95 Use Only — Please do not write in boxes below.

[]	[]	[]	[]	[]	[]	[]	[]
[]	[]	[]	[]	[]	[]	[]	[]

For IR-95 Use Only — Please do not write in boxes below.

For IR-95 Use Only — Please do not write in boxes below.

1994 Instructions for Form 1040EZ

Use this form if

- Your filing status is single or married filing jointly.
- You do not claim any dependents.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Caution: If married and either you or your spouse had total wages of over \$60,600, you may not be able to use this form. See page 7.

If you are not sure about your filing status, see page 7. If you have questions about dependents, call Tele-Tax (see page 26) and listen to topic 354. If you can't use this form, call Tele-Tax (see page 26) and listen to topic 352.

Filing in your return Because this form is read by a machine, please print your numbers inside the boxes like this:

9 1 8 7 1 6 1 5 4 3 2 1 0

Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1099-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT if you paid someone to prepare your return, see page 21.

Worksheet Use this worksheet to figure the amount to enter on line 4 if someone can claim you for your spouse if married as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 26) and listen to topic 354.

Who checked "Yes" on line 4

A. Enter the amount from line 1 on the front 6,000.00

B. Minimum standard deduction 600.00

C. Enter the LARGER of line A or line B here 5,400.00

D. Maximum standard deduction. If single, enter 3,800.00, if married, enter 6,350.00 6,350.00

E. Enter the SMALLER of line C or line D here. This is your standard deduction 5,400.00

F. Exemption amount

- If single, enter 0
- If married and both you and your spouse can be claimed as dependents, enter 0
- If married and only one of you can be claimed as a dependent, enter 2,450.00

G. Add lines E and F. Enter the total here and on line 4 on the front 0

H. Add lines C and D. Enter the total here and on line 4 on the front 2,250.00

If you checked "No" on line 4 because no one can claim you (or your spouse if married) as a dependent, enter on line 4 the amount shown below that applies to you

- Single, enter 6,250.00. This is the total of your standard deduction (3,800.00) and personal exemption (2,450.00)
- Married, enter 11,250.00. This is the total of your standard deduction (6,350.00), exemption for yourself (2,450.00), and exemption for your spouse (2,450.00).

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Mailing your return Mail your return by April 17, 1995. Use the envelope that came with your booklet. If you don't have that envelope, see page 33 for the address to use.

Form **1040EZ** Department of the Treasury—Internal Revenue Service
Income Tax Return for Single and Joint Filers With No Dependents 1994

OMB No 1545-0675

Use the IRS label (See page 11.) Otherwise, please print.

LABEL HERE

Print your name (first, initial, last)
SUSAN A. BLACK

If a joint return, print spouse's name (first, initial, last)

Home address (number and street). If you have a P.O. box, see page 12. Apt. no.
601 TURNBOLT STREET

City, town or post office, state and ZIP code. If you have a foreign address, see page 12.
ROBIN, MI 48200

Your social security number

987 00 2080

Spouse's social security number

[] [] [] [] [] [] [] []

See instructions on back and in Form 1040EZ booklet.

Presidential Election Campaign (See page 12.)

Note: Checking "Yes" will not change your tax or reduce your refund.

Do you want \$3 to go to this fund? **▶**

If a joint return, does your spouse want \$3 to go to this fund? **▶**

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Income

Attach Copy B of Form(s) W-2 here. If you are including a payment, do not attach it to your return.

Note: You must check Yes or No.

- 1** Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s). **1**
- 2** Taxable interest income of \$400 or less. If the total is over \$400, you cannot use Form 1040EZ. **2**
- 3** Add lines 1 and 2. This is your **adjusted gross income**. If less than \$9,000, see page 15 to find out if you can claim the earned income credit on line 7. **3**
- 4** Can your parents (or someone else) claim you on their return?
 Yes. Do worksheet. No. If single, enter \$250.00. If married, enter 11,250.00. For an explanation of these amounts, see back of form. **4**
- 5** Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income**. **▶ 5**

Dollars Cents

9, **672**. **00**

45. **00**

9, **217**. **00**

6, **250**. **00**

3, **467**. **00**

Payments and tax

- 6** Enter your Federal income tax withheld from box 2 of your W-2 form(s). **6**
- 7** **Earned income credit** (see page 15). Enter type and amount of nontaxable earned income below.
 Type **[] []** \$ **[] []** **7**
- 8** Add lines 6 and 7. These are your **total payments**. **8**
- 9** **Tax**. Use the amount on line 5 to find your tax in the tax table on pages 28-32 of the booklet. Then, enter the tax from the table on this line. **9**

745. **00**

[] []. **[] []**

745. **00**

521. **00**

Refund or amount you owe

- 10** If line 8 is larger than line 9, subtract line 9 from line 8. This is your **refund**. **10**
- 11** If line 9 is larger than line 8, subtract line 8 from line 9. This is the **amount you owe**. See page 20 for details on how to pay and what to write on your payment. **11**

224. **00**

[] []. **[] []**

Sign your return

Keep a copy of this form for your records.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

Your signature **Susan A. Black** Spouse's signature if joint return

Date **4-17-95** Your occupation **RECEPTIONIST** Date Spouse's occupation

For IRS Use Only — Please do not write in boxes below.

[] [] [] []
[] [] [] []

1040A U.S. Individual Income Tax Return 1994

Department of the Treasury - Internal Revenue Service

Label (See page 16)

Print name and social security number
ERIC H RICHARDS 019:00:3212

Print address, phone and state if you have a P.O. box (see page 17)
 514 F.M.I. 332

Print date of birth and sex (see page 17)
 12/21/55 M

Print name and social security number of spouse (see page 17)
 ERIC H RICHARDS 019:00:3212

Print date of birth and sex of spouse (see page 17)
 12/21/55 M

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Note: Checking "Yes" will not change your tax or reduce your refund

1 Single
 2 Married filing joint return (even if only one had income)
 3 Married filing separate return Enter spouse's social security number above and full name here
 4 Head of household (with qualifying person) (See page 18) If the qualifying person is a child but not your dependent, enter this child's name here
 5 Qualifying widow(er) with dependent child (year spouse died) (See page 19)
 6a Yourself if your return is for a year other than 1994, see page 17
 b Spouse
 c Dependents:
 (1) If you are filing a joint return, enter the dependent's social security number
 (2) If you are filing a separate return, enter the dependent's social security number
 (3) If you are filing a separate return, enter the dependent's name and birth date
 (4) If you are filing a separate return, enter the dependent's relationship to you (see page 20)
 d If your child didn't live with you but is claimed as your dependent under a pre 1985 agreement, check here
 e Total number of exemptions claimed

7 Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2
 8a Taxable interest income (see page 26) If over \$400 attach Schedule 1
 b Tax-exempt interest (see page 34)
 9 Dividends if over \$400, attach Schedule 1
 10a Total IRA distributions
 10b Taxable amount (see page 27)
 10c Tax-exempt amount (see page 27)
 11a Total pensions and annuities
 11b Taxable amount (see page 30)
 12 Unemployment compensation (see page 30)
 13a Social security benefits
 13b Taxable amount (see page 31)
 14 Add lines 7 through 13b (for right column) This is your total income
 15a Your IRA deduction (see page 31)
 15b Spouse's IRA deduction (see page 34)
 15c Add lines 15a and 15b These are your total adjustments
 16 Subtract line 15c from line 14 This is your adjusted gross income. If less than \$25,296 and a child with less than \$9,000 if a child didn't live with you, see "Earned income credit" on page 41

Figure your total income
 Attach Copy B of prior Form 1041 and 1099, if any

Figure your adjusted gross income

1994 Form 1040A page 1

1994 Form 1040A page 2

ERIC H. RICHARDS Your social security number 019:00:3212

17 Enter the amount from line 16. 17 4,100.00

18a Check You were 65 or older Blind Enter number of boxes checked Spouse was 65 or older Spouse was blind Enter number of boxes checked
 b If your parent (or someone else) can claim you as a dependent, check here
 c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. 18b 18c

19 Enter the standard deduction shown below for your filing status. But if you checked any box on line 18a or b, go to page 38 to find your standard deduction. If you checked box 18c, enter -0-
 • Single—\$3,800 • Married filing jointly or Qualifying widow(er)—\$6,350
 • Head of household—\$5,600 • Married filing separately—\$3,175
 20 Subtract line 19 from line 17. If line 19 is more than line 17, enter -0- 20 9,200.00
 21 Multiply \$2,450 by the total number of exemptions claimed on line 6e. 21 9,200.00
 22 Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your taxable income. 22 9,200.00

23 Find the tax on the amount on line 22. Check if from:
 Tax Table (pages 61-66) or Form 9815 (see page 40).
 24a Credit for child and dependent care expenses. 24a
 b Credit for the elderly or the disabled. 24b
 c Add lines 24a and 24b. These are your total credits. 24c 0.00
 25 Subtract line 24c from line 22. If line 24c is more than line 22, enter -0-. 25 9,200.00
 26 Advance earned income credit payments from Form W-2. 26 0.00
 27 Add lines 25 and 26. This is your total tax. 27 9,200.00
 28a Total Federal income tax withheld if any tax is from Form(s) 1099, check here. 28a 145.00
 b 1994 estimated tax payments and amount applied from 1993 return. 28b
 c Earned income credit. If required, attach Schedule EIC (see page 43) Nonrefundable earned income amount 28c
 d Add lines 28a, 28b, and 28c. These are your total payments. 28d 145.00

29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you overpaid. 29 0.00
 30 Amount of line 29 you want refunded to you. 30 0.00
 31 Amount of line 29 you want applied to your 1995 estimated tax. 31
 32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the amount you owe. For details on how to pay, including what to write on your payment, see page 50
 33 Estimated tax penalty (see page 51). 33

Figure your refund or amount you owe

Sign your return
 Under penalties of perjury, I declare that I prepared this return and accompanying schedules and statements to the best of my knowledge and belief, and that I am not a preparer of this return. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature: **ERIC H. RICHARDS** Date: 12/21/94
 Your occupation: **DRUG SALE**
 Spouse's signature if joint return (both must sign): _____ Date: _____
 Spouse's occupation: _____
 Preparer's signature: _____ Date: _____
 Preparer's social security no.: _____
 Form # name for your use only: _____
 E.I. No.: _____
 ZIP code: _____

1994 Form 1040A page 2

Schedule 1
(Form 1040A)
Interest and Dividend Income
for Form 1040A Filers

Department of the Treasury - Internal Revenue Service
1994
OMB No. 1545-0045
Your social security number
059-00-3212

Part I
Interest
Income
(See pages 26 and 67)
Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, enter the firm's name and the total interest shown on that form.

1	List name of Payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 67 and list this interest first. Also, show that buyer's social security number and address.	Amount
1	ERIC H. RAY, 4212 BRYAN WATSON LN, CHINA	900.00
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Part II
Dividend
Income
(See pages 26 and 68)
Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.

5	List name of payer	Amount
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For Paperwork Reduction Act Notice, see Form 1040A Instructions. Ca. No. 1A-94-5R 1994 Schedules 1 (Form 1040A) page 1

Standard deduction worksheet for dependents
Use this worksheet ONLY if someone can claim you as a dependent.

1. Enter the amount from Form 1040A, line 7. If none, enter 0.	1	2,000.00
2. Minimum amount	2	600.00
3. Enter the larger of line 1 or line 2	3	2,000.00
4. Enter on line 4 the amount shown below for your filing status		
• Single, enter 3,800		
• Married filing jointly or Qualifying widow(er), enter 6,350		
• Head of household, enter 5,800		
5. Standard deduction	4	3,400.00
a. Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040A, line 19. Otherwise, go to line 5b	5a	2,000.00
b. If 65 or older or blind, multiply \$50 (\$750 if married filing jointly or separate return, or qualifying widow(er) with dependent child) by the number on Form 1040A, line 18a	5b	
c. Add lines 5a and 5b. Enter the total here and on Form 1040A, line 19	5c	

Form 1040A
Label (See page 18)

Department of the Treasury—Internal Revenue Service
1994 U.S. Individual Income Tax Return 1994 IRS Use Only—Do not write or staple in this space
OMB No. 1545-0048

Your social security number
021 00 1234

Use the IRS label provided to check print or type

Use the IRS label provided to check print or type

1. Name Lisa M. SAMPLE
2. Last name and first name Lisa M. SAMPLE
3. If a joint return, spouse's first name and initial
4. Home address (number and street) 215 ROGERS STRE
5. City, town, or village (do not use P.O. box if you have a street address, see page 17) GARDEN, LA 712
6. State LA
7. Zip code 712
8. For Privacy Act and Paperwork Reduction Act Notice, see page 4.

9. Presidential Election Campaign Fund (See page 17)
Do you want \$3 to go to this fund? Yes No
10. If a joint return, does your spouse want \$3 to go to this fund? Yes No

11. Check the box for your filing status (See page 17)
12. Check work over box
13. Figure your exemptions (See page 18)
14. Figure your total income (See page 19)
15. Attach Copy B of your Form W-2 and 1099 if here
16. Figure your adjusted gross income (See page 20)
17. Figure your total income (See page 21)
18. Figure your total income (See page 22)
19. Figure your total income (See page 23)
20. Figure your total income (See page 24)
21. Figure your total income (See page 25)
22. Figure your total income (See page 26)
23. Figure your total income (See page 27)
24. Figure your total income (See page 28)
25. Figure your total income (See page 29)
26. Figure your total income (See page 30)
27. Figure your total income (See page 31)
28. Figure your total income (See page 32)
29. Figure your total income (See page 33)

1994 Form 1040A page 1

1994 Form 1040A page 2
Name(s) shown on page 1 Lisa M. SAMPLE
Your social security number 021 00 1234

17. Enter the amount from line 16. 17 2,767.00

18a. Check You were 65 or older Blind Spouse was 85 or older Blind Enter number of boxes checked 18a
b. If your parent (or someone else) can claim you as a dependent, check here. 18b
c. If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. 18c

19. Enter the standard deduction shown below for your filing status. But if you checked any box on line 18a or b, go to page 38 to find your standard deduction if you checked box 18c, enter -0-.
• Single—\$3,800 • Married filing jointly or Qualifying widow(er)—\$6,350
• Head of household—\$5,600 • Married filing separately—\$3,175
20. Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-. 20 1,950.00
21. Multiply \$2,450 by the total number of exemptions claimed on line 6e. 21 817.00
22. Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. 22 1,133.00
23. Find the tax on the amount on line 22. Check if from:
 Tax Table (pages 61-66) or Form 9815 (see page 40). 23 122.00

24a. Credit for child and dependent care expenses.
Attach Schedule 2. 24a
b. Credit for the elderly or the disabled. 24b
c. Add lines 24a and 24b. These are your total credits. 24c 0.00
25. Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-. 25 122.00
26. Advance earned income credit payments from Form W-2. 26 0.00
27. Add lines 25 and 26. This is your total tax. 27 122.00
28a. Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. 28a 12.00
b. 1994 estimated tax payments and amount applied from 1993 return. 28b
c. Earned income credit. If required, attach Schedule EIC (see page 43). Nontaxable earned income: amount 28c
d. Add lines 28a, 28b, and 28c. These are your total payments. 28d 12.00

29. If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you overpaid. 29
30. Amount of line 29 you want refunded to you. 30
31. Amount of line 29 you want applied to your 1995 estimated tax. 31
32. If line 27 is more than line 28d, subtract line 28d from line 27. This is the amount you owe. For details on how to pay, including what to write on your payment, see page 50. 32 110.00
33. Estimated tax penalty (see page 51). 33

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately reflect all amounts and sources of income I received during the tax year. The preparation of this return (other than the tax preparer's signature) is based on all information of which the preparer has any knowledge.

Sign your return
Your signature Lisa M. Sample Date 3-5-95
Spouse's signature (if joint return, both must sign) Date
Your occupation Clerk
Spouse's occupation

Keep a copy of this return for your records.
Paid preparer's signature (if not self-employed) Prepare a social security no.
Preparer's name for your use only (if not self-employed and EIT No.)
ZIP code

1994 Form 1040A page 2

Schedule 1
Form 1040A
Interest and Dividend Income
for Form 1040A Filers
1994

Department of the Treasury—Internal Revenue Service

Name shown on Form 1040A: LISA M. SAMPLE
OMB No. 1545-0045
File social security number: 021001234

Part I
Interest Income
(See pages 26 and 67)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, enter the firm's name and the total interest shown on that form.

1	Amount
List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 67 and list this interest first. Also, show that buyer's social security number and address. <u>GARDEN NAUTICAL BANK</u>	<u>817.00</u>
2 Add the amounts on line 1	<u>817.00</u>
3 Excludable interest on series EE U.S. savings bonds issued after 1989 from Form 8815, line 14. You MUST attach Form 8815 to Form 1040A.	<u>0.00</u>
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, line 8a.	<u>817.00</u>

Part II
Dividend Income
(See pages 26 and 68)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.

5	Amount
List name of payer	
6 Add the amounts on line 5. Enter the total here and on Form 1040A, line 9.	

For Paperwork Reduction Act Notice, see Form 1040A instructions. Cat. No. 12034 1994 Schedule 1 (Form 1040A) page 1

Standard deduction worksheet for dependents
Use this worksheet ONLY if someone can claim you as a dependent.

1. Enter the amount from Form 1040A, line 7. If none, enter -0-	<u>1,950.00</u>
2. Minimum amount	<u>600.00</u>
3. Enter the larger of line 1 or line 2	<u>1,950.00</u>
4. Enter on line 4 the amount shown below for your filing status	
<ul style="list-style-type: none"> • Single, enter 3,800 • Married filing jointly or Qualifying widow(er), enter 6,350 • Head of household, enter 5,800 	<u>3,800.00</u>
5. Standard deduction.	
a. Enter the smaller of line 3 or line 4. If under 65 and not blind, stop here and enter this amount on Form 1040A, line 19. Otherwise, go to line 5b	<u>1,950.00</u>
b. If 65 or older or blind, multiply \$950 (\$750 if married filing a joint or separate return, or qualifying widow(er) with dependent child) by the number on Form 1040A, line 18a	
c. Add lines 5a and 5b. Enter the total here and on Form 1040A, line 19	

ORIGINAL

NOTES

GLOSSARY OF KEY TERMS**Adjusted Gross Income**

Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Credits

A direct reduction of the tax owed. Credits are allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent

A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Dividends

Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income

Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit

A refundable credit for low-income workers. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a qualified taxpayer must file a tax return.

Exempt from Withholding

Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (from Tax Liability)

Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

Gross Income

Money, goods, and property you received that must be included in taxable income.

Interest Income

Income received from savings accounts or from lending money to someone else.

Standard Deduction

An amount fixed by law and based on filing status and age, which taxpayers may deduct from their adjusted gross income before tax is determined.

Tax Withholding

Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income

The income on which tax is computed.

Withholding Allowance

Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status to determine how much income tax to withhold from wages.

1995 Form W-4

Department of the Treasury
Internal Revenue Service

Want More Money in Your Paycheck?

If you wish to take the earned income credit for 1995, you can also take the credit for 1994. To do so, you must file Form W-4 with your employer by the end of the year.

Personal Allowances Worksheet

- Enter the number of yourself, yourself as head of household, or yourself as a dependent: **A** _____
- Enter the number of dependents whom you will claim on your tax return: **B** _____
- Enter the number of dependents whom you will claim on your tax return (see conditions under Line E on page 3): **C** _____
- Enter the number of dependents whom you will claim on your tax return (see conditions under Line E on page 3): **D** _____
- Enter the number of dependents whom you will claim on your tax return (see conditions under Line E on page 3): **E** _____
- Enter the number of dependents whom you will claim on your tax return (see conditions under Line E on page 3): **F** _____
- Enter the number of dependents whom you will claim on your tax return (see conditions under Line E on page 3): **G** _____

Form W-4
If you plan to itemize deductions to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
If you are single and have more than one job and your combined earnings from all jobs exceed \$10,000, you must file Form W-4 with your employer by the end of the year.
If you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$10,000, you must file Form W-4 with your employer by the end of the year.
If you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$10,000, you must file Form W-4 with your employer by the end of the year.

Employee's Withholding Allowance Certificate

Enter the 1995 OITD **1995**

1. Enter your social security number: _____

2. Enter your marital status: Single Married Widowed Divorced Separated

3. Enter the number of dependents you will claim on your tax return: _____

4. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

5. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

6. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

7. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

8. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

9. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

10. Enter the number of dependents you will claim on your tax return (see conditions under Line E on page 3): _____

Employee's Signature: _____ Date: _____

Employer's Signature: _____ Date: _____

Deductions and Adjustments Worksheet

- Note:** Use this worksheet only if you plan to itemize deductions or claim adjustments to income on your 1995 tax return.
- Enter an estimate of your 1995 itemized deductions (including state and local taxes, mortgage interest, charitable contributions, and miscellaneous deductions) in excess of 7.5% of your adjusted gross income. For 1995, you may have to reduce your itemized deductions if your income is over \$100,000 (or \$125,000 if married filing jointly or a qualifying widow(er)). **1** \$ _____
 - Enter: **2** \$ _____
 - Subtract line 2 from line 1. If line 2 is greater than line 1, enter -0-. **3** \$ _____
 - Enter an estimate of your 1995 adjustments to income. These include alimony paid and deductible IRA contributions. **4** \$ _____
 - Add lines 3 and 4 and enter the total. **5** \$ _____
 - Enter an estimate of your 1995 nonwage income (such as dividends or interest) but not less than -0-. **6** \$ _____
 - Subtract line 6 from line 5. Enter the result, but not less than -0-. **7** \$ _____
 - Divide the amount on line 7 by \$1,000 and enter the result here. Drop any fraction. **8** _____
 - Enter the number from Personal Allowances Worksheet, line G, on page 1. **9** _____
 - Add lines 8 and 9 and enter the total here. If you plan to use the Two-Earner/Two-Job Worksheet, also enter the total on line 1, below. Otherwise, stop here and enter this total on Form W-4, line 5, on page 1. **10** _____

Two-Earner/Two-Job Worksheet

- Note:** Use this worksheet only if the instructions for line G on page 1 direct you here.
- Enter the number from line G on page 1 (or from line 10 above if you used the Deductions and Adjustments Worksheet). **1** _____
 - Find the number in Table 1 below that applies to the LOWEST paying job and enter it here. **2** _____
 - If line 1 is GREATER THAN OR EQUAL TO line 2, subtract line 2 from line 1. Enter the result here (if zero, enter -0-) and on Form W-4, line 5, on page 1. DO NOT use the rest of this worksheet. **3** _____
 - If line 1 is LESS THAN line 2, enter -0- on Form W-4, line 5, on page 1. Complete lines 4-9 to calculate the additional withholding amount necessary to avoid a year-end tax bill.
 - Enter the number from line 2 of this worksheet. **4** _____
 - Enter the number from line 1 of this worksheet. **5** _____
 - Subtract line 5 from line 4. **6** _____
 - Find the amount in Table 2 below that applies to the HIGHEST paying job and enter it here. **7** _____
 - Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding amount needed. **8** _____
 - Divide line 8 by the number of pay periods remaining in 1995. (For example, divide by 26 if you are paid every other week and you complete this form in December 1994.) Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck. **9** \$ _____

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly	All Others
If wages from LOWEST paying job are:	If wages from LOWEST paying job are:
0 - \$3,000	0 - \$3,000
\$3,000 - 10,000	\$3,000 - 10,000
10,000 - 15,000	10,000 - 15,000
15,000 - 20,000	15,000 - 20,000
20,000 - 25,000	20,000 - 25,000
25,000 - 30,000	25,000 - 30,000
30,000 and over	30,000 and over

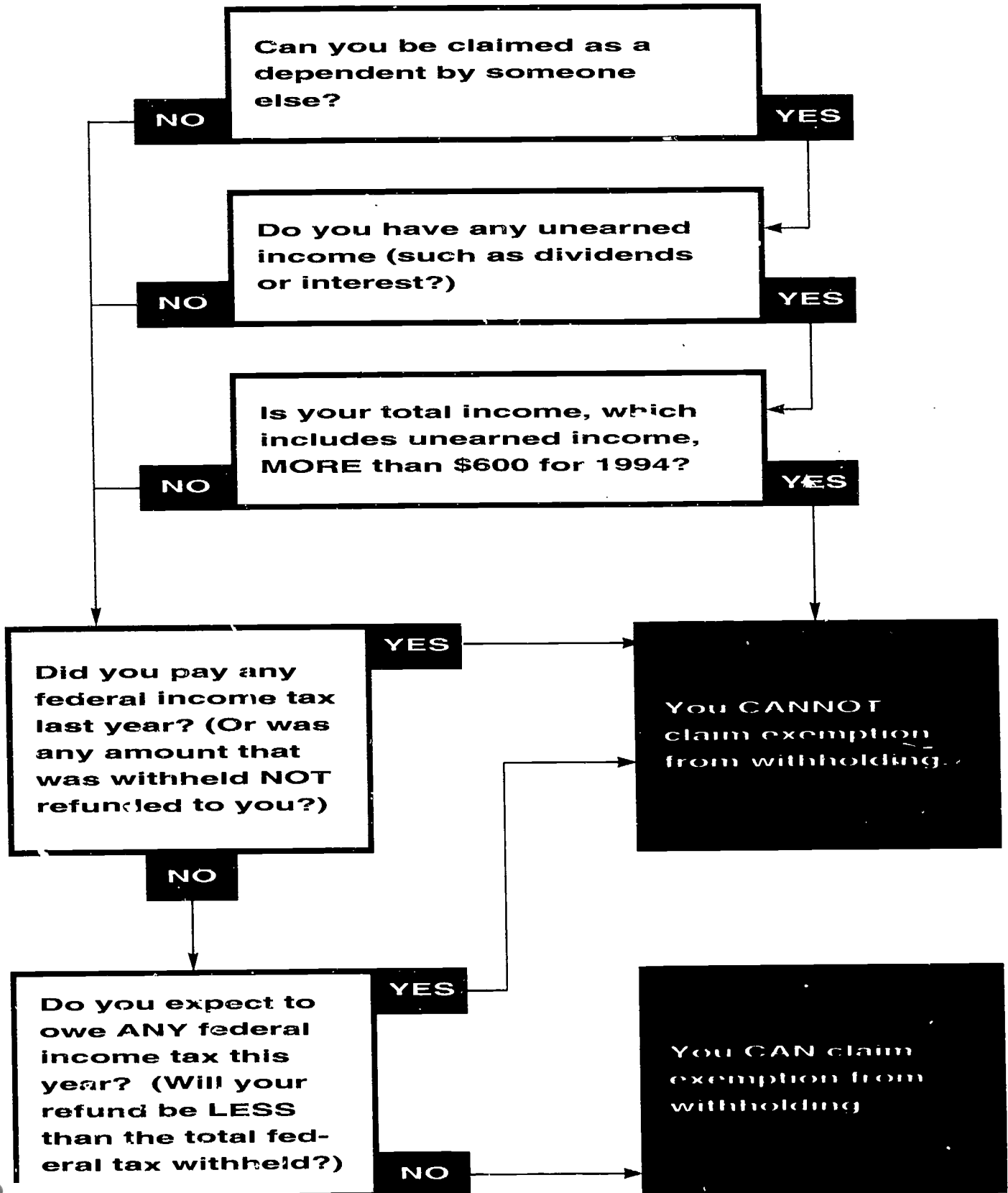
Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly	All Others
If wages from HIGHEST paying job are:	If wages from HIGHEST paying job are:
0 - \$3,000	0 - \$3,000
\$3,000 - 10,000	\$3,000 - 10,000
10,000 - 15,000	10,000 - 15,000
15,000 - 20,000	15,000 - 20,000
20,000 - 25,000	20,000 - 25,000
25,000 - 30,000	25,000 - 30,000
30,000 and over	30,000 and over

Privacy Act and Paperwork Reduction Project: We ask for this information on this form to carry out the Internal Revenue laws of the United States. We will not disclose the information you supply on this form to anyone other than those authorized to receive it for the purpose of carrying out the law. We will not disclose the information you supply on this form to anyone other than those authorized to receive it for the purpose of carrying out the law. We will not disclose the information you supply on this form to anyone other than those authorized to receive it for the purpose of carrying out the law. We will not disclose the information you supply on this form to anyone other than those authorized to receive it for the purpose of carrying out the law.

FORM W-4

ARE YOU EXEMPT FROM WITHHOLDING?



THE DEPENDENCY TESTS

There are five tests to determine whether someone is your dependent: member of household or relationship, joint return, citizenship, gross income, and support tests.

Each dependent must meet all five of the following tests:

Test 1: Relationship or Member of Household

Your dependent must be either your relative or someone who lived in your home as a member of your household all year; the relationship must not violate local law.

The following are considered your relatives:

- Your child. Your child includes your son, daughter, stepchild, adopted child; a child who lived in your home as a family member, if placed with you by an authorized placement agency for legal adoption; or a foster child (any child who lived in your home as a family member for the whole year).
- Your grandchild, great-grandchild, etc.
- Your son-in-law, daughter-in-law.
- Your parent, grandparent, stepparent, parent-in-law.
- Your brother, sister, stepbrother, stepsister, brother-in-law, sister-in-law, half-brother, half-sister.
- If related by blood, your aunt, uncle, nephew, ni, ce.
- Any person, related or not, who was a member of your household for the entire year, except for anyone who was your spouse at any time during the year.

Test 2: Gross Income Test

If your child is under 19 at the end of the tax year, or under 24 and a full-time student, he or she does not have to meet this test.

Your child age 19 (and under 24) who is not a full-time student, or who was age 24 or over, can meet this test only if his or her gross income was less than \$2,450 for 1994.

Other relatives or household members must have gross incomes of less than \$2,450 for 1994.

Test 3: Support Test

An individual may meet the support test if you contribute more than 50% of his or her total support during the calendar year.

If you contributed more than 10% of someone's support, and together with others contributed more than half, you or one of the others who contributed more than 10% may meet the support test. You and the other contributors have to decide who will claim the person as a dependent provided the other four tests are met.

If you, either alone or together with others, contributed 50% or less, of someone's support, you cannot claim that person as a dependent.

Test 4: Citizenship or Resident Test

The dependent must be either a U.S. citizen, or a resident alien, or a resident of Canada or Mexico, or your adopted child who is not a U.S. citizen, but who lived with you all year in a foreign country.

Test 5: Joint Return Test

Your married dependent cannot file a joint return with his or her spouse.

Note: However, if neither the dependent nor the dependent's spouse is required to file, but they file a joint return only to get a refund of all tax withheld, you may claim him or her if the other four tests are met.

FORM W-2

a Control number		OMB No. 1545-0008						
b Employer's identification number		1 Wages, tips, other compensation	2 Federal income tax withheld					
c Employer's name, address and ZIP code		3 Social security wages	4 Social security tax withheld					
		5 Medicare wages and tips	6 Medicare tax withheld					
		7 Social security tips	8 Allocated tips					
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits					
e Employee's name, address, and ZIP code		11 Nonqualified plans	12 Benefits included in box 1					
		13 See Instrs. for box 13	14 Other					
		15 Statutory employee <input type="checkbox"/>	Deceased <input type="checkbox"/>	Pension plan <input type="checkbox"/>	Legal rep <input type="checkbox"/>	942 emp <input type="checkbox"/>	Subtotal <input type="checkbox"/>	Deferred compensation <input type="checkbox"/>
16 State	Employer's state I D No	17 State wages tips etc	18 State income tax	19 Locality name	20 Local wages tips etc	21 Local income tax		

Department of the Treasury—Internal Revenue Service

Form W-2 Wage and Tax Statement 1995

This information is being furnished to the Internal Revenue Service

Copy B To Be Filed With Employee's FEDERAL Tax Return

**FORM 1099-INT
(HANDOUT 3.5 CONTINUED)**

CORRECTED (if checked)

PAYER'S name street address city state and ZIP code		Payer's RTN (optional)	OMB No 1545-0112	1994 Interest Income
PAYER'S Federal identification number		RECIPIENT'S identification number	1 Interest income not included in box 3 \$	
RECIPIENT'S name		2 Early withdrawal penalty \$	3 Interest on U.S. Savings Bonds and Treas. obligations \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		4 Federal income tax withheld \$		
City, state, and ZIP code		5 Foreign tax paid \$	6 Foreign country or U.S. possession	
Account number (optional)				

Form 1099-INT

(Keep for your records.)

Department of the Treasury Internal Revenue Service



CASE STUDIES

Case Study A

Jay R. Jones of 24 First Street, Metropolis, Idaho, 83603, is single and works a few hours each month at his uncle's shop. He is a full-time student. Jay had no income tax liability last year, but he expects to earn between \$300 and \$400 in wages this year. He has no other income, and his parents claim him as a dependent on their tax return. His social security number is 999-00-1234. Fill out a correct Form W-4 for Jay.

Case Study B

Jane J. Johnson of 24 Straight Street in Bigtown, Maine, 04748, is single and expects to earn about \$12,000 this year as a laborer. She earned a little less last year, but did pay income tax. No one claims Jane as a dependent, and she has no dependents. Her social security number is 999-00-5678. Fill out a correct Form W-4 for Jane. She has only one employer.

Case Study C

Using this Form W-2 information, complete Form 1040EZ for Joe Day. He is single and is claimed as a dependent on his parents' return. He wants to contribute \$3 to the Presidential Election Campaign Fund.

W-2 information:

Joseph K. Day
615 Poplar Drive, Goodtown, OH 45201
SS#987-00-4321
Super Service Station
702 Main Street, Goodtown, OH 45201
Employer ID #: 10-000-1233
Fed. income tax withheld: \$30
Wages: \$2,250
SS wages: \$2,250
Medicare wages and tips: \$2,250
SS tax withheld: \$139.50
Medicare tax withheld: \$32.63

Case Study D

Using this W-2 and 1099-INT information, fill out a correct Form 1040EZ for Susan A. Black. She is single and cannot be claimed as a dependent on another person's return. She wants \$3 to go to the Presidential Election Campaign Fund.

W-2 information:

Susan A. Black
601 Turnbolt Street, Robin, MI 48200
SS# 987-00-2080
ABC Stores
2001 Bent Road, Robin, MI 48200
Employer's ID #: 10-000-1234
1099-INT information:
Town Bank, 5 State Street, Robin, MI 48200
Interest income: \$45
Payer's ID#: 10-1112222
Fed. income tax withheld: \$745
Wages: \$9,672

SS tax withheld: \$599.66
Medicare tax withheld: \$140.24
SS wages: \$9,672
Medicare wages and tips: \$9,672

Case Study E

Use the following information to complete Form 1040A for Eric H. Richards. Eric is 16 years old, single, and has good eyesight. He worked as a clerk and earned a total of \$3,200 as reported on the Form W-2. He can be claimed as a dependent on his parents' return. He wants to contribute \$3 to the Presidential Election Campaign Fund. Here is his full name and address, his social security number, the amount withheld from his pay by his employer, and the amount of interest he received on his savings account at Bryan National Bank.

Eric H. Richards
514 Tenth Street, Bryan, KY 54612
SS # 059-00-3212
Amount of federal tax withheld
and reported on Form W-2: \$145
Interest income reported on Form
1099-INT: \$900

Case Study F

Use this Form W-2 and Form 1099-INT information to complete Form 1040A for Lisa M. Sample, who is single, is claimed by her parents as a dependent on their return, and does not want to contribute to the Presidential Election Campaign Fund.

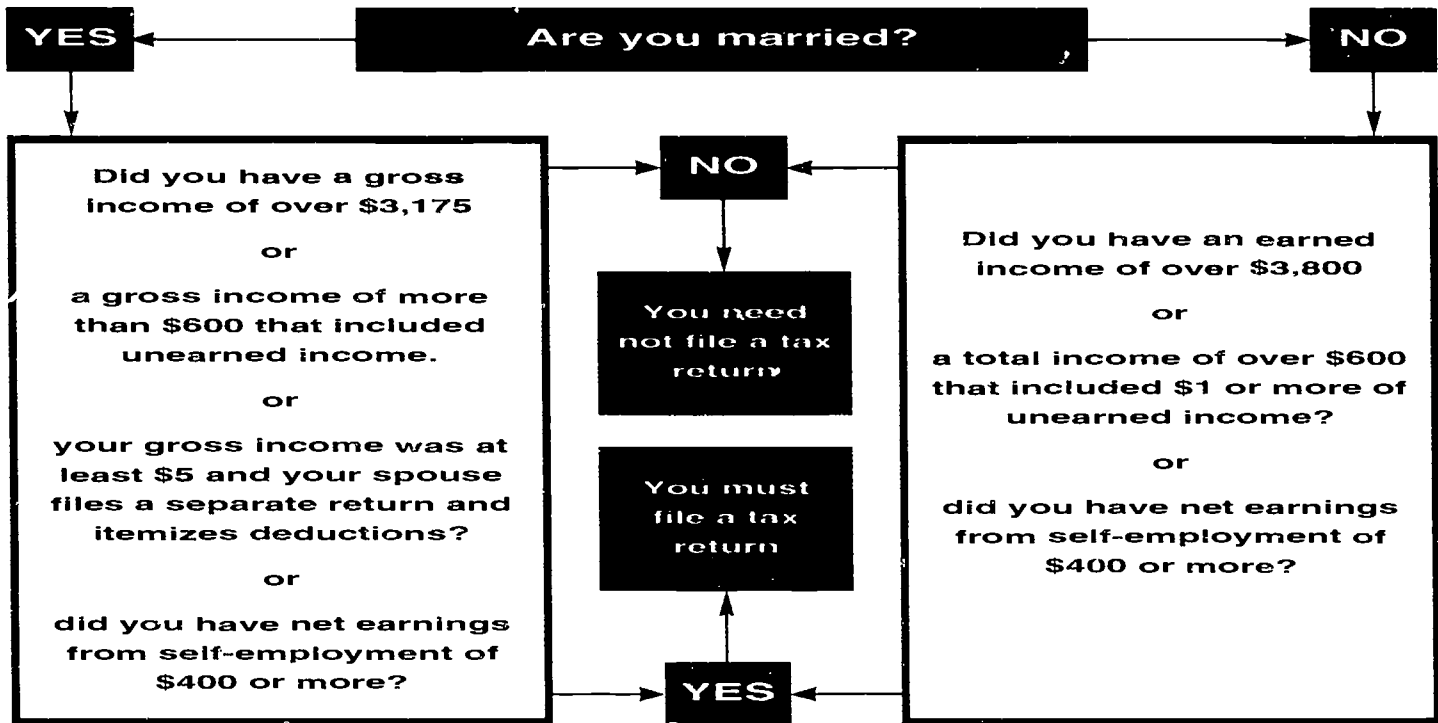
W-2 information:

Lisa M. Sample
215 Rogers Street, Garden, LA 64312
SS# 821-00-1234
Garden Center
500 Rose Lane, Garden, LA 64312
Employer's ID #: 10-5551212
Garden National Bank
101 Main St.,
Garden, LA 64312
Payer's ID #: 10-1234567
Federal income taxes withheld: \$12
Wages: \$1,950
SS tax withheld: \$120.90
Medicare tax withheld: \$28.28
Interest income: \$817
SS wages: \$1,950
Medicare wages and tips: \$1,950

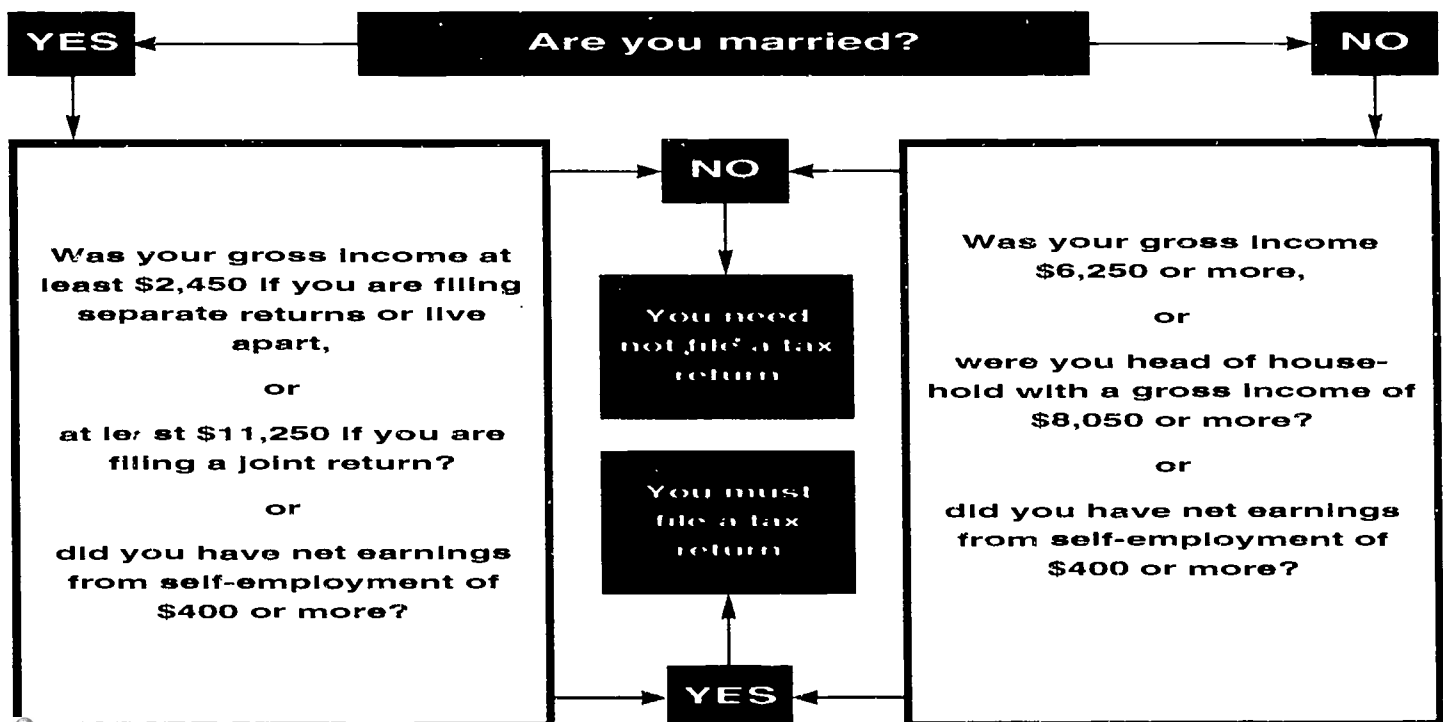
SHOULD YOU FILE A TAX RETURN?

Not everyone needs to file a tax return. Use the diagrams below to decide whether you need to file or not. Remember, however, that it is necessary to file a return to get a refund of any tax withheld from any pay you earned even if your total income does not require filing a return.

1. Assuming that you are under age 65 and not blind, can you be claimed as a dependent on someone else's return? If the answer is "yes," then...



2. Assuming that you are under 65 and not blind, can you be claimed as a dependent on someone else's return? If the answer is "no," then...



WHICH TAX RETURN FORM SHOULD YOU USE?

	FILING STATUS	NUMBER OF EXEMPTIONS	TAXABLE INCOME	SOURCES OF INCOME LIMITED TO	ADJUSTMENTS, DEDUCTIONS, OTHER TAXES AND CREDITS
1040EZ	single or married filing jointly under age 65 and not blind	single—claim only one exemption, for yourself; married—claiming two exemptions (yourself and spouse) no dependents	less than \$50,000	wages, salaries, tips, taxable scholarship and fellowship grants, and not more than \$400 of taxable interest income	no income adjustment, itemized deductions, or other taxes; earned income credit allowed
1040A	single, or married filing joint or separate returns, head of household, qualifying widow or widower	all eligible exemptions	less than \$50,000	wages, salaries, tips, taxable scholarship and fellowship grants, interest, dividends, pensions, annuities, IRAs, unemployment compensation, taxable social security and railroad retirement benefits	certain IRA contributions, advance earned income credit payments, child and dependent care credit, earned income credit, credit for elderly or disabled, no itemized deductions

FORM 1040-EZ

1994 Instructions for Form 1040EZ

- Use this form if**
- You (and your spouse if married) were under 65 on January 1, 1995, and not blind at the end of 1994.
 - You do not claim any dependents.
 - You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
 - You did not receive any advance earned income credit payments.
- Caution:** If married and either you or your spouse had total wages of over \$60,500, you may not be able to use this form. See page 7.
- If you are not sure about your filing status, see page 7. If you have questions about dependents, call Tele-Tax (see page 26) and listen to topic 354. If you can't use this form, call Tele-Tax (see page 26) and listen to topic 352.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9 8 7 6 5 4 3 2 1 0

Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1099-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

If you paid someone to prepare your return, see page 21.

Worksheet for dependents who checked "yes" on line 4

Use this worksheet to figure the amount to enter on line 4 if someone can claim you for your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 26) and listen to topic 354.

A. Enter the amount from line 1 on the front

B. Minimum standard deduction

C. Enter the LARGER of line A or line B here

D. Maximum standard deduction. If single, enter 3,800.00; if married, enter 6,350.00

E. Enter the SMALLER of line C or line D here. This is your standard deduction

F. Exemption amount

If single, enter 0.

If married and both you and your spouse can be claimed as dependents, enter 0.

If married and only one of you can be claimed as a dependent, enter 2,450.00

G. Add lines E and F. Enter the total here and on line 4 on the front

If you checked "No" on line 4 because no one can claim you (or your spouse if married) as a dependent, enter on line 4 the amount shown below that applies to you

- Single, enter 6,250.00. This is the total of your standard deduction (3,800.00) and personal exemption (2,450.00).
- Married, enter 11,250.00. This is the total of your standard deduction (6,350.00), exemption for yourself (2,450.00), and exemption for your spouse (2,450.00).

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Avoid mistakes

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Mailing your return

Mail your return by April 17, 1995. Use the envelope that came with your booklet. If you don't have that envelope, see page 33 for the address to use.

1994

Use this form if

- You (and your spouse if married) were under 65 on January 1, 1995, and not blind at the end of 1994.
- You do not claim any dependents.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9 8 7 6 5 4 3 2 1 0

Worksheet for dependents who checked "yes" on line 4

Use this worksheet to figure the amount to enter on line 4 if someone can claim you for your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 26) and listen to topic 354.

If you checked "No" on line 4 because no one can claim you (or your spouse if married) as a dependent, enter on line 4 the amount shown below that applies to you

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- You did not receive any advance earned income credit payments.

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Avoid mistakes

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

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Use this form if

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- You do not claim any dependents.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
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Filling in your return

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Worksheet for dependents who checked "yes" on line 4

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- Single, enter 6,250.00. This is the total of your standard deduction (3,800.00) and personal exemption (2,450.00).
- Married, enter 11,250.00. This is the total of your standard deduction (6,350.00), exemption for yourself (2,450.00), and exemption for your spouse (2,450.00).

Avoid mistakes

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Mailing your return

Mail your return by April 17, 1995. Use the envelope that came with your booklet. If you don't have that envelope, see page 33 for the address to use.

1994

Use this form if

- You (and your spouse if married) were under 65 on January 1, 1995, and not blind at the end of 1994.
- You do not claim any dependents.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Filling in your return

Because this form is read by a machine, please print your numbers inside the boxes like this:

9 8 7 6 5 4 3 2 1 0

Worksheet for dependents who checked "yes" on line 4

Use this worksheet to figure the amount to enter on line 4 if someone can claim you for your spouse if married) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 26) and listen to topic 354.

If you checked "No" on line 4 because no one can claim you (or your spouse if married) as a dependent, enter on line 4 the amount shown below that applies to you

- Single, enter 6,250.00. This is the total of your standard deduction (3,800.00) and personal exemption (2,450.00).
- Married, enter 11,250.00. This is the total of your standard deduction (6,350.00), exemption for yourself (2,450.00), and exemption for your spouse (2,450.00).

Avoid mistakes

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Mailing your return

Mail your return by April 17, 1995. Use the envelope that came with your booklet. If you don't have that envelope, see page 33 for the address to use.



SECTION 7. TAX TABLES

Page 28

Section 5—1994 Tax Table

For persons with taxable income of less than \$50,000

Example. Mr. Brown is single. His taxable income on line 5 of Form 1040EZ is \$23,250. First, he finds the \$23,250-23,300 income line. Next, he finds the "Single" column and reads down the column. The amount shown where the income line and filing status column meet is \$3,644. This is the tax amount he must enter on line 9 of Form 1040EZ.

At least	But less than	Single	Married filing jointly
23,200	23,250		Your tax is—
23,250	23,300	3,630	3,484
23,300	23,350	3,644	3,491
23,350	23,400	3,658	3,499
		3,672	3,506

If Form 1040EZ, line 5, is—		And you are—		If Form 1040EZ, line 5, is—		And you are—		If Form 1040EZ, line 5, is—		And you are—	
At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly
Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—	
\$0	\$5	\$0	\$0	1,500	1,525	227	227	3,000		6,000	
5	15	2	2	1,525	1,550	231	231	3,050	3,100	454	454
15	25	3	3	1,550	1,575	234	234	3,100	3,150	461	461
25	50	6	6	1,575	1,600	238	238	3,150	3,200	469	469
50	75	9	9	1,600	1,625	242	242	3,200	3,250	476	476
75	100	13	13	1,625	1,650	246	246	3,250	3,300	484	484
100	125	17	17	1,650	1,675	249	249	3,300	3,350	491	491
125	150	21	21	1,675	1,700	253	253	3,350	3,400	499	499
150	175	24	24	1,700	1,725	257	257	3,400	3,450	506	506
175	200	28	28	1,725	1,750	261	261	3,450	3,500	514	514
200	225	32	32	1,750	1,775	264	264	3,500	3,550	521	521
225	250	36	36	1,775	1,800	268	268	3,550	3,600	529	529
250	275	39	39	1,800	1,825	272	272	3,600	3,650	536	536
275	300	43	43	1,825	1,850	276	276	3,650	3,700	544	544
300	325	47	47	1,850	1,875	279	279	3,700	3,750	551	551
325	350	51	51	1,875	1,900	283	283	3,750	3,800	559	559
350	375	54	54	1,900	1,925	287	287	3,800	3,850	566	566
375	400	58	58	1,925	1,950	291	291	3,850	3,900	574	574
400	425	62	62	1,950	1,975	294	294	3,900	3,950	581	581
425	450	66	66	1,975	2,000	298	298	3,950	4,000	589	589
450	475	69	69							596	596
475	500	73	73								
500	525	77	77	2,000		4,000		7,000			
525	550	81	81	2,000	2,025	302	302	4,000	4,050	604	604
550	575	84	84	2,025	2,050	306	306	4,050	4,100	611	611
575	600	88	88	2,050	2,075	309	309	4,100	4,150	619	619
600	625	92	92	2,075	2,100	313	313	4,150	4,200	626	626
625	650	96	96	2,100	2,125	317	317	4,200	4,250	634	634
650	675	99	99	2,125	2,150	321	321	4,250	4,300	641	641
675	700	103	103	2,150	2,175	324	324	4,300	4,350	649	649
700	725	107	107	2,175	2,200	328	328	4,350	4,400	656	656
725	750	111	111	2,200	2,225	332	332	4,400	4,450	664	664
750	775	114	114	2,225	2,250	336	336	4,450	4,500	671	671
775	800	118	118	2,250	2,275	339	339	4,500	4,550	679	679
800	825	122	122	2,275	2,300	343	343	4,550	4,600	686	686
825	850	126	126	2,300	2,325	347	347	4,600	4,650	694	694
850	875	129	129	2,325	2,350	351	351	4,650	4,700	701	701
875	900	133	133	2,350	2,375	354	354	4,700	4,750	709	709
900	925	137	137	2,375	2,400	358	358	4,750	4,800	716	716
925	950	141	141	2,400	2,425	362	362	4,800	4,850	724	724
950	975	144	144	2,425	2,450	366	366	4,850	4,900	731	731
975	1,000	148	148	2,450	2,475	369	369	4,900	4,950	739	739
				2,475	2,500	373	373	4,950	5,000	746	746
				2,500	2,525	377	377	5,000		8,000	
				2,525	2,550	381	381	5,000	5,050	754	754
				2,550	2,575	384	384	5,050	5,100	761	761
				2,575	2,600	388	388	5,100	5,150	769	769
				2,600	2,625	392	392	5,150	5,200	776	776
				2,625	2,650	396	396	5,200	5,250	784	784
				2,650	2,675	399	399	5,250	5,300	791	791
				2,675	2,700	403	403	5,300	5,350	799	799
				2,700	2,725	407	407	5,350	5,400	806	806
				2,725	2,750	411	411	5,400	5,450	814	814
				2,750	2,775	414	414	5,450	5,500	821	821
				2,775	2,800	418	418	5,500	5,550	829	829
				2,800	2,825	422	422	5,550	5,600	836	836
				2,825	2,850	426	426	5,600	5,650	844	844
				2,850	2,875	429	429	5,650	5,700	851	851
				2,875	2,900	433	433	5,700	5,750	859	859
				2,900	2,925	437	437	5,750	5,800	866	866
				2,925	2,950	441	441	5,800	5,850	874	874
				2,950	2,975	444	444	5,850	5,900	881	881
				2,975	3,000	448	448	5,900	5,950	889	889
								5,950	6,000	896	896

Continued on next page

FORM 1040EZ STEP-BY-STEP

What you'll need:

- W-2s—one for each job during the year
- 1099-INTs—if you received interest income
- Pencil/pen, scratch paper
- Calculator
- Blank Form 1040EZ

Key items:**Name & address label**

- If you have no peel-off mailing label, print your name and address carefully. (Otherwise, save the mailing label to apply when you are sure your return is complete and correct.)
- Enter your social security number. (See box d of your W-2.)
- If you want S3 to go into the Presidential Election Campaign Fund, check "Yes."

Report your income

- Add the amount(s) in box 1 of your W-2 form(s), and put the total on line 1 of the 1040EZ form.
- If you received interest income, you must include all taxable interest, even if no Form 1099 is received (that is, an amount of \$400 or less), on line 2. (If over \$400, you must use Form 1040A or 1040.)
- Double-check your addition for line 3.
- See Student Handout 3.4, "The Dependency Tests" to find out if you should check the "Yes" or "No" box on line 4. If you check the "No" box, on line 4, put 6,250 if you are single and 11,250 if you are married.
- If you check the "Yes" box, look at line 1. If the amount on line 1 is more than \$600, put the line 1 amount on line 4, too. Do not put more than \$3,800 on line 4. If the line 1 amount is less than \$600, put \$600 on line 4.
- Double check your subtraction for line 5.

Figure your tax

- Add up the amounts in box 2 of your W-2(s), and put the total in line 6. (If you think line 7 "Earned Income Credit" applies to you, see the instructions for Form 1040EZ).
- Add lines 6 and 7 and enter the total on line 8.
- Find your tax by using the appropriate (single, or married filing jointly) column of the Tax Tables. Look for your taxable income (the line 5 amount). Write in the amount of your tax on line 9.
- Double-check that you copied the figures from your W-2s and Tax Tables correctly.

Refund or amount you owe

- Look at lines 8 and 9 again. Check whether line 8 or 9 is larger.
- If line 8 is larger, you should complete line 10. Subtract line 9 from line 8, and put the result on line 10. This is the amount of your refund.
- If line 9 is larger, subtract line 8 from line 9, and put the result on line 11. This is the amount you owe.

Sign your return

- Double-check your addition and subtraction.
- Read the words in bold letters at the bottom of the form, then sign and date it and enter your occupation.
- Attach your mailing label; make any necessary corrections right on the label.
- Attach Copy B of each W-2.
- If you owe more tax, attach your check or money order made payable to "Internal Revenue Service." Make sure your social security number, address, daytime phone number, and "1994 Form 1040EZ" are on your payment.
- Mail your return by April 15. If April 15 falls on a Saturday, Sunday, or holiday, you can file your return on the next business day. Since April 15, 1995, falls on a Saturday, you can file your return on April 17.

FORM 1040A

Form 1040A Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return 1994 IRS Use Only—Do not write or staple in this space

Label (See page 16.)

Label area with fields for first name, last name, joint return names, home address, and city/ZIP code.

Use the IRS label. Otherwise, please print or type.

Fields for social security numbers: Your social security number, Spouse's social security number.

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Note: Checking "Yes" will not change your tax or reduce your refund.

Presidential Election Campaign Fund section with Yes/No columns for funding questions.

Check the box for your filing status (See page 17) Check only one box.

- 1 Single
2 Married filing joint return (even if only one had income)
3 Married filing separate return. Enter spouse's social security number above and full name here.
4 Head of household (with qualifying person). (See page 18.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child (year spouse died 19). (See page 19.)

Figure your exemptions (See page 20.)

Exemption table with columns for dependent name, age, social security number, relationship, and months lived in home. Includes checkboxes for spouse and dependent status.

If more than seven dependents, see page 23

Figure your total income

Income summary table with rows for wages, interest, dividends, IRA distributions, pensions, unemployment compensation, and social security benefits.

Attach Copy B of your Forms W-2 and 1099-R here.

If you didn't get a W-2 see page 25

Enclose, but do not attach, any payment with your return.

Figure your adjusted gross income

Adjusted gross income calculation table with rows for IRA deduction and total adjustments.



FORM 1040A CONTINUED

1994 Form 1040A page 2

Name(s) shown on page 1	Your social security number
-------------------------	-----------------------------

Figure your standard deduction, exemption amount, and taxable income

17	Enter the amount from line 16.	17	
18a	Check <input type="checkbox"/> You were 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was 65 or older <input type="checkbox"/> Blind } Enter number of boxes checked ▶ 18a <input type="checkbox"/>		
b	If your parent (or someone else) can claim you as a dependent, check here. ▶ 18b <input type="checkbox"/>		
c	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. ▶ 18c <input type="checkbox"/>		
19	Enter the standard deduction shown below for your filing status. But if you checked any box on line 18a or b, go to page 38 to find your standard deduction. If you checked box 18c, enter -0-.		
	• Single—\$3,800 • Married filing jointly or Qualifying widow(er)—\$6,350		
	• Head of household—\$5,600 • Married filing separately—\$3,175	19	
20	Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-.	20	
21	Multiply \$2,450 by the total number of exemptions claimed on line 6e.	21	
22	Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your taxable income . ▶ 22	22	

Figure your tax, credits, and payments

If you want the IRS to figure your tax, see the instructions for line 22 on page 39

23	Find the tax on the amount on line 22. Check if from: <input type="checkbox"/> Tax Table (pages 61-66) or <input type="checkbox"/> Form 8615 (see page 40).	23	
24a	Credit for child and dependent care expenses. Attach Schedule 2. 24a		
b	Credit for the elderly or the disabled. Attach Schedule 3. 24b		
c	Add lines 24a and 24b. These are your total credits .	24c	
25	Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-.	25	
26	Advance earned income credit from Form W-2.	26	
27	Add lines 25 and 26. This is your total tax . ▶ 27	27	
28a	Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ <input type="checkbox"/> 28a		
b	1994 estimated tax payments and amount applied from 1993 return. 28b		
c	Earned income credit. If required, attach Schedule EIC (see page 43). Nontaxable earned income: amount ▶ 28c		
d	Add lines 28a, 28b, and 28c. These are your total payments . ▶ 28d	28d	

Figure your refund or amount you owe

29	If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you overpaid .	29	
30	Amount of line 29 you want refunded to you .	30	
31	Amount of line 29 you want applied to your 1995 estimated tax .	31	
32	If line 27 is more than line 28d, subtract line 28d from line 27. This is the amount you owe . For details on how to pay, including what to write on your payment, see page 50.	32	
33	Estimated tax penalty (see page 51).	33	

Sign your return

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature	Date	Your occupation
Spouse's signature (if joint return, BOTH must sign)	Date	Spouse's occupation

Paid preparer's use only

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security no
Firm's name (or yours if self-employed) and address	E I No	ZIP code	



SCHEDULE 1

Schedule 1 (Form 1040A)

Department of the Treasury—Internal Revenue Service Interest and Dividend Income for Form 1040A Filers

1994

OMB No. 1545-0085

Name(s) shown on Form 1040A

Your social security number

Part I

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, enter the firm's name and the total interest shown on that form.

Interest income

(See pages 26 and 67.)

1 List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see page 67 and list this interest first. Also, show that buyer's social security number and address.

Amount

Table with 3 columns: Line number, Description, Amount. Includes lines 1-4 for interest income calculation.

Part II

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, enter the firm's name and the total dividends shown on that form.

Dividend income

(See pages 26 and 68.)

5 List name of payer

Amount

Table with 3 columns: Line number, Description, Amount. Includes line 5 for dividend income and line 6 for total.



FORM 1040A STEP-BY-STEP

What you'll need:

- W-2s—one for each job during the year
- 1099-INTs—if you received interest income
- Pencil/pen, scratch paper
- Calculator
- Blank Form 1040A and Schedule 1
- Social security numbers for your spouse and dependents

Key items:**Name & address label**

- If you have no peel-off mailing label, print your name (and your spouse's name) and address carefully. (Otherwise, save the mailing label to apply when you are sure your return is complete and correct.)
- Enter your social security number (and your spouse's, when applicable).
- If you want \$3 of your taxes to go into the Presidential Election Campaign Fund, check "Yes;" otherwise, check "No."

Check the box for your filing status

- If you are single, check box 1. (You may want to check Student Handout 3.8, "Which Tax Return Form Should You Use?" to find out whether you can use Form 1040EZ instead.)
- If you are married and want to take advantage of lower tax rates by filing a joint return, check box 2.
- If you are married and want to file separately from your spouse, check box 3. Be sure to enter your spouse's name and check to make sure you have entered the correct social security number.
- If you are unmarried or do not live with your spouse and you have an unmarried child living with you, you probably qualify as head of household. (See the instructions for Form 1040A for more information about head of household status.) Check box 4.
- If you are a widow or widower with a dependent child, enter the year in which your spouse died and read the instruction book for more information.

Figure your exemptions

- If no one else can claim you as a dependent on his or her tax return, take an exemption for yourself by checking box 6a. (See Student Handout 3.4, "The Dependency Tests.")
- If you are filing a joint return, your spouse usually cannot be claimed as a dependent on someone else's return. Take an exemption for your spouse by checking box 6b. If you are filing a separate return, you can take an exemption for your spouse only if he or she is not filing a return, had no income, and cannot be claimed as a dependent of another taxpayer.
- Take an exemption for each person who qualifies as your dependent. (See Student Handout 3.4.) Enter their names and other information on the lines under "6c Dependents."
- Complete the lines at the right, and add up the total number of exemptions. Put the total in the large box to the right of line 6e.

Figure your total income

- Add up the amounts in box 1 of your W-2(s), and put the total on line 7.
- If you received any interest income, put the total on line 8a.
- If the amount you entered on line 8a is more than \$400, put the name of each party who paid you interest and the amount on Part 1 of Schedule 1. Put your name and social security number on Schedule 1, and save it to attach to your return.
- If you received non-taxable interest income (for example, from municipal bonds), enter the amount on line 8b and check the instruction book.
- See the instructions for Form 1040A if you think any of lines 9 through 13 apply to you.
- Add up the amounts on lines 7, 8a, 9, 10b, 11b, 12, and 13b. (Do not include lines 8b, 10a, 11a, or 13a.) Write the total on line 14. Double check your addition.

FORM 1040A STEP-BY-STEP (CONTINUED)

Figure your adjusted gross income

- See the instructions for Form 1040A if you think lines 15a and b apply to you.
- If lines 15a and b do not apply, bring down the amount from line 14, and write it on line 16.

Figure your standard deduction, exemption amount, and taxable income

- Put the line 16 amount on line 17, too.
- You will probably not check lines 18a or c. If you did not check box 6a, check the box for line 18b now.
- If you did not check line 18b, look back at lines 1-5, where you checked box 1, 2, 3, 4, or 5. If you checked box 1, put \$3,800 on line 19. If you checked box 2 or 5, enter \$6,350 on line 19. If you checked box 3, enter \$3,175. If you checked box 4, enter \$5,600.
- If you did check line 18b, look at the amount you entered on line 7. If it is more than \$3,800, put \$3,800 on line 19. If it is less than \$3,800 but more than \$600, put the line 7 amount on line 19, too. If the line 7 amount is less than \$600, put \$600 on line 19.
- At line 20, subtract your standard deduction, line 19, from your adjusted gross income, line 17, double-check your subtraction, and enter the amount on line 20.
- Look at line 6e. Multiply the number you put there times \$2,450. Put the total on line 21.
- Subtract the amount entered on line 21 from the amount on line 20. Double-check, and enter the result on line 22.

Figure your tax, credits, and payments

- Look at your taxable income (line 22) and then find the pair of figures that includes this amount of income in the Tax Tables. Find the column that applies to you and then find your tax. Enter this amount on line 23 and check the box "Tax Table."

- See the instructions for Form 1040A if you think line 24a or b, or line 26 applies to you. If these lines do not apply, copy the line 23 amount on line 27.
- Add up the amounts in box 2 of your W-2 and put the total on line 28a. (See the instructions for Form 1040A if you think line 28b or c applies to you.)
- Add any amount on line 28b or c to line 28a, double-check your addition, and enter the total on line 28d.

Figure your refund or the amount you owe

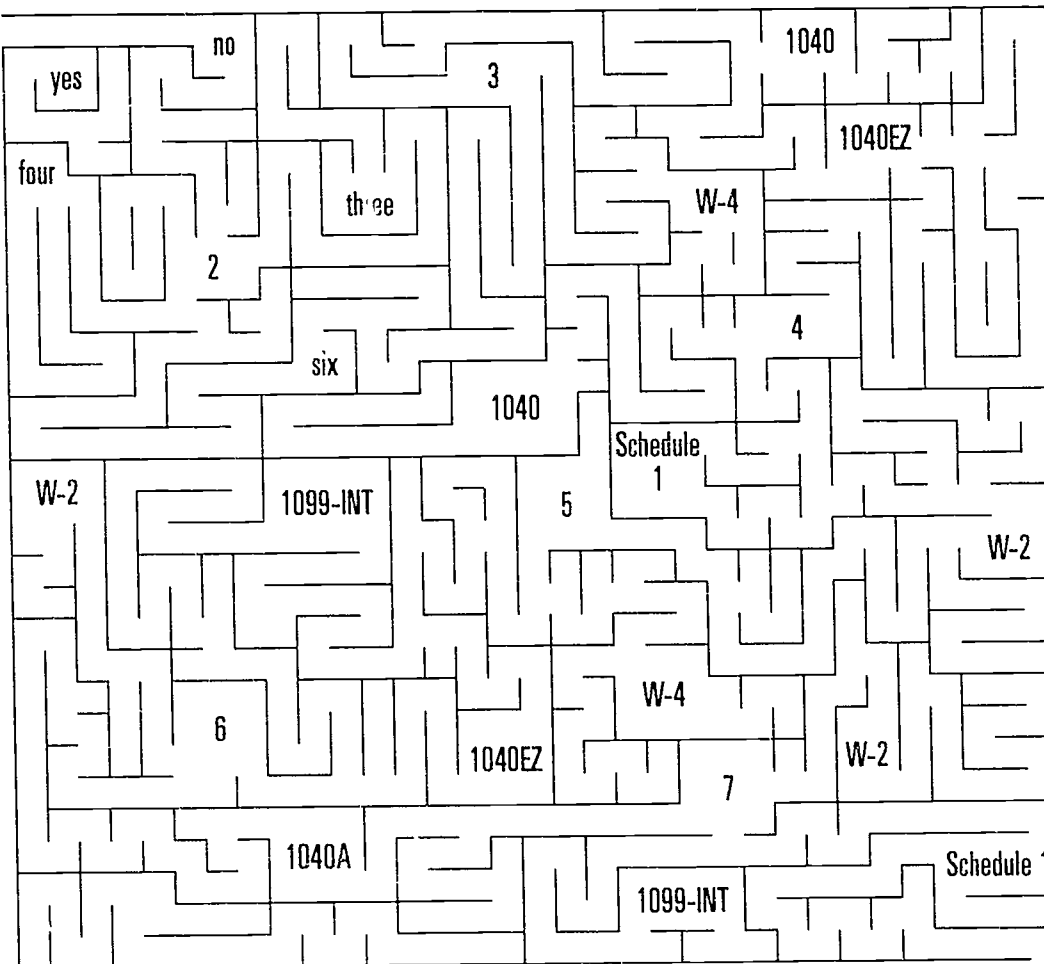
- Look at lines 27 and 28d again. Check whether line 27 or line 28d is larger.
- If line 28d is larger, you should complete lines 29 and 30. (See the instruction for Form 1040A if you think line 31 might apply to you.) Subtract line 27 from line 28d and put the result on line 29. This is the amount you overpaid. Enter on line 30 the amount you want refunded to you.
- If line 27 is larger, you should complete line 32. Subtract line 28d from line 27, and put the result on line 32. This is the amount you owe.

Sign your return

- Carefully read the words above the line for your signature, then sign and date your return and write in your occupation.
- Attach your mailing label; make any corrections right on the label.
- Attach copy B of each W-2.
- Attach any Schedules you used.
- If you owe more tax, attach your check or money order. Make sure your social security number, daytime phone number, and "1994 Form 1040A" are on your payment check or money order.
- Mail your return by April 15. If April 15 falls on a Saturday, Sunday, or holiday, you can file your return on the next business day. Since April 15, 1995, falls on a Saturday, you can file your return on April 17.

THE TAX MAZE

Directions: Read question 1 below. Then enter the maze at "Start 1" and find your way to the correct answer to the question. From there, go to 2, read question 2, and continue on through the maze until you have arrived at the answer to that question. Continue on through the maze until you have answered all seven questions in order.

Start 1**Finish** Collect your tax refund

1. You expect to earn about \$375 in your first summer job and about \$675 in interest this year. Are you exempt from withholding?
2. You are 25, you have a spouse who doesn't work, two children, and a 14-year-old brother who qualifies as your dependent. How many allowances can you claim on your W-4?
3. You are 16, single, claimed as a dependent on your parents' tax return, and you earned \$2,457 last year. Which return do you file?
4. You completed your 1040EZ tax return showing that you should get a refund of \$63. What form do you need to attach to it before you mail it in?
5. You have a savings account at your bank. What form will tell you how much interest you earned in the past year?
6. You and your spouse file a joint return showing a combined salary income of \$57,000 with no other sources of income, you have two children, and you want to take a credit for child care. Which return do you file?
7. You earned \$534 in interest income last year. What will you need to attach to your Form 1040A?

LESSON SUMMARY FROM W-4 TO W-2

Key terms are in boldface italics. Their definitions should be checked in Student Handout 3.1, "Glossary of Key Terms."

From W-4 to W-2

- All U.S. citizens or residents may have to pay tax on their income.
- Federal income tax is collected on a **pay-as-you-go** basis. Employees may have taxes taken out of—**withheld from**—each paycheck that is subject to tax. (See **Tax Withholding**.)
- Employees provide information so the employer can determine how much should be withheld when they fill out IRS Form W-4 and give it to their employer. Employees are expected to fill it out accurately and honestly.
- To fill out a Form W-4, it is important to understand the meaning of **dependent** in tax law. (See Student Handout 3.4, "The Dependency Tests.")
- Some people, for reasons of income and status, are not required to have any tax withheld. (Check the definition of **exempt from withholding**. Then work through Student Handout 3.3, "Are You Exempt from Withholding" to find out whether you are exempt.)
- Taxpayers may claim **allowances** on Form W-4. The total number of allowances listed on a Form W-4 is not the same as exemptions that an employee expects to claim on his or her return. Exemptions are subtracted from adjusted gross income on the return before the tax liability is figured. The exemption amount for 1994 is \$2,450. It's important to come up with the right number of allowances on Form W-4, because an employer withholds tax based on wages paid and information the employee provides on Form W-4. (See **Withholding Allowance**).
- If you are **single** and have **more than one job** and your combined earnings from all jobs exceed \$30,000 OR if you are married and have a **working spouse or more than one job**, and the combined earnings from all jobs exceed \$50,000, use the Two-Earner/Two-Job Worksheet to avoid having too little tax withheld. The worksheet will help you estimate your extra tax liability so that your withholding can cover more of it.
- Taxpayers may, even if they are married, request withholding at the usual rate for single people, which is generally higher than that for married people, in order to cover taxes that might be owed on other sources of income, such as interest or dividend payments.

On the basis of the information employees provide in their W-4 forms, employers calculate the amount to withhold. By Jan. 31 of each year, they give employees copies of IRS Form W-2 that shows how much the employee earned in the previous year and how much was withheld. Employees should check this form for accuracy. They are required to attach a copy to their tax return.

Filing a Return and Form 1040EZ

Even if you do not owe any taxes, you must file a return if you have had any federal income taxes withheld from your paycheck and you want to have them refunded.

There are other reasons for filing a return. For 1994, you had to file a return if you are under age 65, not blind, and

- are someone's **dependent**, are not married, and had an **earned income** of over \$3,800
- are someone's dependent, are not married, and had an income of over \$600 that included **unearned income**
- are someone's dependent, are married, and had an earned income of over \$3,175
- are someone's dependent, are married, and had a gross income of more than \$600 that included unearned income
- are someone's dependent, are married, had a gross income of at least \$5.00 and your spouse files a separate return and itemizes **deductions**
- had net earnings from self-employment of at least \$400.

You also had to file a return if you

- are not someone's dependent, are single, and had a gross income of \$6,250 or more
- are not someone's dependent, and are a head of household with a gross income of \$8,050 or more
- are not someone's dependent, are married filing separately, and had a gross income of at least \$2,450
- are not someone's dependent, are married filing jointly, and had a gross income of at least \$11,250.

See Student Handout 3.7, "Should You File a Tax Return?"

Student Handout 3.16 (continued)

LESSON SUMMARY (CONTINUED) FROM W-4 TO W-2

Once you have decided that you need to file a return, you need to decide which form is most appropriate for you. Form 1040EZ is the simplest and most likely to be used by students. You can use this form if you

- are single and claim an exemption only for yourself, or are married and filing a joint return with no dependents
- had less than \$50,000 in taxable income
- had no sources of income other than wages, salaries, tips, taxable scholarship and fellowship grants, and not more than \$400 of interest income
- had no income adjustment, itemized deductions, or other taxes and the only credit you claim is earned income credit

Forms 1040A and 1040 are used by people whose tax situations are more complex. See Student Handout 3.8, "Which Tax Return Form Should You Use?"

To fill out Form 1040EZ, see Student Handout 3.11, "Form 1040EZ Step-by-Step." Your teacher may have software to help you.

1040A and Beyond

In certain cases, you may need to file Form 1040A instead of Form 1040EZ. You will need to use Form 1040A or Form 1040:

- if you claim more than two exemptions (for yourself and your spouse)
- if you are a qualifying widow(er) with a dependent child, or a head of household
- if you have more than \$400 worth of interest income
- if you have sources of income besides those listed for Form 1040EZ.

(See Student Handout 3.8, "Which Tax Return Form Should You Use?")

Form 1040A is somewhat more complex than 1040EZ. You may need to use an additional form, Schedule E, to list sources and amounts of your interest payments or dividends, and, depending on your situation, you may need to use other worksheets or schedules as well.

Complete Form 1040A carefully, using Student Handout 3.14, "Form 1040A Step-by-Step" and the instruction book that is available with the form.

STATE AND LOCAL TAXES

Revised November, 1994

PURPOSE

To help students understand that state and local governments need revenues to provide goods and services for their residents.

OBJECTIVES

After participating in the suggested activities, students will be able to:

identify kinds of taxes most commonly collected by state and local governments

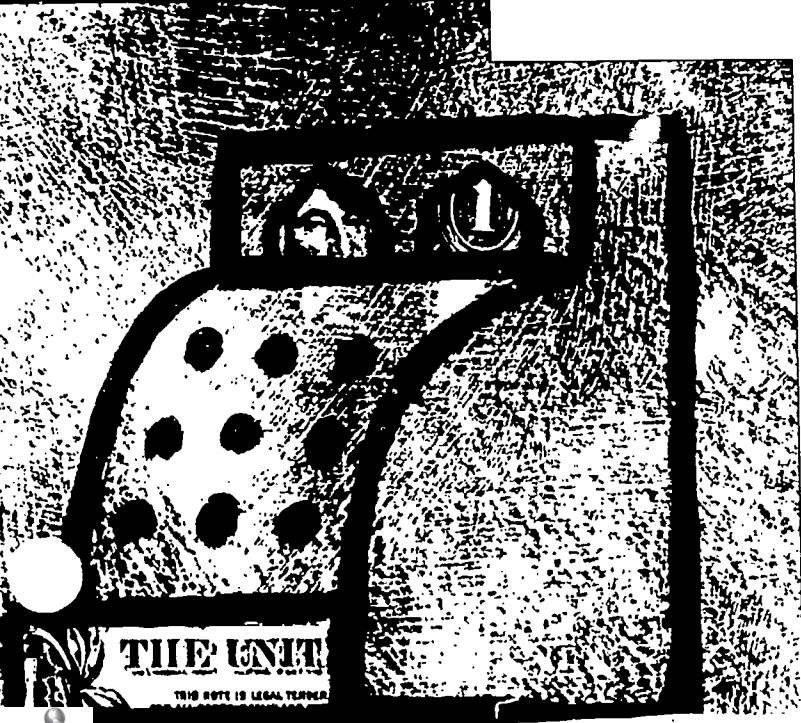
give examples of goods and services most commonly provided by state and local tax revenues

MATERIALS

Student Handout 4.1, "Key Terms and Concepts"

Student Handout 4.2 "State and Local Revenues and Spending, 1992"

UNDERSTANDING State
and Local Taxes



KEY TERMS

Transaction Taxes

Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities (“per unit”—gasoline taxes).

Income Taxes

Taxes on income, both earned (e.g. salaries, wages, tips, commissions) and unearned (e.g. interest, dividends). Income taxes can be levied both on individuals (personal income taxes) and on corporations (business and corporate income taxes).

Property Taxes

Taxes on property, especially real estate, and also boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.



Opening the Lesson

Ask students to suggest all the taxes they or their families have paid recently. List their suggestions on the board. Depending on your state and local taxes, students may suggest sales tax on purchases; restaurant or hotel tax; gasoline tax; registration or license fees for a car or truck; federal, state, or local withholding tax; social security withholding tax; tax on a phone bill; hunting or fishing license.

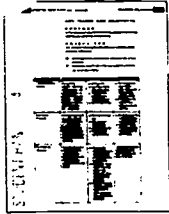
Point to each tax you have listed on the board and ask the students to identify which taxes are local, state, or federal. In 1994, any general sales taxes are state and local. Taxes withheld from paychecks always include federal income tax, social security, and Medicare; state and local taxes may also be withheld. Gasoline is taxed both by the Federal Government and most states. Sales of tobacco and alcohol are taxed in most states. Registration and license fees are imposed by states.

Ask students what their local government (city or county) must raise revenues for. Education is a major expense of local governments. City streets and county roads are locally built and maintained. City police and county sheriffs, jails, courts, trash disposal, fire departments, and welfare services are among other local expenses.

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Developing the Lesson



Distribute copies of Student Handout 4.1, "Key Terms and Concepts" or use an overhead projector to display it.

(This handout is both a "Glossary of Key Terms" and a summary of the main concepts taught in this lesson.)

Explain that there are three kinds of state and local taxes: transaction taxes, income taxes, and property taxes. Point to an example of each in the list on the board, or give an example if none has been suggested.

Sales taxes are the most common kind of transaction taxes. Taxes withheld from a paycheck are income taxes. Homeowners pay property tax, usually in two or more installments per year, but renters may be contributing to their landlord's property tax with each rental payment.

If your state has a sales tax, ask students if they know how much it is. Otherwise, ask if anyone has been in a state with a sales tax and how it worked.

Sales taxes are usually imposed on nearly all retail items, with the exception of some food and sometimes medicine. The amount of the tax is always a standard percentage of the retail price (ad valorem). Some states also charge a tax on services as well—if you have your car repaired, you may pay a tax on new parts installed and possibly on the cost of the labor as well. Most states have a sales tax rate of between two and ten percent. Sometimes counties or cities impose a sales tax as well. Sales taxes, especially those that tax goods at each stage of the manufacturing process, are sometimes called "value added" taxes.

Ask whether anyone can explain how excise taxes work and give examples.

Excise taxes are levied by both the federal and state governments. They are specific to certain items. Some excise taxes are "luxury" taxes on large, expensive items such as cars or boats. Other excise taxes are "sin" taxes on items considered unhealthy, such as alcohol and tobacco products. Taxing them raises revenue and discourages consumption. Some revenues from the excise taxes on gasoline are earmarked for upkeep of highways; the tax is thus a sort of "user's tax," levied particularly on those who use the roads.

Ask students whether your state has an income tax.

About two-thirds of the states have some kind of income tax in place. Many are proportional or "flat" in that they levy the same tax rate on all taxpayers, regardless of income. You will have to provide details of your own state's system.

Whether or not your state (or county or city) has an income tax, explain to students that there are different ways of taxing earnings, and that both individuals and businesses pay income taxes.

Personal income taxes are levied on the earnings and income of individuals. Corporate income taxes are levied on the profits and earnings of businesses. States may deliberately keep the business tax rate low, or offer special exemptions, to attract businesses.

Elicit from students what they know about property taxes. They might know how property taxes are levied, whether they are fair, and what property taxes revenues fund.

Property provides the traditional state and local tax base. Property taxes date from a time when the country was largely agricultural and land was the most significant form of wealth. Local taxing units (counties or townships) usually establish a "property tax rate" a percentage of the "assessed value" of the property. Tax assessors visit the properties to estimate (assess) their value. Usually assessed value is well below market value. Nonprofit and public institutions and buildings are not taxed. A city with many churches and schools and few businesses and factories may have a small tax base. Property taxes provide most of the revenue that cities and counties need to fund schools, fire departments, police protection, sanitation, and public welfare services. Many people feel that the property tax is not fair for today's urban society and that property tax funding contributes to great inequities in the services offered in different places.

In addition to land and structures built on land, property taxes may be levied on business inventories, livestock, boats, automobiles, or other assets, such as stocks and bonds ("intangibles").



Distribute Student Handout 4.2, "State and Local Revenues and Spending, 1992."

Have the students study the pie charts for a moment.

Have the students use the information in the "Where it came from" pie chart to rank sources of state and local revenues in order of tax collected. They could perform this activity as a class, in which case you would write their responses on the board, or individually with each student writing answers on a sheet of paper.

State and Local Revenues Ranked

(percent of revenue dollar)

1. General and Selective	
Sales Taxes	16.1
2. Property taxes	15.1
3. Federal Government	15.1
4. Charges	11.6
5. Individual income tax	9.70
6. All other	31.9

State and Local Spending Ranked

(percent of dollar)

Have the students look at the "Where it went" pie chart and perform the same ranking exercise on state and local spending.

1. Education	28.5
2. All other programs	21.5
3. Health and welfare	21.4
4. Civilian safety	7.3
5. Transportation	6.0
6. Environment	5.3
7. Interest on debt	4.8
8. Administration	4.4

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Concluding the Lesson

Refer to the student handout and review the characteristics of the three principal types of state and local taxes: transaction, income, and property.

Have the students discuss whether this common perception is reasonable.

Make sure that any students who were absent are given a copy of Student Handout 4.1. It summarizes the key terms and concepts taught in this lesson.

Discussion: Direct and Indirect Taxes

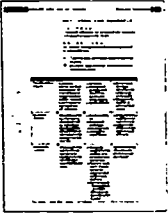
Point out that transaction taxes are usually indirect.

Buyers pay them to sellers who then send the tax revenue to the taxing unit.

Income and property taxes are more likely to be direct taxes:

Individuals and businesses pay them directly to the taxing unit. (Lesson 10, "Taxes...Can They Be Shifted?" and its accompanying video will discuss direct and indirect taxes in more detail.)

Point out that even though sales taxes, being indirect, are sometimes considered more acceptable to taxpayers than income and property taxes, which they must pay



Extending the Lesson (homework, research project, or class visitor)

1. Assign students in pairs or teams to interview various local officials (mayor's office, school superintendent or treasurer, public works official, parks department or library manager, etc.) about the way the local tax base affects their revenues. Others could interview the local assessor. Students could then prepare an oral or written report about what they have learned. Invite any of these officials to give a presentation to the class.

2. Contact your state income tax bureau and arrange for a representative to speak to your class. Have your students prepare questions in advance concerning your state's definitions of taxable income, allowances, deductions, and exemptions that are available to all taxpayers.

3. If there is a lottery in your state, have student teams research the amount of revenue it raises and how it is spent. They should try to decide whether their evidence suggests that the lottery keeps taxes lower or increases services.

KEY TERMS AND CONCEPTS

PURPOSE

To help students understand that state and local governments need revenues to provide goods and services for their residents.

OBJECTIVES

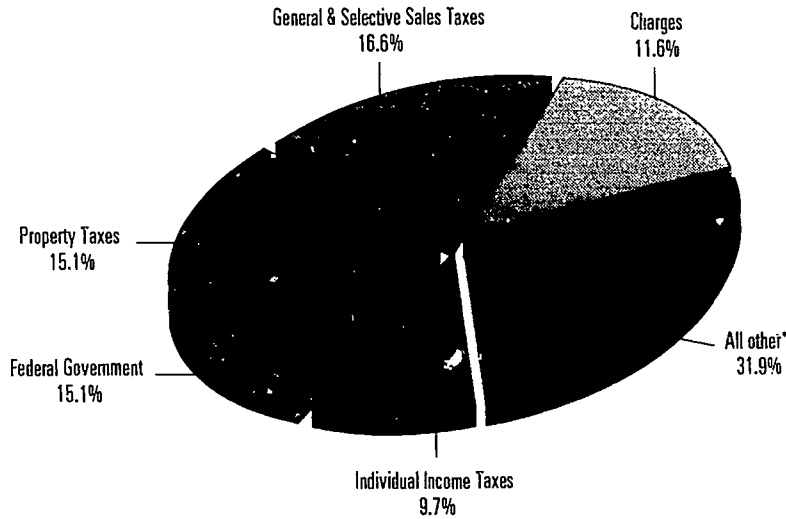
After viewing the video program and participating in the suggested activities, students will be able to:

- identify kinds of taxes most commonly collected by state and local government
- give examples of goods and services most commonly provided by state and local tax revenues

TYPE OF TAX	DEFINITION	EXAMPLES	REVENUES SUPPORT
Transaction Taxes	Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities ("per unit"—gasoline taxes).	<ul style="list-style-type: none"> ● Retail sales taxes ● Excise taxes on vehicles, boats, gasoline, tobacco ● "Value added" taxes imposed on goods at each stage of processing ● Restaurant and hotel taxes 	<ul style="list-style-type: none"> ● State and local services, such as education, welfare, Medicaid, police, employment services, parks, fish and wildlife ● Gasoline taxes are often earmarked for state highway construction and maintenance
Income Taxes	Taxes on income, both earned (e.g., salaries, wages, tips, commissions) and unearned (e.g., interest, dividends). Income taxes can be levied both on individuals (personal income taxes) and on corporations (business and corporate income taxes).	<ul style="list-style-type: none"> ● State or local withholding taxes ● Taxes on interest or dividend payments ● Taxes on awards or prizes ● Taxes on profits and earnings of businesses 	<ul style="list-style-type: none"> ● Increasingly supplementing or supplanting sales taxes to support state expenses ● beginning to be used on local level as well, largely to support education and welfare programs
Property Taxes	Taxes on property, especially real estate (land and buildings), and also boats, recreational vehicles, business inventories	<ul style="list-style-type: none"> ● Property tax on "assessed valuation" of land, home, business, or other structures, the traditional and still most common kind of local tax ● May be assessed on other assets, such as automobiles, boats or recreational vehicles, business inventories, or stocks and bonds ("intangibles") 	Traditional source of funding of schools and local services (police, fire, libraries, parks, water, and sanitation)

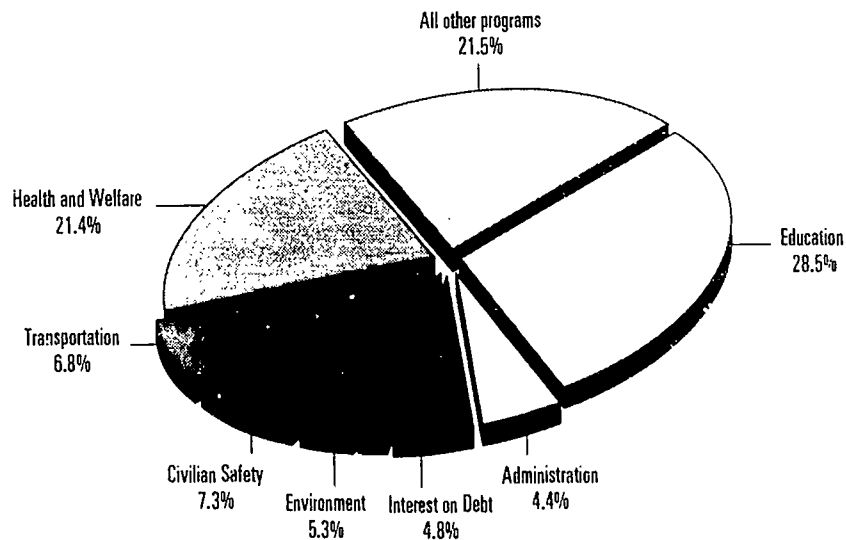
FEDERAL REVENUES AND SPENDING THE STATE AND LOCAL DOLLAR

Where it came from:



*Includes other taxes, excise, misc. revenue, utilities, liquor stores and insurance trust revenues.

Where it went:



This is a glossary of all tax terms used in this package.

Ability To Pay

A criterion of tax fairness whereby people with different amounts of wealth or different amounts of income should pay different amounts of taxes. Wealth may include assets and property such as houses, cars, stocks, bonds, savings accounts, or valuables. Income includes wages, rents, interest, profits, or other payments.

Adjusted Gross Income

Total income reduced by certain adjustments such as the IRA deduction and the deduction for alimony paid.

Benefits Received

A criterion of tax fairness that people should pay taxes in rough proportion to the benefits they receive from government goods and services.

Business Taxes

Taxes levied on businesses by federal, state, or local governments. These may include, in addition to corporate income taxes on earnings and profits, unemployment insurance, workmen's compensation, contributions to social security, and medicare insurance.

Credits

A direct reduction of the tax owed. Credits may be allowed for purposes such as child care and the earned income credit for low-income taxpayers.

Dependent

A person who relies on someone else for support. A dependent generally may not be the taxpayer or his or her spouse. A taxpayer may claim an exemption for a dependent if the dependency tests are met.

Direct Tax

A tax that cannot be shifted to others. The federal income tax is a good example of a direct tax.

Dividends

Ordinary dividends are a corporation's distributions to its shareholders from its earnings and profits.

Earned Income

Includes wages, salaries, tips, and net earnings from self-employment and other income received for personal services.

Earned Income Credit

A refundable credit for low-income workers. This credit may be paid to the worker even if no income tax was withheld from the worker's pay. To receive the earned income credit, a taxpayer must file a tax return.

Excise Taxes

Taxes on the sale or use of specific products or transactions.

Exempt (from Withholding)

Free from federal income tax withholding requirements by meeting certain income, tax liability, and dependency criteria.

Exempt (exempt from Tax Liability.)

Tax law provides for a set amount which taxpayers can claim for themselves, their spouses, and eligible dependents. The total of these amounts is subtracted from adjusted gross income before any tax is computed on the remaining income.

File a Return

To file means to mail or otherwise convey to a regional IRS service center the appropriate IRS form(s)—the return—on which a taxpayer has presented information about income and tax liability.

Filing Status

Based on taxpayer's marital status and other factors, the filing status determines tax bracket and rate at which income is taxed.

Form W-4 (Employee's withholding allowance certificate)

A form that helps an employer determine how much to withhold from an employee's paycheck for federal income tax purposes.

Formal Tax Legislation Process

The strict constitutional steps (involving Congress and the president) that a proposed tax must pass through before it becomes law.

Gross Income

Money, goods, and property you received that must be included in taxable income.

Horizontal Equity

The concept that people in the same income group should pay the same amount of taxes. "Equals should be taxed equally."

Income Taxes

Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied both on individuals (personal income tax) and businesses (business and corporate income taxes).

Indirect Tax

A tax that can be shifted to others. The one who pays the tax to the government may be able to shift it to others. Business property taxes are examples of indirect taxes.

Informal Tax Legislation Process

Individuals and interest groups expressing and promoting their opinions about tax legislation.

Interest Income

Income received from savings accounts or from lending money to someone else.

Payroll Taxes

Taxes collected from employers and employees to finance specific programs; levied on earned income such as wages, salaries, and self-employment earnings.

(continued on back)

(continued from front)

Personal Income Tax

A tax based on the amount of taxable income that people receive annually. Taxable income is less than total income because of exemptions and deductions.

Progressive Tax

A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Property Taxes

Taxes on property, especially real estate, and also boats, automobiles (often paid along with license fees), recreational vehicles, and business inventories.

Proportional Tax

A tax that takes the same percentage of income from all income groups.

Public goods and services

A public good is one that cannot be withheld from those who don't pay for it, and one that may be "consumed" by one person without reducing the amount of the product available for others. Examples include national defense, street lights, and roads and highways. Public services include welfare programs, law enforcement, monitoring and regulating of trade and the economy, and education.

Redevelopment or Enterprise Zone

A government-designated area (usually in a city) that is declared in need of restoration and revitalization. To encourage restoration, tax reductions may be available.

Regressive Tax

A tax that takes a larger percentage of income from low-income groups than high-income groups.

Sales Taxes

Taxes on retail products, based on a set percentage of retail cost.

Schedule

A form on which taxpayers list ("itemize") specific sources of income, or specific expenses for which they claim deductions or credits.

Standard Deduction

An amount, fixed by law and based on filing status and age, which taxpayers may deduct from their adjusted gross income before tax is determined.

Tariff Duty (Customs Duty or Import Duty)

Taxes on products imported from foreign countries.

Tax Credits

Amounts that can be deducted from taxes owed.

Tax Deductions

A part of a person's or a business's total expenditures that can be deducted in determining taxable income.

Tax Exemptions

A part of a person's total income on which no tax is imposed.

Tax Liability (or total tax bill)

The amount of tax that must be paid. Taxpayers meet (or pay) their federal income tax liability through withholding, estimated tax payments, and payments attached to the tax forms they file with the government.

Tax Shift

The process that occurs when a tax that has been levied on one person or group is in fact paid by others.

Tax Withholding

Money that an employer takes from an employee's paycheck and that is used to pay part or all of the employee's taxes.

Taxable Income

The income on which tax liability is computed.

Taxes

Required payments of money to governments that are used to provide public goods and services for the benefit of the community as a whole.

Transaction Taxes

Taxes on economic transactions, such as the sale of goods and services. Such taxes can be based on a set percentage of the sales value (ad valorem—sales taxes) or they can be a set amount on physical quantities ("per unit"—gasoline taxes).

Vertical Equity

The concept that people in different income groups should pay different amounts of taxes, or different percentages of the incomes as taxes. "Unequals should be taxed unequally."

Voluntary Compliance

A system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Withholding ("Pay-as-you-earn" taxation)

Money that employers withhold from employees' paychecks. This money is deposited for the government. (It will be credited against the employees' tax liability when they file their returns.) Employers withhold money for federal income taxes, federal social security taxes, and state and local income taxes in some states and localities.

Withholding Allowance

Claimed by an employee on Form W-4. An employer uses the number of allowances claimed, together with income earned and marital status, to determine how much income tax to withhold from wages.

Revised Student Handouts:

Lesson 2, Student Handout 2.2

Lesson 9, Student Handouts 9.1 and 9.2

Lesson 11, Student Handout 11.2

FORM 1040EZ

1994 Instructions for Form 1040EZ

- Your filing status is single or married filing jointly.
- You had only wages, salaries, tips, and taxable scholarship or fellowship grants, and your taxable interest income was \$400 or less. But if you earned tips, including allocated tips, that are not included in box 5 and box 7 of your W-2, you may not be able to use Form 1040EZ. See page 13.
- You did not receive any advance earned income credit payments.

Caution: If married and either you or your spouse had total wages of over \$60,600, you may not be able to use this form. See page 7. If you are not sure about your filing status, see page 7. If you have questions about dependents, call Tele-Tax (see page 26) and listen to topic 354. If you can't use this form, call Tele-Tax (see page 26) and listen to topic 352.

Because this form is read by a machine, please print your numbers inside the boxes like this:

Filing in your return 9876543210 Do not type your numbers. Do not use dollar signs.

Most people can fill in the form by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship grant or tax-exempt interest income, such as on municipal bonds. Also, use the booklet if you received a Form 1089-INT showing income tax withheld (backup withholding).

Remember, you must report all wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from banks, savings and loans, credit unions, etc., even if you don't get a Form 1089-INT.

If you paid someone to prepare your return, see page 21.

Worksheet for dependents who checked "Yes" on line 4

Use this worksheet to figure the amount to enter on line 4 if someone can claim you or your spouse if married as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, call Tele-Tax (see page 26) and listen to topic 354.

- A. Enter the amount from line 1 on the front
- B. Minimum standard deduction
- C. Enter the LARGER of line A or line B here
- D. Maximum standard deduction. If single, enter 3,800.00; if married, enter 6,350.00
- E. Enter the SMALLER of line C or line D here. This is your standard deduction
- F. Exemption amount
 - If single, enter 0.
 - If married and both you and your spouse can be claimed as dependents, enter 0.
 - If married and only one of you can be claimed as a dependent, enter 2,450.00
- G. Add lines E and F. Enter the total here and on line 4 on the front

If you checked "No" on line 4 because no one can claim you (or your spouse if married) as a dependent, enter on line 4 the amount shown below that applies to you:

- Single, enter 6,250.00. This is the total of your standard deduction (3,800.00) and personal exemption (2,450.00).
- Married, enter 11,250.00. This is the total of your standard deduction (6,350.00), exemption for yourself (2,450.00), and exemption for your spouse (2,450.00).

See page 21 of the Form 1040EZ booklet for a list of common mistakes to avoid. Errors will delay your refund.

Mail your return by April 17, 1995. Use the envelope that came with your booklet. If you don't have that envelope, see page 33 for the address to use.

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Form 1040EZ
Income Tax Return for Single and Joint Filers With No Dependents 1994

OMB No. 1545-0045

Your social security number

Spouse's social security number

Yes No

Dollars

Cents

For IRS Use Only - Please do not write in boxes below.

Use the IRS label (see page 11) otherwise please print

See instructions on back and in Form 1040EZ booklet.

Note: If you are married, check your tax or reduce your refund. Do you want \$4 to go to this fund?

If a joint return, does your spouse want \$4 to go to this fund?

- Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form or Attach your W-2 forms.
- Taxable interest income of \$400 or less. If the total is over \$400, you cannot use Form 1040EZ.
- Add lines 1 and 2. This is your adjusted gross income. If less than \$9,000, see page 15 to find out if you can claim a standard deduction on line 7.
- Can you or someone else claim you on their return? Yes. Use worksheet on back over No. If single, enter 6,250.00; if married, enter 11,250.00. For an explanation of these amounts, see back of form 1040EZ.
- Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your taxable income.
- Enter your Federal income tax withheld from box 2 of your W-2 form.
- Earned income credit (see page 15). Enter type and amount of nontaxable earned income below.
- Add lines 6 and 7. These are your total payments.
- Tax. Use the amount on line 5 to find your tax in the tax table on pages 28-32 of the booklet. Then enter the tax from the table on this line.
- If line 8 is larger than line 9, subtract line 9 from line 8. This is your refund.
- If line 9 is larger than line 8, subtract line 8 from line 9. Enter the amount you owe. See page 20 for details on how to pay and what to write on your payment.

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and accurately lists all amounts and sources of income I received during the tax year.

Signature: _____ Date: _____

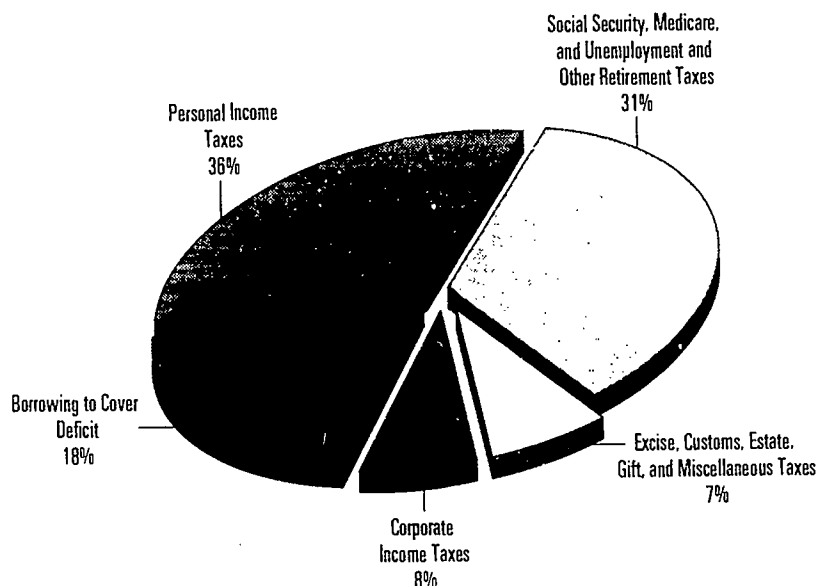
Spouse's signature: _____ Date: _____

Spouse's occupation: _____

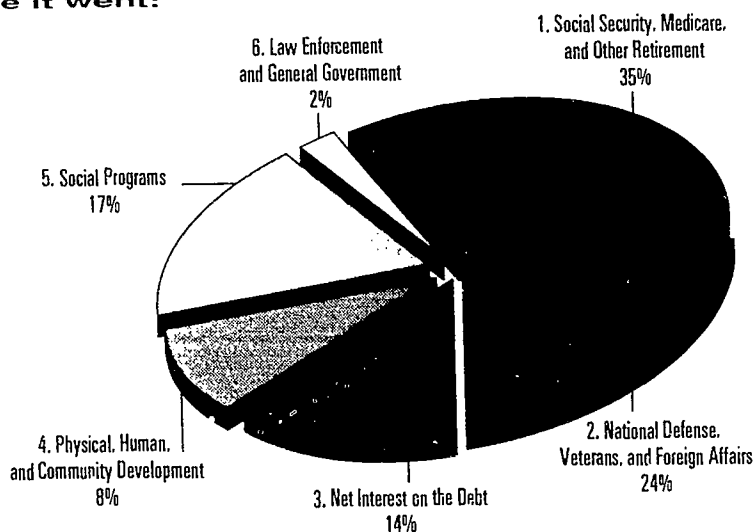


FEDERAL REVENUES AND SPENDING

Where it came from:



Where it went:



1. Social Security, Medicare, and Other Retirement: \$500 billion. In 1992 outlays for these programs were about 35 percent of total outlays. These programs provide income support for the retired and disabled and medical care for the elderly.

2. National Defense, Veterans, and Foreign Affairs: \$344 billion. About 20 percent of the Federal outlays were to equip, modernize, and pay our armed forces and to fund other national defense activities; nearly 3 percent of outlays went for benefits and services to veterans of the armed services; and about 1 percent for international activities, including military and economic assistance to foreign countries and the maintenance of United States embassies abroad.

3. Net Interest: \$199 billion. About 14 percent of total outlays were for net interest payments on the public debt.

4. Physical, Human and Community Development: \$119 billion. About 8 percent of Federal outlays were for agriculture, natural resources and environmental programs;

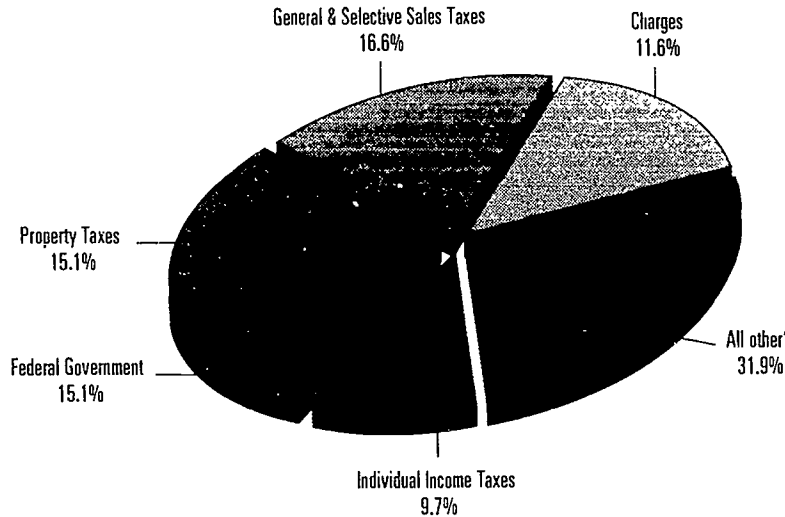
transportation programs; aid for elementary and secondary education and direct assistance to college students; job training programs; deposit insurance, commerce and housing credit, and community development; and space, energy, and general science programs.

5. Social Programs: \$254 billion. The Federal government spent 11 percent of total outlays to fund medicaid, food stamps, aid to families with dependent children, supplemental security income, and related programs; and over 6 percent for health research and public health programs, unemployment compensation, assisted housing, and social services.

6. Law Enforcement and General Government: \$28 billion. About 2 percent of Federal outlays were for judicial activities, Federal law enforcement, and prisons; and to provide for the general costs of the Federal government, including the collection of taxes and legislative activities.

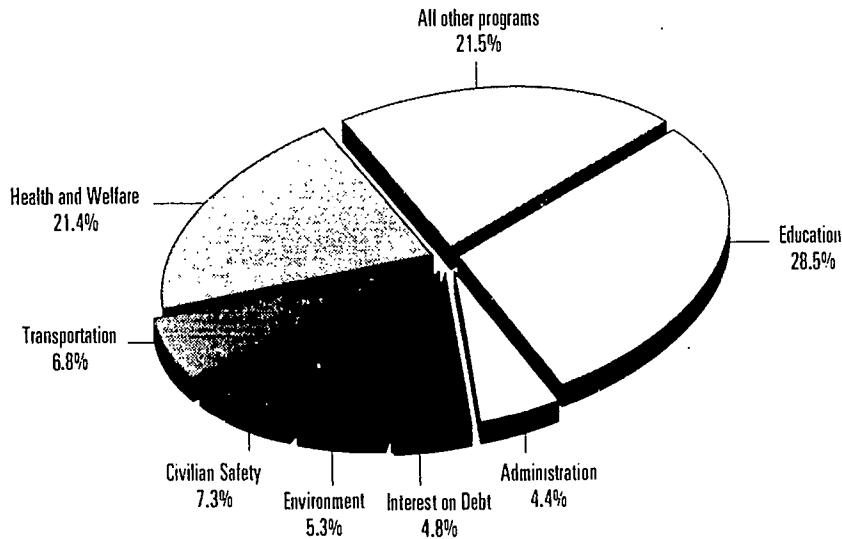
**FEDERAL REVENUES AND SPENDING
THE STATE AND LOCAL DOLLAR**

Where it came from:



*Includes other taxes, excise, misc. revenue, utilities, liquor stores and insurance trust revenues.

Where it went:



**SOURCES OF REVENUES
FOR STATE AND LOCAL
GOVERNMENTS**

Options for State Budget Committee

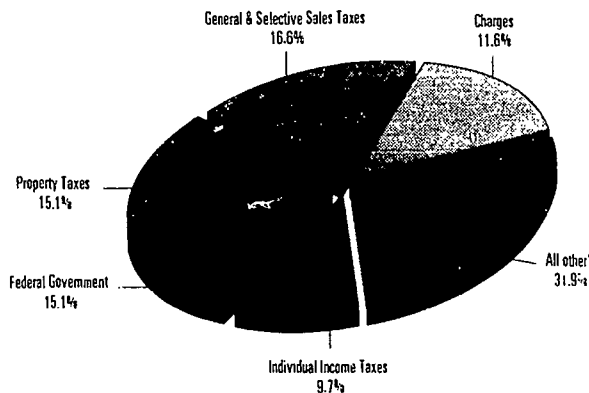
- Increase excise tax on petroleum products (gas and heating oil)
- Increase excise tax on tobacco
- Increase excise tax on alcoholic beverages
- Impose an excise tax on non-recyclable containers and wrappings
- Impose an excise tax on restaurant meals and hotel bills
- Establish criteria for enterprise or redevelopment zones and provide special corporate income tax relief for businesses that locate in these areas
- Increase income tax deductions for contributions to public schools, colleges, and universities, museums, and charities
- Offer income tax credits to businesses for paying for education or training of employees
- Offer income tax credit to a parent who cares full time for one or more of his/her preschool children (not the same as the Child Care Credit in the federal tax system)

TRENDS IN STATE AND LOCAL REVENUE SOURCES
(Figures from Federation of Tax Administrators)

Percentage of state revenue derived, 1972 and 1992

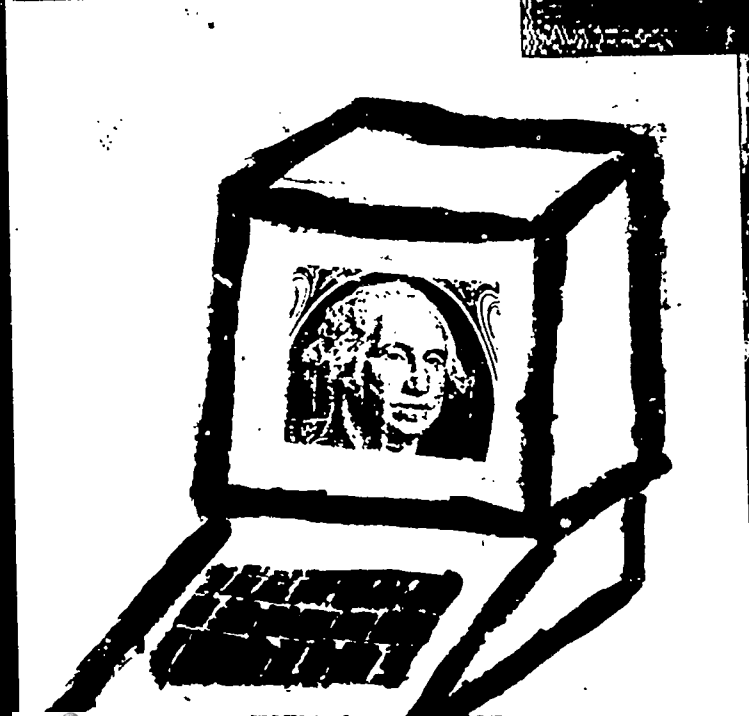
	1972	1992
1. Income taxes	12.3	9.7
2. Sales Taxes	12	16.6

STATE AND LOCAL REVENUES FROM VARIOUS SOURCES, 1992 PERCENTAGES



*Includes other taxes (excise), misc. revenues, utilities, liquor stores and insurance trust revenues.

SOFTWARE USER'S GUIDE



BEST COPY AVAILABLE

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Getting Started

Welcome to the Understanding Taxes Software Supplement

Your instructor may have already introduced you to Form W-4, Form W-2 and the 1040 series in Unit 1 of Understanding Taxes. In Unit 2, you will learn more about these forms and how to use them. Using the Understanding Taxes Software Supplement will help you learn this material. When you have completed all the parts of the program and studied Unit 2, you will be able to do these tasks:

- read and understand your own Form W-2
- make better decisions about how to fill out a Form W-4 for your employer
- decide whether you should use Form 1040, 1040A or 1040EZ when you file your tax return
- complete and file Form 1040EZ

This program is easy to use, and you control it at all times. You can choose to study the material by reading through and doing the activities in any of the parts or by studying particular topics that you choose from the index. You can also check your progress at any time by taking a self-test. As you work with the program, you will read about taxes, answer questions, key information into the computer and fill out tax forms. The program will help you do all the activities as you learn more about the Federal tax system.

Required equipment and materials

IBM

To run the IBM® version of the Understanding Taxes Software Supplement, you will need

- IBM or compatible personal computer with at least 256K of memory with 211K available
- a floppy disk drive
- MS-DOS version 2.1 or later
- Color Graphics Adapter (CGA) and compatible monitor
- Understanding Taxes Software Supplement floppy disk

Apple

To run the Apple® version of the Understanding Taxes Software Supplement, you will need

- Apple IIe, IIc or IIGs® computer with 64K of memory
- a floppy disk drive
- Understanding Taxes Software Supplement floppy disk

Other materials

At different places in the program, you will need other materials:

- Form W-4
- Form W-2
- Form 1040EZ
- tax table
- pen or pencil and scratch paper
- information about your own tax situation, such as estimates of your gross income, tax credits or deductions

The program and this user's guide list necessary materials at the beginning of each part in the program. Before you begin to work with a part, make sure you have all the materials. Gathering everything together ahead of time will make your work easier and faster. Your instructor or a public library can provide copies of the tax forms.

Setup and installation

Making backups

The Understanding Taxes Software Supplement is available for both IBM-compatible or Apple IIe, IIc or IIgs computers. Make sure you use the version of the program that matches your computer system.

No matter what computer system you use, it is a good idea to make a backup copy of your Understanding Taxes Software Supplement disk. Then, store the original in a safe place and use the copy. Your instructor may have already done this for you.

Hard disk installation

If you want to run the program from a floppy disk, go on to the instructions titled Starting up on page 5 of this guide. If you want to use the software from a hard disk, follow the instructions below for installing the software on a hard disk. Your instructor may have already installed the software for you.

1. Create a subdirectory on your hard disk that will hold the program files for Understanding Taxes Software Supplement.
2. Insert the Understanding Taxes disk into a disk drive and close the drive door.
3. Use a file-copying command or utility to copy all the files from the floppy disk to your hard disk.

If you are using an **Apple IIe, IIc or IIgs** computer, you may not need to copy the operating system file called **PRODOS**.

4. If you are using an **Apple IIe, IIc or IIgs** computer, remove the disk and flip it over. Insert the disk back into the disk drive and close the drive door. Copy the files from the second side of the floppy disk to your hard disk also.
5. When you have finished copying all the files, remove the floppy disk and put it away for safekeeping.

Starting up

From a floppy disk

To start up the Understanding Taxes Software Supplement from a floppy disk on an **Apple IIe, IIc or IIgs** computer, follow these instructions.

1. Insert the Understanding Taxes Software Supplement floppy disk in a disk drive and close the drive door.
2. Turn on your computer and monitor.
3. When you see the title screen, you are ready to begin.

From a floppy disk

To start up the Understanding Taxes Software Supplement from a floppy disk on an IBM or compatible personal computer, follow these instructions.

1. If your disk operating system (DOS) is on a floppy disk, insert that disk in a disk drive and close the drive door.
2. Turn on your computer and monitor.
3. **When the prompt appears on screen, insert the Understanding Taxes Software Supplement floppy disk in a disk drive and close the drive door.**
4. Make sure the prompt indicates that you are on the correct floppy disk drive. If not, move to the correct floppy disk drive.
5. **Type TAXES** to start the program. When you see the title screen, you are ready to begin.

From a hard disk

To start up the Understanding Taxes Software Supplement from a hard disk, follow these instructions.

1. Turn on your computer and monitor.
2. Move to the directory or subdirectory that holds the Understanding Taxes program files.
3. If you are using an **Apple IIe, IIc or IIgs** computer, run the program file **START.SYSTEM**. If you are using an **IBM or compatible** computer, start the program by typing **TAXES** at the prompt.
4. When you see the title screen, you are ready to begin.

About the program

The basics

Most of the work you will do in the program begins at the Main menu. You choose activities from this list. On the Main menu and throughout the program, check the status line at the bottom of your screen to see what your next step should be or to see what else you can do in the program. You can always get help by pressing H, or you can change topics quickly by pressing I to see the index. And if you make a mistake, want to change topics or need to leave the program quickly, don't worry. You can return to the Main menu or quit the program at any time by pressing the Escape key. Here's more information about these topics.

Press **Esc** at any time to change topics or quit.

Escape

The Escape key is located in the upper left corner of your keyboard and may be labeled "Esc." This key is your "escape hatch" no matter where you are in the program. If you make a mistake, want to change topics or need to leave the program quickly, you can press the Escape key to see the following list of choices.

```
You pressed <Escape>, what would you like to do?  
  
[A] Go back to where I was  
[B] Go to the Main Menu  
[C] Quit the Program
```

Use the Up and Down Arrow keys to highlight your choice and then press Enter/Return.

Occasionally, the program will put other messages in a box on the screen. These messages may ask you for help with the disk drives, for example. You won't see these messages often, and if you press the Escape key while one of these boxed messages is on the screen, the program will probably quit automatically. All you need to do then is restart the program.

Help

Press **H** for help at any time.

If you need to know more about what you can do in the program or how to do an activity, press H for help at any time. The information in the help box will give you more ideas about what your next step should or could be. A reminder to press H for help is always located near the lower left corner of your screen, in the status line.

Status line

Check the status line for the next step.

Look first at the status line near the bottom of your screen whenever you want to know what to do next. The status line will always be there, no matter where you are in the program. The middle sentence of the status line tells you what key or keys to press next in order to continue with the current activity.

Main menu

The Main menu is your home base. You can enter any of the primary parts of the program from the Main menu, and you can take a self-test or quit the program from this menu also.

```
[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test

[Q] Quit
```

Read the Main menu screen carefully. There are six topic areas, or parts, in the Understanding Taxes Software Supplement. You can work with a part in two ways:

- To see a short description of a part, simply press the letter next to it. This description tells you what topics are covered in the part and describes some of the activities you will do.
- To study the topics and do the activities in a part, use the Up and Down Arrow keys to highlight the letter next to the part you want to study. Press Enter/Return to begin work in that part.

Index

Press **I** to see index.

Another way to work with any of the parts is to use the index, a list of topics covered in the Understanding Taxes Software Supplement.

At the right end of the status line is a reminder that you can press **I** to see the index.

```
INDEX
Please select a topic:

Allowance
Deduction
Form W-2
Form W-4
Form 1040EZ
Gross Income
Social security number
Taxable Income
Tax Withholding
Voluntary Compliance

Go back to where I was
```

Use the Up and Down Arrow keys to highlight a topic you want to study and then press Enter/Return. The program will take you to one of the parts that discusses the topic.

Using your keyboard

You have read above about some of the keys you can use in this program:

- Esc
- Enter/Return
- H for help
- I for index
- Up and Down Arrow keys

You will also use the Left and Right Arrow keys, the Space bar and the Backspace/Delete key as you move through the program. Make sure you can find all of these keys on the keyboard.

Working with your computer

If you have difficulty making the software run the way you expect it to, make sure you can answer yes to each question on this checklist.

- Is your monitor turned on?
- Are the cables that link your disk drives and monitor to your computer correctly and firmly connected?
- If you are running the program from a floppy disk, is the disk in the drive and is the drive door closed? Remove the disk and then put it back in the drive. Close the drive door and try again.
- If you are running the program from a hard disk, are all program files copied correctly from the floppy disk? You may want to recopy the files and try again.
- **If you are running the program from a floppy disk on an Apple IIe, IIc or IIgs computer, is the correct side of the disk available for the computer to use? A message on your screen will tell you if you need to flip the disk over.**

The Main Menu Activities

After you see the Understanding Taxes title screen, you are ready to begin working. Read the next two introductory screens carefully, pressing the Space bar to move to the next screen. Soon you will reach the Main menu. From here, you begin working with all the material in the Understanding Taxes Software Supplement.

As you begin, remember that you cannot go back into the middle of a part once you have left it or quit the program. Try to complete a whole part before you stop.

In this part of the user's guide, you can follow along as you study each part. Remember, to study a part in detail, use the Up and Down Arrow keys to highlight the letter next to the part you want to study. Press Enter/Return to begin work.

Introduction

Read the Introduction to learn more about Understanding Taxes Software Supplement and how it fits in with the other concepts you are learning in the Understanding Taxes Program. You may find that you will return to the "Introduction" later in the program. It is often helpful to remind yourself of what you have learned so far and what topics you have not yet studied in your program.

1. From the Main menu, use the arrow keys to highlight choice A, Introduction. Press Enter/Return to select it.

<p>[A] Introduction [B] Tax Withholding And Form W-4 [C] From Form W-4 to Form W-2 [D] Filing Your Income Tax Return [E] Completing Form 1040EZ [F] Mastery Self-Test [Q] Quit</p>

2. Read all the information in this part carefully.
3. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Tax Withholding and Form W-4

Your Federal income tax helps pay for the services and programs the government provides. To understand how the tax system works, you need to know about several important concepts, including **gross income, pay-as-you-go tax withholding, and voluntary compliance**. This part of the software explains these concepts and helps you fill out an important tax withholding form—Form W-4

What you need to begin

- Form W-4
- pencil and scratch paper
- your Social Security number
- estimates of your gross income, tax credits and any deductions

If you don't have all this information, you can still do all the activities in this part. You can practice with information that you make up.

Learning about Form W-4

1. From the Main menu, use the arrow keys to highlight choice B, "Tax Withholding and Form W-4." Press Enter/Return to select it.

```
[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test

[Q] Quit
```

2. Read all the information about the tax system and tax withholding carefully. Answer each question.

Remember, you can choose an answer by either typing the letter beside the answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen until you reach the section titled "Completing Form W-4."

3. As you begin the section titled "Completing Form W-4," familiarize yourself with the three parts of this important form:

- step-by-step instructions
- Personal Allowances Worksheet
- Employee's Withholding Allowance Certificate

Fill in your name, address and Social Security number on the "Employee's Withholding Allowance Certificate" near the bottom of the first page. It looks like this.

4. Continue to read about the first important question Form W-4 helps you answer: Are you exempt from tax withholding?

Answer each question to find out if you are exempt from tax withholding and need to fill out line 7 of your "Employee's Withholding Allowance Certificate."

5. Whether or not you are exempt from tax withholding, you can continue to learn about a second important question: How many "allowances" should you claim?

As you answer the questions in this section, you will fill in the Personal Allowances Worksheet. It looks like this.

Personal Allowances Worksheet.—For 1994, the value of your personal exemption(s) is reduced if your income is over \$XXX,XXX (\$XXX,XXX if married filing jointly, \$XXX,XXX if head of household, or \$XX,XXX if married filing separately). Get Pub. 919 for details.

A Enter "1" for yourself if no one else can claim you as a dependent A _____

B Enter "1" if: {

- You are single and have only one job; or
- You are married, have only one job, and your spouse does not work; or
- Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less*

 } B _____

C Enter "1" for your spouse. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job (this may help you avoid having too little tax withheld) C _____

D Enter number of dependents (other than your spouse or yourself) whom you will claim on your tax return D _____

E Enter "1" if you will file as head of household on your tax return (see conditions under Head of Household above) E _____

F Enter "1" if you have at least \$X,XXX of child or dependent care expenses for which you plan to claim a credit F _____

G Add lines A through F and enter total here. Note: This amount may be different from the number of exemptions you claim on your return G _____

For accuracy, do all worksheets that apply. {

- If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.
- If you are single and have more than one job and your combined earnings from all jobs exceed \$XX,XXX OR if you are married and have a working spouse or more than one job, and the combined earnings from all jobs exceed \$XX,XXX, see the Two-Earner/Two-Job Worksheet on page 2 if you want to avoid having too little tax withheld.
- If neither of the above situations applies, stop here and enter the number from line G on line 5 of Form W-4 below.

 }

Answer each question and read the information in this section to decide which allowances you should claim and how you should fill out line 5 of your "Employee's Withholding Allowance Certificate."

6. After you have decided which allowances you should claim, you can learn about a third important question: Should you have any additional money withheld from your pay?

You may need to use the worksheets on page 2 of Form W-4 to decide whether you should have any additional money withheld from your pay and how you should fill out line 6 of your Employee's Withholding Allowance Certificate.

7. The last section of this part of the software helps you decide how to fill out line 3 of your Employee's Withholding Allowance Certificate.

This line asks about your marital status, and it determines the rate at which your tax will be withheld. Read the information in this section to decide how you should fill out line 3 and to learn about under-withholding and overwithholding.

8. Take the short quiz at the end of this part.

The quiz will help you remember what you learned by reviewing important questions. Remember, you can choose an answer by either typing the letter beside your answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return.

9. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

From Form W-4 to Form W-2

You fill out Form W-4 so that your employer knows how much to withhold from your pay for Federal income tax purposes. In January, following each year during which you had a job, each of your employers must send you a Form W-2. This form tells you exactly how much money that employer withheld from your pay during the previous year. It also tells you exactly how much money you earned, and it includes other information. Both Form W-4 and Form W-2 are important to you, and this part of the software explains why.

What you need to begin

You may find it helpful to have a Form W-2 to look at, but you can complete this part without one. The computer and this user's guide already contain examples of a Form W-2.

Learning about Form W-2

1. From the Main menu, use the arrow keys to highlight choice C, "From Form W-4 to Form W-2." Press Enter/Return to select it.

```
[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test

[Q] Quit
```

2. Read all the information in this part carefully, and answer each question.

Remember, you can choose an answer by either pressing the letter beside the answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen.

3. Soon, you will need to key information that is correct for you onto a sample Form W-2.

Key the information carefully. If you make a mistake, use the Left and Right Arrow keys and the Backspace/Delete key to correct it. Use the Up and Down Arrow keys to move from line to line. When you have finished keying the information, move the cursor to the last line and press Enter/Return.

The computer screen shows you a sample Form W-2 and the most important information you will find on it. Here is what a real Form W-2 looks like.

4. Be sure to read all the information on the screen. When a sample Form W-2 is on the screen, there may be information both above the form and below it.

5. Take the short quiz at the end of this part.

The quiz will help you remember what you learned by reviewing important questions. Remember, you can choose an answer by either typing the letter beside your answer or using the arrow keys to move the highlight to your answer. Then press Enter/Return.

6. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Filing Your Income Tax Return

Not everyone needs to file a Federal income tax return. If you do, you will file one of the three basic forms: Form 1040EZ, 1040A or 1040.

This part of the software will help you decide which tax form to use.

By analyzing your answers to a series of questions, the program will recommend the correct form for you.

What you need to begin

You will find this part of the program more useful if you know the following information about your own situation:

- your gross income for 1994
- how much of that income was "unearned," that is, how much came from interest, dividends or other nonwage sources

But you don't have to use this information to do the activities in this part. You can do this part several times with information you make up and answer the questions differently each time. With more practice, you will make better decisions about which tax form to use.

Learning to file your income tax return

- 1.** From the Main menu, use the arrow keys to highlight choice D, "Filing Your Income Tax Return." Press Enter/Return to select it.

```
[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test
```

```
[Q] Quit
```

- 2.** If you are using an Apple IIe, IIc or IIgs computer, you may be instructed to remove the disk, turn it over and put it back in the disk drive. Make sure you close the drive door and then press Return.
- 3.** Read all the information in this part carefully, and answer each question.

Remember, you can choose an answer by either pressing the letter beside the answer or using the arrow keys to move the highlight to

your answer. Then press Enter/Return. Continue by following the instructions at the bottom of your screen.

4. When you have finished learning about one of the tax forms, choose "Learn more about the different tax forms" when the program asks you what you want to do. Or, go back to the Main menu and choose this part again. Answer the questions with different information to learn more about the tax forms.
5. When you are finished with the material in this part, return to the Main menu to study another part or quit the program.

Completing Form 1040EZ

You are ready to complete your tax return when you have decided which tax form to use and have gathered together all the information you will need to complete it. In this part of the software, you will practice completing the form you will likely use to file your tax return-- Form 1040EZ. This part of the software has two sections:

- examples that you can use to practice filling out Form 1040EZ
- a section that will help you complete your own Form 1040EZ.

What you need to begin

- Form 1040EZ
- Form W-2
- tax table
- pen or pencil and scratch paper

If you don't have your real Form(s) W-2 from your employer(s), don't worry. You can still practice completing the form by making up information for your Form W-2.

Learning to complete Form 1040EZ.

1. From the Main menu, use the arrow keys to highlight choice E, "Completing Form 1040EZ." Press Enter/Return to select it.

```
[A] Introduction
[B] Tax Withholding And Form W-4
[C] From Form W-4 to Form W-2
[D] Filing Your Income Tax Return
[E] Completing Form 1040EZ
[F] Mastery Self-Test

[Q] Quit
```

2. Read the information in this part carefully.

You may want to work through the examples in this part of the software before you try to fill out your own Form 1040EZ. If you choose to complete the example for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" below.

If you want to complete the example for a single person, follow the instructions titled "Form 1040EZ for a single person" on page 15 of this guide. If you want to complete your own Form 1040EZ, follow the instructions titled "Completing your Form 1040EZ" on page 16 of this guide.

Form 1040EZ for a married couple

- 1.** Begin by reading about Daniel Raviv and Patricia Mickiewicz. Complete the identification lines on their Form 1040EZ and turn to the top of page 2 to read the information about filing status.

Remember to use the Forms W-2 that Daniel and Patricia received from their employers. You can switch from form to form by pressing the arrow keys.

- 2.** You will also need to use the Forms W-2 to report Daniel and Patricia's total wage income on line 1 of Form 1040EZ.

As you complete lines 2-5, the computer will check your math, but you should always double-check your work. Type the correct amounts at the flashing cursor. You can use the number keys at the top of your keyboard or the numeric keypad, if your keyboard has one. When you have typed the information correctly, press Enter/Return to continue.

- 3.** When you are finished reporting Daniel and Patricia's income, figure their tax on lines 6-9. They are not able to claim the earned income credit for 1994 on line 7. Use the tax table as instructed on line 9.
- 4.** Carefully read about deciding whether Daniel and Patricia owe tax or will receive a refund. Complete line 10 or line 11.
- 5.** When you have completed Form 1040EZ for Daniel and Patricia, remember that they must sign it, attach payment (if any) and the proper copy of each Form W-2 and mail the return by April 15, generally.
- 6.** Great! You have completed this example. You can repeat the example, complete a Form 1040EZ for a single person or complete your own Form 1040EZ. If you want to practice more by completing a Form 1040EZ for a single person, follow the instructions below. If you want to complete your own Form 1040EZ, follow the instructions titled "Completing your Form 1040EZ" on page 16 of this guide.

Form 1040EZ for a single person

- 1.** Begin by reading about Joe Day and completing the identification lines on his Form 1040EZ. Remember to turn to the top of page 2 for information on filing status.

Make sure to use the Form W-2 that he received from his employer. You can switch from form to form by pressing the arrow keys.

- 2.** You will also need to use Joe's Form W-2 to report his income on line 1 of his Form 1040EZ.

As you complete lines 2-5, the computer will check your math, but you should always double-check your work. Type the correct amounts at the flashing cursor. You can use the number keys at the top of your keyboard or the numeric keypad, if your keyboard has one. When you have typed the information correctly, press Enter/Return to continue.

3. When you are finished reporting Joe's income, figure Joe's tax on lines 6-9. Joe cannot claim the earned income credit on line 7. He is not over 25 years of age.

Joe owes no tax this year, but everybody's tax return is different. When you complete your own, you may need to use the tax table as instructed on line 9.

4. Carefully read about finding amount of tax owed and tax refunds. Complete line 10 or line 11 for Joe.
5. When you have completed Form 1040EZ for Joe, remember that he must sign it, attach payment (in this case, none) and the proper copy of each Form W-2 and mail the return by April 15, generally.
6. Good job! You have completed a Form 1040EZ for a single person. You can repeat this example, complete a Form 1040EZ for a married couple or complete your own Form 1040EZ. If you want to practice more by completing a Form 1040EZ for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" on page 15 of this guide. If you want to complete your own Form 1040EZ, follow the instructions below.

Completing your Form 1040EZ

1. Once you have practiced by completing Joe Day's or Daniel and Patricia's Form 1040EZ, you are ready to complete your own Form 1040EZ.
2. You need to provide the software with information from your Form W-2.

If you don't have a Form W-2, make up information. Type the information as the software asks for it. You can move from line to line using the Up and Down Arrow keys. If you make a mistake, use the Left and Right Arrow keys and the Backspace/Delete key to correct it.

Type amounts for your "Wages, tips, other compensation" and Federal income tax withheld in dollars and cents, even if you type zero cents.

For example, if your tax withheld was \$892, type 892.00 when the program asks for that information. If your total income was \$2,489, type 2489.00 when the program asks for that information.

3. When all the information is typed correctly, move to the last line and press Enter/Return.

4. Review the Form W-2 as it appears on screen. You can make corrections by pressing C and correcting information as in steps 2 and 3. When your Form W-2 is correct on screen, press the Space bar to continue.
5. Turn to page 2 of Form 1040EZ before you begin filling in lines 1-11 on page 1. The top of page 2 gives you information about your filing status, which was included on page 1 in earlier years. You will see that only single persons and certain married persons can file Form 1040EZ.
6. Complete the identification information and lines 1-5 of Form 1040EZ as instructed on screen. These lines record information about your income.

Type in amounts exactly as they appear on your Form W-2. You can see your Form W-2 on screen by pressing an arrow key. The computer will check your math, but always double-check your work. Any mistake can delay your refund.

When you are sure the information you have typed on a line is correct, press Enter/Return to continue.

7. Complete lines 6-11 in the same way by recording Federal tax withheld, figuring your tax and recording your refund or amount owed.
8. Remember to sign your return, attach your payment (if any) and a copy of each Form W-2 and mail your return by April 15, generally.
9. Congratulations! You have successfully filed your own Form 1040EZ. Return to the Main menu to work with another part of the program, or do any of the examples in this part again for more practice. If you want to complete the example for a married couple filing jointly, follow the instructions titled "Form 1040EZ for a married couple" on page 15 of this guide. If you want to complete the example for a single person, follow the instructions titled "Form 1040EZ for a single person" on page 15 of this guide.

Mastery Self-Test

Like the other, shorter quizzes that appear at the end of some parts of this program, the Mastery Self-Test helps you learn more about the Federal tax system. You can choose to take a self-test at any time. From the Main menu, use the arrow keys to highlight choice F. Press Enter/Return to select it.

- [A] Introduction
- [B] Tax Withholding And Form W-4
- [C] From Form W-4 to Form W-2
- [D] Filing Your Income Tax Return
- [E] Completing Form 1040EZ
- [F] Mastery Self-Test**

- [Q] Quit

You may want to take a self-test to identify what you need to study or to review material you have already studied. The self-test questions cover all the concepts in the Understanding Taxes Software Supplement and offer hints if you need them.

This self-test is not an exam. You can repeat questions that you miss, and you can take a self-test at any time. The score you receive at the end of a set of questions is not a grade but a guideline you can use to help you study.

You can choose an answer to a self-test question by either pressing the letter beside your answer or using the arrow keys to highlight your answer. Then press Enter/Return. Continue through the self-test by following the instructions at the bottom of your screen.

Quit

To quit the program from the Main menu, use the arrow keys to highlight choice Q. Quit. Then press Enter/Return.

- [A] Introduction
- [B] Tax Withholding And Form W-4
- [C] From Form W-4 to Form W-2
- [D] Filing Your Income Tax Return
- [E] Completing Form 1040EZ
- [F] Mastery Self-Test

- [Q] Quit**

You can also quit from any other place in the program by pressing Escape. Then choose Quit the Program from the menu.

Finally, remove the disk from the disk drive and turn off the computer.

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