

DOCUMENT RESUME

ED 116 024

CE 005 938

TITLE Income Tax Law: U.S. Armed Forces Training: Instructor Guide.
INSTITUTION Internal Revenue Service (Dept. of Treasury), Washington, D.C.
REPORT NO IRS-3005-01-11-75
PUB DATE Nov 75
NOTE 32p.; For the Course Book, see CE 005 939
EDRS PRICE MF-\$0.76 HC-\$1.95 Plus Postage
DESCRIPTORS *Course Content; Course Objectives; *Curriculum Guides; Income; Instructional Aids; Instructional Materials; Laws; *Lesson Plans; *Military Personnel; Reference Materials; *Taxes; Teaching Methods

ABSTRACT

The instructor's guide provides eight detailed lesson plans for instructing military personnel in the preparation of their U.S. Income Tax Returns. The plans cover the following subjects: requirements for filing returns of income and declaration of estimated tax; exemptions; gross income; exclusions and deductions to arrive at adjusted gross income; percentage standard deduction, low income allowance, and itemized deductions; rental income and depreciation; aliens; and exclusion of earned income from sources outside the U.S., Section 911. For each lesson the guide lists objectives, total time, methods, training aids, student materials used, references, and notes to the instructor for developing the various content areas within the lesson. (JR)

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Instructor Guide

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U.S. Armed Forces Training income tax law

Department of the Treasury
Internal Revenue Service

U.S. DEPARTMENT OF HEALTH,
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Training 3005-01 (11-75)

CE005938

Introduction

This course, designed primarily for the United States Armed Forces, is intended to furnish a brief summary of United States income tax law. It offers a compilation of information and reference material helpful to military personnel in the preparation of their U.S. Income Tax returns.

As an instructor of people who will be assisting military personnel in the preparation of their tax returns you will, of course, provide them with as much technical knowledge as possible in the time permitted. In addition, however, continual emphasis should be made to participants that as "assistors" they should do everything possible to obtain all the facts so that the person they are helping pays the correct tax. This may require discussion and some probing questions. An assistor can only consider the job "well done" when the taxpayer has arrived at the correct amount of tax due and has taken all the exemptions, exclusions, deductions, etc., which are allowable. Each lesson in the course is preceded by objectives for the material to be taught.

Training Aids

The only training aids required in the course are blowups of Form 1040, 1040A and the various schedules discussed in the course. Class participants should also be provided with handouts of the forms.

Cautionary Note

The Course Book will be useful for reference purposes, to answer inquiries and to assist in returns preparation. It should not, however, be relied on as encompassing all facets of the subject. Assistors should be cautioned that research in other authoritative tax publications or contact with the IRS is advisable on the more difficult or unusual problems encountered. The Course Book should not be cited as authority for any position taken.

Instructor References

Form 1040, Package I

IRS Publication 17, Your Federal Income Tax

Armed Forces Federal Income Tax (NAVSO P-1983)

IRS Publication 54, Tax Guide for U.S. Citizens Abroad

IRS Publication 514, Foreign Tax Credit for U.S. Citizens and Resident Aliens

IRS Publication 516, Tax Information for U.S. Gov't Civilian Employees Stationed Abroad

IRS Publication 519, United States Tax Guide for Aliens

IRS Publication 553, Highlights of 19-- Changes in the Tax Law

IRS Publication 555, Community Property and the Federal Income Tax

IRS Publication 757, U.S. Armed Forces Income Tax Law Course Book

Lesson Plan 1

Course:

U.S. Armed Forces Training -
Income Tax Law

Lesson:

Requirements for Filing Returns of Income
and Declaration of Estimated Tax

Objectives:

At the end of this lesson participants will
be able to

1. State the requirements for filing returns of income and a declaration of income tax.
2. Explain the use and advantages of filing joint vs. separate returns.
3. Determine if they qualify for surviving spouse or head-of-household status.
4. Explain the use of Forms 1040, 1040A, 1040ES and 1040X.
5. Define "statute of limitations."
6. Describe the various penalties which may be imposed.

Total Time

4 hours

Methods:

Lecture and discussion.

Training Aids:

Blow-ups of 1040, 1040A and handouts of various forms discussed in this lesson.

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO P-1 983, Armed Forces Federal Income Tax

Content:

Introduction

Notes:

Introduce yourself and other instructors, if any. If there is a guest speaker to "kick-off" the class, introduce him and have him speak at this time.

Take care of any administrative matters.

Scope

Describe purpose of course and subject matter to be covered with its emphasis directed to military personnel. Advise participants where additional information or assistance may be obtained. Answer any questions. Tell them that questions may be raised at any time.

Filing Requirements:

General rules for U.S. citizens

Describe general requirements for filing with relation to income, filing status, and whether under or over 65 years of age.

Discuss filing requirements even though certain conditions or situations exist (as indicated in course book).

Discuss filing requirement with regard to self-employment income.

Lesson Plan 1 (Cont. 1)

Content:

Dependent taxpayers with unearned income

Notes:

Describe filing requirements for children under age 19 or full-time students earning \$750. Discuss unearned income and sources of unearned income.

Gross income

Discuss when a parent is not entitled to a personal exemption for a child or student. Discuss entitlement to exemption vs. actually claiming the exemption.

Define gross income as it applies to the "required to file income-level test".

General information submitted on a return

Discuss four classifications as to what constitutes gross income.

Discuss name, Social Security Number, use of permanent vs. current address.

Filing Status:

General

Briefly indicate the five filing statuses before discussing each one in detail. Discuss advantages of early selection.

Single

Define and discuss. Describe how certain "single" taxpayers may qualify for other filing statuses.

Married filing joint return

Describe options and responsibilities, including citizenship and residency requirements.

Discuss effect of death on a joint return. Discuss "highlights" indicated in Course Book.

-Problems

Discuss problems which may be encountered when electing to file a joint return.

-Advantages and disadvantages

Describe advantages and disadvantages and offer general conclusion.

Married filing separately

Discuss option, requirements (including itemizing deductions) and what each spouse would be liable for.

Lesson Plan 1 (Cont. 2)

Content:

Filing Status (continued)

Unmarried head of household

–Requirements

Widow(er) with dependent child

What form to file
–Form 1040A

–Form 1040

Itemizing deductions

When and where to file

Extensions

–Extension while abroad

Notes:

Discuss the factors involved in changing election.

Discuss status and conditions pertaining to married persons living apart.

Discuss how tax computation for this status compares to others.

Discuss marital status requirement and maintenance of household requirement. Describe, in detail, factors which determine eligibility.

Describe the five requirements to be qualified for this status. Discuss advantages, limitations and conditions.

Describe eligibility requirements and other conditions which determine whether a Form 1040A may be used. Discuss earned income credit when applying \$400 rule.

Discuss conditions under which it is mandatory and when it is advisable to use a Form 1040 instead of Form 1040A.

Describe a test which will help in deciding whether itemizing deductions will reduce tax liability.

Discuss filing deadline and where to send individual income tax returns. Tell where addresses may be found.

Describe use of Form 4868 and indicate taxpayer's responsibilities.

Explain use of Form 2668 and Form 2350.

Explain automatic extension for citizens abroad on April 15, statement required and interest provision.

Lesson Plan 1 (Cont. 3)

Content:

Filing Status (continued)

- Hospitalization

- Postponement for missing persons

Statute of Limitations

General rule

Failure to file a return

Filing of false or fraudulent return with intent to evade taxes

Omitting more than 25% of gross income

Claims for refunds

Penalties

Delinquency penalty

Negligence penalty

Fraud penalty

Failure to pay tax penalty

Estimated Income Tax Payments

Who must make a declaration

Due dates

Amended declarations

Notes:

Describe extension and eligibility.

Discuss content of required statement if qualifying.

Describe options of wife under these conditions.

Explain conditions and provision of the law.

Explain that the law prescribes a specific period within which taxes may be assessed and collected.

Describe the general rule.

Explain each of these three items.

Describe time limitations for filing a claim for refund or credit.

Explain what constitutes each of these penalties and what the law provides.

Explain why estimated tax payments are made, what tax form is used, and the conditions under which additional charges or penalties can be made.

Describe the conditions which require making a declaration of estimated tax.

Discuss due dates.

Discuss when and how an amended declaration would be filed.

Lesson Plan 1 (Cont. 4)

Content:

Alternative

Additional Facts on Withholding of Tax

Summary

Quizzes

Notes:

Describe how filing a declaration of estimated tax may be avoided.

Explain conditions under which no tax would be withheld on wages.

Explain voluntary withholding of tax on pension and annuity payments and how it may be accomplished.

Review all material covered during this lesson following outline in Course Book.

Have participants take the quizzes on pages 10-12. Allow them to grade each others answers.

Discuss any points in which the class may be interested.

Lesson Plan 2

Course:

U.S. Armed Forces Training -
Income Tax Law

Lesson:

Exemptions

Objectives:

At the end of this lesson participants will be able to:

1. Correctly determine the number of personal exemptions and dependency exemptions they are entitled to.
2. Correctly indicate the number of exemptions on the Form 1040 or Form 1040A they prepare.

Total Time

3 hours

Methods:

Lecture and discussion

Training Aids:

Blow-ups of Forms 1040 and 1040A and Form 2120, Multiple Support Declaration

Student Materials:

Course Book, Publication 757

References:

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO P-1983, "Armed Forces Federal Income Tax."

Content:

Introduction

Personal Exemption

Exemption for Age

Exemption for Blindness

Exemption for Wife or Husband

Exemption for Nonresident Alien Spouse

Notes:

Briefly describe what this lesson will cover. Mention difference between military meaning of "dependent" and its meaning for tax purposes. Also mention five dependency tests which must be met.

Describe personal exemption and amount each taxpayer is entitled to. Also mention the additional exemptions he may be entitled to. Specify the \$30 tax credit.

Describe requirements.

Describe visual requirements to be considered blind and mention statement required.

Explain requirements and discuss examples.

Describe distinction between an exemption and a dependent and show examples.

Describe requirements.

Lesson Plan 2 (Cont.)

Content:

Exemptions for Dependents

Notes:

Explain allowance for dependent and that no additional exemptions are allowed for age or blindness of dependents. Discuss birth or death of a dependent during year.

Mention each of the five separate tests that must be met to claim a dependency exemption.

Describe requirements, define "support," and discuss examples.

Describe multiple support and procedure to be followed if claiming a dependent under these conditions. Explain preparation of Form 2120.

Discuss support test in case of a child of divorced parents. Go over Chart 3 in Appendix C.

Describe requirements and define "student" and "child" for tax purposes. Discuss example given.

Describe requirements. Define "member of household" and "relative."

Discuss dependency deduction for foster children.

Describe requirements and given examples pertinent to military personnel.

Explain rule, give example and describe exception.

Review all material covered during this lesson following outline in Course Book. Discuss and have students use Dependency Exemption Charts in Appendix C.

Have participants take the quizzes and do the return preparation problem. Allow them to grade each others quizzes.

Discuss any points in which the class is interested.

Support test

Gross income test

Member of household or relationship test.

Citizenship test

Joint return test

Summary

Quizzes

Lesson Plan 3

Course:

U.S. Armed Forces Training –
Income Tax Law

Lesson:

Gross Income

Objectives:

At the end of this lesson participants will be able to:

1. State the different types of income to be reported for tax purposes.
2. State where these items of income are shown on a tax return.

Total Time

2 hours

Methods:

Lecture and discussion

Training Aids:

Blow-ups of Forms 1040 and 1040A and Schedules B, D and E.

Student Materials:

Course Book, Publication 757.

References

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO P-1983, "Armed Forces Federal Income Tax."

Content

Introduction

Notes:

Ask class if they have any questions about anything covered the previous day.

Outline briefly what will be covered during this lesson.

"Income" Defined

Give definition of "income" and cite examples.

Forms of Income

Describe various forms of income. Also, state that income must be "realized" before it can be taxed. Discuss and give examples.

Military Taxable Wages Subject to Withholding and Reported on Form W-2:

Explain Form W-2

Basic pay

Describe

Incentive pay

Describe and discuss the various types.

Special pay

Describe and discuss the various types.

Lesson Plan 3 (Cont. 1)

Content:

Military Taxable Wages Subject to Withholding and Reported on Form W-2: (continued)

Lump sum payment for
Accrued Leave

Reenlistment bonus

Severance pay

Readjustment pay

Dislocation allowance

Forms W-2

Forms 1040 and 1040A for 1975

Schedules B, C, D, E and R, and F

Form 1040X

Income From All Sources Other Than Wages

Notes:

Describe what it is and how it applies to officers and enlisted men. Mention relationship between basic pay and accrued leave payment.

Describe provisions including special situation concerning combat zone.

Describe what it is and how it is computed.

Describe what it is, how it is computed and the two exceptions.

Describe what it is and why it is normally taxable. Mention possible exclusion because of combat zone.

Discuss procedure when there is more than one Form W-2 for a taxpayer. Indicate where W-2(s) are to be attached when filing return.

Mention that these forms may not be used by nonresident aliens.

Review again when Form 1040A may be used.

Indicate that Form 1040 may be used by any taxpayer (other than a nonresident alien). Describe the various schedules that are provided for sources of income other than wages or salaries which then become a part of the Form 1040.

Describe its purpose, use, and filing deadline. Mention that it may only be used after filing an original return.

Indicate where amounts are entered on Form 1040 from the various schedules. Also indicate that where "other income" is involved, it is necessary to prepare the schedules first.

Lesson Plan 3 (Cont. 2)

Content:

Dividends – Schedule B, Part I

Exceptions

Dividends on stock sold

Dividends on insurance policies

Dividends from mutual funds

Dividends from savings and loan associations

Dividend exclusion

Return preparation

Interest – Schedule B, Part II

Tax exempt interest

Return preparation

Gains and Losses from Sales and Exchanges

Capital assets

Computation of capital gain or loss

–Net long and short term
capital gain

Notes:

Give general definition of dividends and then describe the exceptions.

When discussing stock dividends, describe the several exceptions which are not tax free. Discuss what the “basis” is in a nontaxable distribution.

Describe and discuss.

Describe what they are and how handled.

Describe and indicate how reported.

Describe and indicate how reported.

Define and describe. Indicate how entered on tax form. Be sure to indicate that dividend is included on Schedule B, Part 1, and then deducted on line 12b.

Describe what, where, and how dividends are shown (including symbols for stocks owned by husband, wife or jointly), including Schedule D for capital gains. Refer class to Publication 17 for more detailed information.

Describe types of interest that are fully taxable. Indicate when it is taxable.

Discuss what type of interest is non-taxable.

Indicate where interest is entered on tax forms.

Describe and discuss general rules and define terminology.

Describe how classified and indicate exceptions.

Discuss net long and short term capital gain. Give examples of each.

Lesson Plan 3 (Cont. 3)

Content:

Notes:

Computation of capital gain or loss (continued)

-Capital losses – short term and long term

Describe rules and requirements and give examples.

-Capital loss carryover

Describe rules and provisions and how entered on return. Explain example.

Pre-1970 long term capital losses

Describe rules and requirements and give example.

Computation of alternative tax

Indicate where computed and whom it would benefit.

Additional Schedule D transactions

Mention that sale of a residence or corporate stock is also entered on Schedule D.

-Sale of corporate stock

Discuss each of the three tax aspects which must be considered in computing gain or loss.

basis

Discuss the basis of purchased stock and of inherited stock, including fair market value for inherited stock.

selling price

Describe how arrived at and where entered.

holding period

Discuss provisions and exceptions.

-Sale of a residence

general rule

Describe and discuss general provisions and revisions of the law. Discuss combat zone situation and postponement of tax.

the computation

Discuss loss and gain and how to enter on Schedule D. Discuss use of form 2119.

Discuss "fixing-up" expenses.

taxpayer 65 or older

Discuss provisions with regard to taxpayer age 65 or older.

Alimony

Discuss conditions under which alimony is included in income and how it is to be reported.

Lesson Plan 3 (Cont. 4)

Content:

Miscellaneous Income

Summary

Quizzes

Notes:

Describe the miscellaneous types of income and how they are to be reported.

Review material covered during this lesson following outline in Course Book.

Have participants take the quizzes and do the continuing problem. Allow them to grade each others quizzes.

Discuss any points raised.

Lesson Plan 4

Course:

U.S. Armed Forces Training –
Income Tax Law

Lesson:

Exclusions and Deductions to Arrive
at Adjusted Gross Income

Objectives:

At the end of this lesson participants
will be able to:

1. Describe those items of income
which are excludable or deductible
from gross income in determining
adjusted gross income.
2. Enter these items on their
tax return.

Total Time

2 hours

Methods:

Lecture and discussion

Training Aids:

Blow-ups or handouts of the forms dis-
cussed in this lesson

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax,"
tax forms, and Department of Navy publica-
tion NAVSO P-1983, "Armed Forces Federal
Income Tax."

Contents:

Introduction.

Excludable or Deductible Items Received from the Armed Forces

Combat zone pay

Hostile fire pay

Prisoner of war exclusion

Combat death waiver

Notes:

Briefly outline what will be covered during
this lesson. Indicate that Form 1040A
cannot be used for items discussed in this
lesson.

Describe and discuss combat zone and
hospitalization exclusion. Illustrate with
examples provided.

Describe and discuss criteria for eligibility
for this exclusion.

Discuss limitations to above exclusions.

Describe and discuss provisions.

Describe provisions and tax effect. Refer
class to Publication 17 for additional in-
formation. Discuss Vietnam provisions.

Lesson Plan 4 (Cont. 1)

Content:

Compensation other than active duty pay

Pay earned but forfeited by Court Martial

Basic allowance for quarters (BAQ)

Basic allowance for subsistence (BAS)

Moving expenses

Travel expenses

Disability retired and disability severance pay

Sick pay

—Active duty pay

—Disability retired pay

Miscellaneous exclusions

Excludable Items from Other Sources

Life insurance (private companies)

Government insurance and indemnity

Commercial insurance

Retired Serviceman's Family Protection Plan (formerly COA) annuities

Compensation for injuries or sickness

Amounts received under accident and health plans

Notes:

Describe the various types of payments received for active service in a combat zone which are excludable.

Explain why no adjustment is required.

Describe items which may be excluded.

Describe and discuss provisions including eligibility requirements, what moving expenses are deductible, reporting procedure and handling the full-time work test, if not yet satisfied.

Describe what is and is not allowable, record keeping, and how information is entered or furnished.

Describe and discuss this type of pay and how it may be excluded. Also discuss excess which is subject to withholding.

Explain provisions and limitation.

Define and describe. Discuss retirement and sick pay.

Discuss each of the six miscellaneous exclusions shown in Course Book.

Indicate that finance centers furnish full information on how to report

Describe the four types.

Explain the two types.

Lesson Plan 4 (Cont. 2)

Content:

Notes:

Claims by Foreign Claims Settlement Commission.

Meals and lodging

Gifts

Scholarships and fellowships

Income of minor son or daughter

Alimony income attributable to property

Social security benefits

Veterans Administration benefits

State bonus

Form 1040 – Line 16 Adjustments

Summary

Quizzes

Explain the test to be met.

Explain what is and is not excluded.

Describe what is excluded and limitation.

Explain "periodic payments" and how it effects former spouses.

Explain exceptions.

Explain where each of the items discussed in this lesson are shown (or not shown) on the return or schedule.

Review each of the items discussed in this lesson.

Have class take quizzes. Allow them to grade each others answers. Quiz solutions follow. Answer any questions or clarify any points which may rise.

Lesson Plan 5

Course:

U.S. Armed Forces Training –
Income Tax Law

Lesson:

Percentage Standard Deduction, Low
Income Allowance and Itemized Deductions

Objectives:

At the end of this lesson participants
will be able to:

1. Explain the advantages in using
the percentage standard deduction,
the low income allowance or itemized
deductions.
2. Name those nonbusiness expenses
which can be deducted from adjusted
gross income to arrive at taxable
income, i.e., medical expenses, con-
tributions, taxes; interest, and other
expenses.

Total Time

4 hours

Methods:

Lecture and discussion

Training Aids:

Blow-ups of Forms 1040, 1040A, Schedule
A and handouts of Form 2441.

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax,"
tax forms and Department of Navy publica-
tion NAVSO P-1983, "Armed Forces
Federal Income Tax."

Content:

Introduction

Percentage Standard Deduction

AGI of \$10,000 or more

AGI of less than \$10,000

Low Income Allowance

Married person filing separate
return

Married persons living apart

Notes:

Briefly outline what will be covered during
this lesson.

Explain what it is, how it is computed, and
when it can be used to advantage. Define
"earned income."

Explain regulation and discuss example
shown in Course Book.

Explain when optional tax tables must be
used.

Explain whom this benefits and how.
Describe requirements and discuss example.

Explain provisions regarding itemizing
deductions.

Explain provisions, benefits and tests that
must be met to qualify.

Lesson Plan 5 (Cont. 1)

Content:

Optional tax tables

Itemized Deductions

Medical and dental expenses

- Medical expenses of dependent
- When deductible-reimbursements
- Definition of medical expenses

Contributions

- Nondeductible contributions
- Cash or property
- Time for deduction
- Limitation on the deduction
- Carryover

Notes:

Explain what the tables are and who may use them. Discuss what will happen to married persons filing separate returns electing to have their tax computed by IRS.

List the more common types of allowable deductions and discuss the factors that will effect a decision to itemize deductions.

Describe requirements which must be met with regard to medicine and drugs and for other medical expenses. Explain how medical insurance is handled.

Explain how medical expenses paid can be taken on behalf of someone who could be a dependent but was not because of income or filing a joint return.

Explain when medical expenses are deductible and how reimbursements are handled.

Discuss what items are, and are not, generally deductible. Relate to medical treatment provided for military personnel and their dependents.

Indicate that contributions made to "qualified" organizations are deductible and name some of these organizations.

Explain rule and name some types of contributions which are not deductible.

Explain fair market value, contributions of appreciated property, donated services, travel related to donated services, etc.

Discuss when allowable.

Explain limitations.

Explain provisions and limitations.

Lesson Plan 5 (Cont. 2)

Content:

Taxes

- Real estate taxes
- Taxes paid for another
- When deductible
- Nondeductible taxes

Interest

- Note discount
- Interest and service charges

- Installment payments

Child Care Expenses

- Expenses for household and dependent care services necessary for gainful employment

Notes:

Discuss, generally, when and which taxes are deductible.

Discuss who may deduct; back taxes; apportioning; and tax payments held in escrow.

Discuss regulatory taxes and assessments for local benefits.

Explain the general rule and cite examples.

Describe what it is and give example.

State IRS position on insurance premiums on FHA loans. Discuss fees, commissions and expenses incurred when obtaining a mortgage.

Discuss FHA loan discounts, loan fees (points), and interest on charge accounts.

Discuss carrying charges and finance charges, limitation and computations. Explain example in Course Book.

Explain requirements for deductibility and limitations on amount.

Explain how expenses are reduced by certain payments for a disabled dependent or incapacitated spouse.

Explain how these expenses affect married couples or when payments are made to related individuals.

Refer class to Publication 17 for additional information.

Lesson Plan 5 (Cont. 3)

Content:

Notes:

Losses

- Deductible

Describe when property losses are allowable and how to compute. Explain examples.

Discuss losses to military disbursing officers and losses sustained as a result of the destruction or seizure of property during military operations.

Discuss wagering losses and when deductible.

- Losses - not deductible

Discuss the various types of non-deductible losses shown in Course Book.

Miscellaneous deductions

Explain what remainder of less will cover and indicate where entered.

- Uniforms

Explain why the cost and maintenance of military apparel, not of a distinctive type, is generally not allowable as a deduction.

- Fatigues

Explain extent allowable.

- Alimony payments

Discuss alimony payments in general, importance of the terms of the decree, who is considered a minor child and to whom payments are deductible.

Discuss what are considered alimony payments and contrast them with periodic payments. Give examples.

Describe and discuss lump sum settlements and how treated.

Discuss ramifications of alimony trusts, insurance policies, annuities, etc.

Discuss how alimony payments are reported by wife.

- Contribution to a candidate for public office

Explain provisions and limitations.

Lesson Plan 5 (Cont. 4)

Content:

Miscellaneous deductions (continued)

– Expenses for education

– Brokerage fees

– Safe deposit box rent

Miscellaneous items – not deductible

Notes

Credit for personal exemptions.

Credit for earned income.

Credit for purchase of new residence.

Summary

Quizzes

Notes:

Explain when deductible, what amounts can be included and circumstances when expenses are not allowable.

Discuss which fees are deductible and which are not.

Explain when deductible.

Discuss the various nondeductible expenses shown in Course Book.

Indicate how itemized deductions are to be entered when there is insufficient room on Schedule A.

Indicate questions which can be asked to determine if it would be advantageous to itemize deductions.

Review the time limits of the 1975 Tax Reduction Act.

Review material covered during this lesson.

Have class take quizzes and do continuing problem on pages 52-53.

Allow class to grade each other's answers.

Go over any points which are unclear.

Lesson Plan 6

Course:

U.S. Armed Forces Training –
-Income Tax Law

Lesson:

Rental Income and Depreciation

Objectives:

At the end of this lesson participants will be able to:

1. Define rental income and expenses and be able to prepare a tax form including such information.
2. Describe the three principal methods of computing depreciation.

Total Time

1 hour

Methods:

Lecture and discussion

Training Aids:

Blow up of Form 1040 and Schedule E

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO P-1983, "Armed Forces Federal Income Tax."

Content:

Introduction

Rental Income

When reported

Rental Expenses

Repairs

Notes:

Ask participants if they have any questions about material covered during the previous day.

Briefly describe what will be covered during this lesson.

Define rent.

Explain when rent is to be reported, i.e., cash or accrual basis, how advance rent, security deposits, cancellation of a lease, improvements by a tenant to leased property, etc., are handled.

Mention the three broad groups before going into an in-depth description.

Define a repair expense.

Lesson Plan 6 (Cont. 1)

Content:

Other expenses

Part business — part personal

Depreciation

- Conditions necessary to allowance of depreciation
- When depreciation is allowed
- Property subject to depreciation
- Basis for computing depreciation
- Allocation of purchase price between land and building
- Accounting for depreciable property
- Determinations of useful life or rate
- Salvage value
- Methods of computing depreciation

straight-line method

declining balance method

sum-of-the-years digits method

Notes:

Describe what can be included.

Discuss treatment of depreciation, repairs and other expenses when part of residence is rented out.

Define and indicate what remainder of lesson will be about.

Describe the three basic conditions which must exist before an allowance for depreciation can be taken.

Describe how depreciation is computed and give example.

Describe and discuss the two categories.

Explain how arrived at, define "adjusted basis" and give examples.

Give example.

Indicate how items can be treated.

Define and describe how "useful life" may be determined.

Define what it is and how determined.

Explain that any reasonable method may be used but indicate the three used most commonly.

Describe and discuss and give example.

Describe the three maximum rates that may be used, show how computed and discuss examples of each:

- twice the straight line rate
- 1-1/2 times the straight line rate
- 1-1/4 times the straight line rate

Describe when this method is allowed, how it is computed and give examples.

Lesson Plan 6 (Cont. 2)

Content:

Additional First Year Depreciation

Summary

Notes:

Explain election limit and what type of property qualifies. Also, discuss example. Refer class to Publication 17 for additional information. Point out that a trust can not elect additional first year depreciation.

Review material covered during this lesson.

Have class complete the continuing problem.

Lesson Plan 7

Course:

U.S. Armed Forces Training –
Income Tax Law

Lesson:

Aliens

Objectives:

At the end of this lesson participants will be able to:

1. Compare and contrast the two different statuses of aliens.
2. Describe the applicable tax principles where U.S. citizens are married to nonresident aliens
3. Describe the application of community property law to the above situation.

Total Time

3 hours

Methods:

Lecture and discussion

Training Aids:

Blow ups or handouts of the forms discussed in this lesson.

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO P-1983, "Armed Forces Federal Income Tax."

Content:

Introduction

Returns Filed by Aliens

Resident aliens

Nonresident aliens

Notes:

Briefly outline what will be covered during this lesson.

Describe the two classes of aliens for income tax purposes.

Define "resident alien" and indicate that the same provisions for filing returns that apply to citizens of the U.S. also apply to resident aliens.

Define term, and indicate what sources of income are liable for tax, tax form to be used and when filed.

Compare requirements between two types of aliens.

Lesson Plan 7 (Cont. 1)

Content:

Notes:

Alien Members on Active Duty

Mention dual-status taxpayer but refer class to Publication 519 for more information.

Enlistees

Discuss distinction and ramifications of determination of alien status with regard to military taxable pay and where earned.

Inductees

Discuss the two characteristics which can classify an alien enlistee as a resident alien. Also discuss status of aliens who are in the U.S. merely because of military assignment.

Military Personnel Married to Aliens

General rules

Discuss criteria used to determine if aliens are subject to induction.

Explain options and requirements and the rule about joint returns if either spouse was a nonresident alien during any part of the year.

Soldiers domiciled in community property states

List the community property states.

Describe the tax advantages of a soldier domiciled in community property state serving in a military capacity abroad and married to a nonresident alien. Give example. Indicate how income would be reported.

Briefly discuss election for treatment of income subject to foreign community property law.

Discuss what constitutes U.S. sources of income in this situation.

Discuss change in status from nonresident to resident alien.

Lesson Plan 7 (Cont. 2)

Content:

What constitutes "domicile" for community property purposes

Information to be Filed with Returns

Summary

Quizzes

Notes:

Distinguish between residence and domicile and what the determining factors are. Explain "intention."

Discuss several court decisions which have attempted to define domicile.

Discuss the two examples given concerning ~~military situations~~ dealing with community property laws.

Describe the filing of a Form 1040 and a 1040NR by a U.S. citizen, domiciled in a community property state, married to a nonresident alien, the inclusion of a statement with both returns and what kind of information the statement should contain.

Review material covered during this lesson.

Have students take quizzes.

Allow them to grade each others papers.

Answer any questions which may be raised.

Lesson Plan 8

Course:

U.S. Armed Forces Training
Income Tax Law

Lesson:

Exclusion of Earned Income From Sources
Without the United States, Section 911

Objectives:

At the end of this lesson participants will be able to describe the rules and requirements with regard to excluding earned income from sources outside the U.S.

Total Time

One hour (plus 3 hour review of entire course)

Methods:

Lecture and discussion

Training Aids:

Blow ups or handouts of the forms discussed in this lesson.

Student Materials:

Course Book, Publication 757.

References:

Publication 17, "Your Federal Income Tax," tax forms and Department of Navy publication NAVSO-P-1983, "Armed Forces Federal Income Tax."

Content:

Introduction

General Rules

Notes:

Briefly describe what will be covered in this lesson.

Discuss what income may be exempt from U.S. tax and who is entitled to this exclusion.

For U.S. citizens who do qualify for exemption, discuss either of two circumstances which must be met.

Describe what type of income can be excluded.

Describe and discuss the five general rules pertaining to the exemption of earned income.

Lesson Plan 8 (Cont. 1)

Content:

Bona Fide Residence

Physical Presence Abroad

First Year in a Foreign Country

Notes:

Discuss factors which are usually considered in determining bona fide foreign residence.

Discuss the three situations which can indicate when an individual is not considered to be a bona fide resident of a foreign country.

Discuss in detail the length of time physical presence abroad is required to exclude compensation for personal services rendered abroad.

Discuss definition of "qualifying day."

Describe how full days of presence in foreign countries is computed. Discuss travel between foreign countries.

Discuss employment by U.S. government not counting toward meeting requirement.

Describe how period of 18 consecutive months is calculated.

Discuss necessity of accurate record keeping.

Discuss requirements for taxable year or 18 month period elapsing.

Discuss choice of two procedures a taxpayer can take when he has not been a bona fide resident of a foreign country for an entire taxable year, i.e.,

- 1) filing return on normal due date and later filing a claim for refund, or
- 2) obtaining an extension of time for filing.

Discuss which forms to use in each of above cases and where to file.

Discuss advisability of filing by due date if tax will have to be paid.

Lesson Plan 8 (Cont. 2)

Content:

Personal Service Earnings From Appropriated or Nonappropriated Funds

Summary

Review

Notes:

Discuss generally the exclusion of income earned from these types of funds.

Refer class to Publication 54 for additional information.

Briefly review material covered during this lesson.

Review all material covered during this course allowing sufficient time to answer questions.

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