

**Goals: This session should help the participant:**

- Understand basic tax preparation guidelines.
- Select the right tax forms and fill them out correctly.
- File accurate and complete returns and avoid problems at tax time.

**1. Explain the purpose of payroll deductions and withholding forms**

- Payroll deductions are the amounts the organization withholds from an employee's gross pay each pay period to make tax payments to the federal and state governments.
- Deductions are made for income, Social Security, and Medicare taxes (Federal Insurance Contribution Act).
- The withholding rate is determined by the W-4 form each employee fills out.
  - If too much tax is withheld, the employee loses current use of money that's overpaid.
  - If too little is withheld, there may be penalties for underpayment of taxes.
- Recommend use of W-4 work sheets attached to form to accurately determine withholding.
  - The Personal Allowance Work Sheet determines the exemptions that can be claimed.
  - The Deductions and Adjustments Work Sheet accounts for withholding adjustments as a result of itemized deductions, nonwage income, IRA contributions, alimony, and so on.

**2. Help employees select the right filing forms**

- Employees with no dependents and an income of less than \$100,000 a year who are single, or married and filing jointly, who earn less than \$1,500 in interest, and who do not itemize deductions can use Form 1040EZ.
- Employees with an income of less than \$100,000 a year who claim certain tax credits, have IRA or student loan deductions, or have made capital gains may be able to use Form 1040A.
- Employees with an income of \$100,000 or more as well as all those who itemize deductions and have interest and dividend income over \$1,500 must use Form 1040.
- Employees claiming a child tax credit for dependent care expenses, such as day care for children under the age of 13, must use Form 8812 in addition to the individual tax return form.
- Employees may also need to file forms relating to certain health benefits, including Form 8889 (HSAs) and Form 8853 (Archer MSAs and long-term care contracts). If you are required to provide your employees with a Form 1095-C, this information is used to determine employee eligibility for the Premium Tax Credit, which may trigger additional employee filing requirements. Finally, employees receiving health insurance through the Marketplace have additional filing requirements; more info on these is available at [www.healthcare.gov](http://www.healthcare.gov).
- Employees must also make sure they use the right federal tax schedules. For example:
  - Schedule A must be completed by employees who itemize deductions.
  - Schedule B must be completed by employees who have more than \$1,500 in taxable interest and/or more than \$1,500 in dividends.
  - Capital gains or losses, such as from the sale of stock, must be reported on Schedule D.
  - Schedule EIC is used to claim an earned income tax credit if they have a child or dependent living with them and they meet the maximum income requirements.

**3. Review the basic procedures for preparing a tax return**

- Begin by gathering documentation needed to complete the return, including:
  - W-2 forms;
  - 1099 forms from banks, mutual funds, and other financial institutions;
  - Annual mortgage interest statement and real estate tax statements and receipts;
  - Last year's state taxes; *and*
  - Other receipts (e.g., medical expenses, charitable contributions, and vehicle tax).
- The next step is to read instructions carefully and decide which forms should be completed.
- Forms filled out by hand should be legible; electronically filed forms and forms completed using tax preparation software must be typed carefully to make sure data are entered in the right place.
- Figures should be rounded off to the nearest dollar.
- All required forms and schedules must be included with the tax return.
- W-2 forms must be attached (as well as a check and payment voucher for any taxes owed).
- Employees should keep a copy of the return and documents used to complete the return.

**4. Remind employees to review and update their W-4 form as necessary**

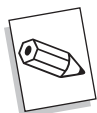
- Review the W-4 withholding rate annually and make appropriate changes if:
  - Filing status has changed (for example, because of marriage, divorce).
  - The number of dependents has changed (due to birth, adoption, or children growing up).
  - Credits, income, or itemized deductions have changed (for example, because of the purchase of a new home and greater mortgage deduction).

**5. Warn workers to watch out for these common filing errors**

- Not entering Social Security numbers for self, spouse, and dependents;
- Failing to double-check all figures and calculations;
- Not using the correct method for figuring taxes (not everybody can use tax tables);
- Forgetting to sign and date the return and enter occupation in the space provided;
- Forgetting to attach W-2 forms; *or*
- Not including name, address, daytime phone number, and Social Security number on check or money order to pay taxes owed, or sending cash for taxes owed.

**Applicable regulations: Internal Revenue Code****Training tips:**

- Bring samples of payroll checks, and show participants where to find deductions for taxes.
- Review W-4 forms and W-4 work sheets with participants.
- Pass out samples of tax return forms.

**Knowledge review:**

- Distribute copies of the handout and discuss tips for tax time. Then have participants complete the Basic Tax Guidelines for Employees Quiz. It provides a useful review of their understanding of the subject.