

Lesson: Tax Preparation for Service Members

Tax Preparation for Service Members is a 60-minute interactive lesson. This lesson covers the terminology associated with federal income taxes, where the information needed to prepare IRS Form 1040 U.S. Individual Income Tax Return comes from, and where figures are entered on the form.

Learning Objectives

At the conclusion of this lesson, learners should have the basic understanding needed to complete a 1040 Individual Tax Return using the standard deduction and where to get help, if needed.

Enabling learning objectives:

- Identify where to find the information needed to complete an individual tax return
- Explain terminology associated with preparing a federal income tax return: taxable income, adjusted gross income, deductions, tax credits, tax withholding, filing status
- Explain the difference between standard deduction and itemized deductions
- Explain how federal income tax owed by an individual is determined
- Identify federal tax preparation resources

Learning Activities

This lesson contains a demonstration in which you show learners the various sections of IRS Form 1040 and describe the types of information that can be entered in each section. The lesson does not contain instructions on how to complete the form nor should you provide tax advice for how to prepare an individual's taxes.

Content Outline

1. Introduction (2 minutes)
 - Welcome
 - Facilitator Introduction
 - Agenda
2. What Are Taxes? (1 minute)
 - Three Types of Taxes
 - Why Do We Pay Taxes?
 - Who Pays Taxes?

3. IRS Form 1040 (45 minutes)
 - Information Needed
 - Information About You and Dependents
 - Income and Financial Statements
 - Previous Year 1040
 - Filing Status
 - Single
 - Married Filing Jointly
 - Head of Household
 - Total Income
 - Earned Income
 - Pay vs. Allowances
 - Unearned Income
 - Interest, Dividends, Capital Gains, and Retirement Distributions
 - Form 1099-INT
 - Form 1099-DIV
 - Form 1099-R
 - Adjustment to Income
 - Adjusted Gross Income
 - Standard vs. Itemized Deductions
 - Taxable Income
 - Determining Tax Liability
 - Tax Credits
 - Common Tax Credits
 - Tax Owed
 - Calculating Tax Owed
 - Dates to Remember
 - W2s
 - Filing Deadline
 - Extension Request Deadline
 - Quarterly Estimated Taxes
4. When to Update Withholding (5 minutes)
 - Change in Pay
 - Tax Brackets
 - Example Calculation (optional)
 - Change in Filing Status
 - Submit New W4

5. Resources (5 minutes)

- Websites
 - Military OneSource
 - Consumer Financial Protection Bureau (CFPB)
 - Defense Finance and Accounting Service (DFAS)
 - Office of Financial Readiness (FINRED)
 - Internal Revenue Service (IRS)
- Tax Preparation Resources
 - Free Tax Filing Services
 - Military OneSource
 - MilTax
 - Volunteer Income Tax Assistance (VITA)
 - Other Resources
 - Tax Preparation Software
- Additional Support Resources
 - Personal Financial Manager (PFM)
 - Personal Financial Counselor (PFC)

6. Conclusion (2 minutes)

- Summary and Review
- Questions

Training Materials

A laptop, projector, and screen are needed to project the PowerPoint presentation and videos, if applicable, during the training session. You will also need the following items to conduct the session:

- PowerPoint Presentation: Tax Preparation for Service Members
- Handout:
 - IRS Form 1040
- Blank paper
- Pencils or pens
- Large chart paper or whiteboard (optional)
- Markers (optional)
- Internet connection (optional)

Using This Instructor Guide

The presenter is the most important part of delivering information. Make sure to familiarize yourself with the content in the lesson so that you can effectively discuss each key point during the training session. Review the material and practice delivering the content ahead of time in order to feel comfortable covering the material in your own words.

To use this Instructor Guide, review its various parts and components below.

The **Discussion Points** section contains the key points you must present in the training. The information should be presented in the order provided. Use the discussion points as a lesson outline. Avoid reading it word-for-word.

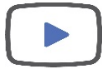
An **Instructor Note** provides guidance for the instructor in presenting the discussion points. This section also includes specific instructions on using the media, activities for learners, and references to any other documents or content.



This symbol indicates a handout is associated with the content.



This symbol indicates a discussion activity is associated with the content.



This symbol indicates a video is associated with the content.

Course Preparation

Being prepared for training promotes organization, projects a positive image, and reduces stress. To ensure you are prepared, review the following:

- *Tax Preparation for Service Members* PowerPoint presentation
- References
 - DoD Instruction 1342.22, *Military Family Readiness*
 - DoD Instruction 1322.34, *Financial Readiness of Service Members*
 - IRS Publication 3, *Armed Forces Tax Guide*

Instructor Note: Prior to the start of the session, make sure you have enough copies of IRS Form 1040, so each learner has a copy.

Personalize your lesson. Use the white space on the left side of the page to add your own notes and prompts for discussions.

You can fill it with:

- Subject matter
- Detailed/technical information
- Instructional strategies and methods
- Personal experiences
- Examples and analogies

Discussion Points



Slide 1

1. Welcome and Introduction

Instructor Note: Display slide 1. Welcome learners to the *Tax Preparation for Service Members* lesson.

Gain learner attention and interest:

- Share a short story about the lesson topic
- Share a surprising fact about the lesson's topic(s)
- Ask learners to write down one thing they hope to learn from attending the training today

Ask: Does anyone want to pay more than your fair share of income taxes?

- No? Then this lesson is for you. This lesson will give you a high-level understanding of federal income taxes.
- You will not walk away a tax expert, but you will learn terminology associated with income taxes, where the information comes from, and where figures are entered on IRS Form 1040.

Facilitator Introduction

Introduce yourself by providing:

- Your name
- Your experience with the lesson topic, financial counseling experience, and/or professional/educational background

Instructor Note: Read the disclaimer to the group.

Disclaimer: *The information presented in this lesson does not constitute legal, tax, investment, financial, or other advice. This lesson is intended as an informational resource to assist you in identifying or exploring resources and options for managing your personal financial situation.*



Slide 2

Agenda

Instructor Note: Display Slide 2. Briefly introduce the lesson topics.

In this lesson we will cover the following topics:

- What are Taxes?
- Completing Form 1040
- When to Update Withholding
- Resources

Say: The session today is designed to help you understand the information you need to complete your taxes and resources where you can find more information including free tax preparation services.



Slide 3

2. What are Taxes?

Instructor Note: Display Slide 3.

Say: Before we jump into the 1040, let's talk for a moment about what taxes are and why we pay them.

Ask: Can any tell me what we pay taxes on?

Instructor Note: Allow learners a few moments to offer an answer.



Slide 4

Three Types of Taxes

Instructor Note: Display Slide 4.

Say: There are three basic tax types:

- Taxes on what you **earn** or individual income taxes (levied on wages, salaries, income from investments, or other forms of income).
- Taxes on what you **buy** (sales taxes are levied on retail sales of goods and services).
- Taxes on things you **own** (property taxes are levied on immovable property like land and buildings, and investments).

Why Do We Pay Taxes?

Ask: Why do we pay taxes?

Instructor Note: Allow learners a few moments to offer an answer.

Say: Tax dollars are used to benefit the citizens of the United States. These are public funds that are spent by the federal government. Federal income taxes are used to provide for national programs such as:

- National defense
- Veterans Affairs
- Social programs (including programs related to physical, human and community development)
- Law enforcement

Who Pays Taxes?

Ask: Finally, who pays taxes?

Instructor Note: Allow learners a few moments to offer an answer.

Say: The simple answer is almost everyone pays taxes. If you are employed, you already pay taxes, since most employers take federal income taxes directly from your pay throughout the year. This information can be found on your Leave and Earning Statement (LES).

However, not all pay is taxable, and you will learn more on this later in the lesson.

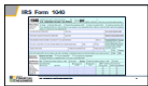


Slide 5

3. IRS Form 1040

Instructor Note: Display slide 5. As you talk about the sections of the 1040 form and the information entered in each section, allow learners to ask questions, but refrain from providing tax advice or teaching them how to fill out a 1040 form. The intent is to familiarize learners with the 1040 form and where the information needed to complete the form comes from.

Say: First let's look at the 1040 and the types of information you need to gather to fill out the form. Then we will look at the different sections of the form and where you enter that information. They should consult with a tax professional for questions about their specific tax situation.



Slide 6



Instructor Note: Display slide 6. Distribute copies of *IRS Form 1040*. This portion of the lesson explains terminology and concepts associated with federal income tax preparation within the context of the 1040 Individual Tax Return.

Prior to the start of the session: review the following definitions for the key terms used in this segment of the lesson:

- **W2, Wage and Tax Statement:** The form filed by employers to report wages, tips, and other compensation paid to employees as well as Federal Insurance Contributions Act (FICA) and withheld income taxes
- **W4, Employee's Withholding Certificate:** The form completed by employees and given to their employer so the employer can withhold the correct amount of federal income tax from the employee's pay
- **Filing status:** Determines your filing requirements, standard deduction amount, eligibility for certain credits, and tax owed

- **Deductions:** Can reduce the amount of income before you calculate tax owed
- **Gross income:** Represents total income from all sources before any adjustments
- **Adjusted gross income (AGI):** Is gross income minus adjustments to income
- **Taxable income:** The portion of a person's adjusted gross income that the government deems subject to taxes
- **Tax credit:** Reduces the amount of tax you owe
- **Tax withholding:** A set amount of money withheld out of an employee's paycheck and paid the government
- **Tax liability:** The total amount of tax owed by an individual based on taxable income



Slide 7

Information Needed

Instructor Note: Display slide 7.

Say: These are common pieces of information and documents you will need to gather in order to prepare your taxes:

- Full name and social security number for yourself, spouse, children you claim as dependents
- Dates of birth for yourself, spouse, children you claim as dependents
- W2 from employers
- Financial statements
 - Interest, dividend, and capital gain statements (1099 forms)
- A copy of the previous year's federal and state returns

Instructor Note: Ask learners what other documents they might need to gather to prepare their taxes. For example, if a person plans to itemize their deductions, they will need:

- Property tax statement (if you own a home)
- Receipts for large purchases such as home improvements
- Receipts to support donations

Say: Now that you know the information you need to gather, let's look at the 1040 and the different sections where information is entered.



Slide 8

Information About You and Dependents

Instructor Note: Display slide 8.

Say: There are two sections where you enter information about yourself, your spouse, and your dependents. Information entered includes full names, social security numbers, as well the relationship of each dependent to you, the tax filer.



Slide 9

Filing Status

Instructor Note: Display slide 9.

Say: At the top of the form is the Filing Status section. The box you place a check mark in is used to determine your tax liability (amount of tax you must pay on taxable income). There are certain tests the IRS uses to determine if you qualify for a particular filing status. The taxpayer does not get to choose.

Say: There are a few different filing statuses:

- **Single:** Typically, you use this status if you are unmarried or legally separated from your spouse under a divorce or separation decree as of midnight December 31.
- **Married filing jointly:** If both you and your spouse agree to file a joint return and you report your combined income and deduct your combined allowable expenses you would use this status.

Note: If your spouse died during the year and you did not remarry during the same year, you may still file a joint return with that spouse for the year of death.

- **Married filing separately:** This status may benefit you if you want to be responsible for only the tax you owe or if it results in less tax than filing a joint return.
- **Head of household:** If you are unmarried, paid more than half the cost of keeping up a home for the year, and have a "qualifying person" living with you in the home for more than half the year, then you are the head of household. The qualifying person must be one of the following:
 - Single child living with you more than half the year
 - Married child living with you more half the year that you can claim an exemption for
 - Parent that you can claim and exemption for
 - Other relative that lived with you more than half the year and that you can claim as an exemption

Note: If you can use the head of household status, this will typically result in a lower tax liability than if you use the single or married filing separately status; you will also receive a higher standard deduction. We will talk about the standard deduction a little later in the lesson.

The definition of these filing status categories and their requirements can be found on the IRS website.



Slide 10

Total Income

Instructor Note: Display slide 10.

Say: The next section we will look at contains fields to enter your total income which is the total of your earned and passive incomes.

Your **total income** is your earned income plus unearned income: wages, interest, dividends, capital gains, retirement distributions as well as other income such as business and rental income.

Some people refer to this as **gross income**.



Slide 11

Earned Income

Instructor Note: Display slide 11.

Say: The income you receive from wages, salaries, and tips is your earned income. The figure you enter here comes from your W2, Wage and Tax Statement.

Pay vs. Allowances

Say: For Service members, when thinking about your pay you need to understand the difference between pay and allowances. The amount you receive in each paycheck is a combination of pay and allowances, but each is treated differently when it comes to taxes. In general, pays are taxed and allowances are not.

Pay

Service members receive many types of pay that are taxable. Some of these include basic pay, drill pay, hostile fire or imminent danger pay, and bonus pay. If you have or will receive a Selective Reenlistment Bonus (SRB) this is also taxed. There are some exceptions; pay received in a designated combat zone is not taxed. *IRS Publication 3* provides a list of taxable pay.

Allowances

Allowances are not taxed. These include such things as Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), and moving and travel allowances.

The bottom line is, check your W2 for the portion of your pay that was taxed.



Slide 12

Unearned Income

Instructor Note: Display slide 12.

Say: Unearned income is passive income that comes from investments and other sources unrelated to employment. Examples of unearned income include interest from savings accounts, bond interest, dividends from stock, income from rental property, and alimony received.



Slide 13

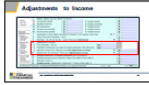
Interest, Dividends, Capital Gains, and Retirement Distributions

Instructor Note: Display slide 13.

Say: If you receive a 1099 form in the mail, keep it with your tax-related documents. You will need to enter the amounts from these forms on the 1040.

The IRS's 1099 tax forms are used by banks or other financial institutions to report various types of income—other than salary—a person may receive.

- **IRS Form 1099-INT:** If you earned more than \$10 in interest from a bank, credit union, or other financial institution you should receive a 1099-INT. The form must be sent to the IRS and each individual by January 31 of the year following the tax year.
- **IRS Form 1099-DIV:** If you received distributions from any type of investment during the calendar year you should receive a 1099-DIV by January 31 of the year following the tax year.
- **IRS Form 1099-R:** If you received a distribution of \$10 or more from a pension plan, annuity, or other retirement plan you should receive a 1099-R. The form must be sent to the IRS and each individual by January 31 of the year following the tax year.



Slide 14

Adjustments to Income

Instructor Note: Display slide 14.

Say: Before we look at this section of the 1040, we need to understand some terms:

- **Gross income** is the total of all your sources of taxable income; but you are not taxed on all of your gross income.
- **Adjusted gross income (AGI)** is your gross income minus any adjustments.
- **Taxable income** is the portion of your adjusted gross income that the government deems subject to taxes.
- **Adjustments** can include such items as educator expenses, moving expenses, tuition and fees, student loan interest, alimony paid, and contributions to certain retirement accounts.

Instructor Note: If learners ask about how to determine their adjustments, tell them that adjustments are entered on the Schedule 1 form.



Slide 15

Standard vs. Itemized Deductions

Instructor Note: Display slide 15.

Say: Adjustments reduce the amount of the taxable portion of your AGI. Deductions also reduce the taxable portion of your AGI.

When preparing your federal taxes, you need to decide “Do I take the standard deduction, or do I itemize my deductions?” Typically, you will want to use the one that is the larger amount.

The **standard deduction** is based on your income, filing status, age, and whether or not you (the taxpayer) are blind.

Itemized deductions can include amounts paid for state and local income or general sales taxes, real estate taxes, personal property taxes, home mortgage interest and points, and gifts to charity.

To determine your itemized deductions, you will need to complete Schedule A.

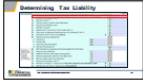
Taxable Income

Instructor Note: Display slide 16.

Say: Your taxable income is your AGI minus your deductions. This amount is what the IRS uses to determine your tentative tax.



Slide 16



Slide 17

Determining Tax Liability

Instructor Note: Display slide 17.

Say: I say “tentative” tax because you may be able you further reduce the tax you owe by applying (subtracting) tax credits you may be eligible for.

For example, an individual owes \$3,000 to the government and is eligible for a \$1,100 tax credit, they will only have to pay \$1,900 after the credit is applied.



Slide 18

Tax Credits

Instructor Note: Display slide 18.

A tax credit is a dollar-for-dollar reduction on the tax you owe to the IRS.

Some common tax credits that you may be eligible for include:

- **Child Tax Credit** is for each qualifying child under the age of 17
- **Earned Income Tax Credit** is for working people with low to moderate income
- **Adoption Tax Credit** is for qualified adoption expenses paid to adopt an eligible child
- **Child and Dependent Care Credit** is for expenses paid for the care of a qualifying individual that enables you to work or actively look for work
- **Savers Credit** is for making eligible contributions to your IRA or employer-sponsored retirement plan
- **American Opportunity Credit** is for qualified education expenses paid for an eligible student for the first four years of higher education
- **Lifelong Learning Credit** is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution

Instructor Note: Tell learners that the amount and eligibility requirements for each credit can change, so they should check the IRS website for current information about tax credits and eligibility or discuss the tax credits they think they may be eligible for with a tax professional.



Slide 19

Tax Owed

Instructor Note: Display slide 19.

Say: The tax you owe (are liable for) is based on the total tax payments you have made, any tax credits you may be eligible for, and your total tax.



Slide 20

Calculating Tax Owed

Instructor Note: Display slide 20.

Say: To determine the amount of tax you owe, subtract your total tax from your total tax payments. If the amount you paid is more than your total tax, then you get a refund. If the amount is less then you owe, you owe more tax and will need to send a check to the IRS or transfer funds electronically when you file your tax return.

When you get a refund, you have been **over withholding**. More tax has been deducted from your paycheck than is necessary.

Under withholding occurs when less tax has been deducted from your paycheck than is necessary.

If you find yourself in the situation where you owe more in taxes or receive a very large refund, then consider changing your withholding status. Getting a large refund is nice but imagine what you could do with that money each month it were not withheld from your pay. You can change the amount of your withholding by submitting a new W4 to your employer.



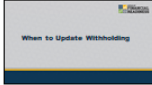
Slide 21

Dates to Remember

Instructor Note: Display slide 21.

Say: There are several important dates to remember when preparing your taxes:

- You receive W2s from your employer in **January** for the prior year's withholdings.
- The filing deadline (when you pay taxes annually) is **April 15** (unless adjusted by the federal government).
- When you need additional time to complete your taxes, you can request an extension. If an extension is granted, the extension provides an additional six months before taxes must be filed which would be **October 15**.
- If you pay taxes quarterly, your estimated tax payments are due the **15th of April, June, September** in the tax year and **January** following the tax year.



Slide 22

4. When to Update Withholding

Instructor Note: Display slide 22.

Say: I mentioned that you may want to review and update your tax withholding amounts when, after calculating your taxes you determine that you owe an additional amount. Let's talk briefly about other life situations where you may want to update your tax withholding.

Ask: At what other times would you want to review and update your tax withholding?

Instructor Note: Allow learners a few moments to offer an answer.

Say: A good time to review your tax withholding is when you experience a change in pay. A pay change could be due to a promotion, or when you retire, or when your spouse gets a job or experiences a job change that involves a change in income.



Slide 23

Change in Pay

Instructor Note: Display slide 23. The tax rates on the slide are for the 2021 tax year. Check the IRS website for the current tax rates and brackets.

Say: When you experience a change in pay, tax professionals recommended that you review and update your withholding. The reason is your tax bracket may change, meaning you could owe more (or less) tax at the end of the year.

The IRS uses tax rates and brackets as a method to determine how much money you need to pay annually in taxes. The rates and brackets on the slide are only an example.

Instructor Note: Presenting the following **example is optional**. The example illustrates the progressive tax system. Use a white board or chart paper to show the math.

Say: You can use your filing status, taxable income, and the IRS tax rate and brackets to determine what your potential tax liability will be.

Let's look at an example. A married couple filing jointly has a taxable income of \$100,000. This amount falls in the 22% tax bracket; however, this does not mean they will pay \$22,000. Instead, they will pay 10% of the first \$19,900, 12% of the income between \$19,901 and \$81,050; 22% on the remaining amount of income.

10% tier: $\$19,900 \times 10\% = \$1,990$

12% tier: $(\$81,050 - 19,901) = \$61,146 \times 12\% = \$7,338$ (rounded up)

22% tier: $(\$100,000 - 81,051) = \$18,949 \times 22\% = \$4,169$ (rounded up)

In this example, the couple would have a tax liability of approximately \$13,497 vice \$22,000.



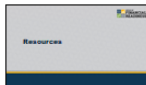
Slide 24

Update Withholding When ...

Instructor Note: Display slide 24.

Say: Another situation when you might want to change your withholding is when you get married or divorced and your tax filing status changes. You may also want to change your withholding when your spouse gains or loses employment—the new W4 is dependent on this information.

Other times your filing status can change are when you have a baby or adopt a child, or your spouse dies. Before changing your filing status, you may want to talk it over with a tax advisor.



Slide 25

5. Resources

Instructor Note: Display slide 25.

Say: Let's look at some resources that can help you prepare and file your taxes.



Slide 26

Websites

Instructor Note: Display slide 26. The slide uses animations. Click two times to reveal the additional images and bullets.

Say: Calculating your taxes can be complicated. Fortunately, there are many resources to help ensure you pay only your fair share of federal tax.

Military OneSource's Tax Resource Center is full of great information. Here you will find helpful articles and resources.

You may be familiar with the Consumer Financial Protection Bureau (CFPB). If you search on the word "taxes" on their website, you will find a wealth of information and resources for tax preparers.

The Defense Finance and Accounting Service (DFAS) website is your source for key tax documents and information for Active Duty, reserves, and retirees. You can also adjust your tax withholding (prepare a new W4 form) and retrieve your W-2 or 1099-R to prepare your taxes.



Slide 27

Websites (continued)

Instructor Note: Display slide 27. The slide uses animations. Click once to reveal the additional image and bullet.

If you have an internet connection, click the links on the slide and show learners where they can find information, resources, and calculators on the Office of Financial Readiness and IRS websites.

- finred.usalearning.gov/ToolsAndAddRes/Calculators/Tax
- www.irs.gov/

Say: The Office of Financial Readiness is a great resource for Service members and their families to find information about taxes.

The IRS website is your best resource for tax filing instructions (publications) and to download forms.

Tax Preparation Resources

Instructor Note: Display slide 28.

Say: There are some free tax preparation resources you will want to check out:

- **MilTax**, available on the Military OneSource website, is a free tax service that includes tax preparation and e-filing. The service is available from late January to October 15.
- The **Volunteer Income Tax Assistance (VITA)** program is offered by the IRS and DoD.

Instructor Note: Recommend that learners use the DoD program on base, since the IRS version has income restrictions, and the DoD program has people familiar with military pay.

There are many on-line tax preparation companies offering “free” tax filing software; however, the IRS has noted that some people have ended up paying to file their taxes. To avoid this issue, the IRS provides direct links to the commercial tax preparation companies.

Additional Support Resources

Instructor Note: Display slide 29. This slide uses animations and two hyperlinks. Click two times to display the additional bullets. If you have an internet connection, click the links to show where on the web pages learners can locate personal financial professionals.



Slide 29

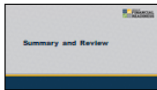
Say: If you would like to learn more about financial planning consider talking to a financial professional. There are two types of professions available to you at no cost: Personal Financial Manager (PFM) and Personal Financial Counselor (PFC).

These individuals have a degree and are nationally certified. They can provide you with personal financial counseling and financial education and training, like the session today.

- To find a **PFM** at your nearest installation visit the Military OneSource website: installations.militaryonesource.mil/
- To find a **PFC** check out PFC locator map on the Office of Financial Readiness website: <https://finred.usalearning.gov/pfcMap>. These individuals are available 24/7, 365 days a year.

6. Conclusion

Summary and Review



Slide 30

Instructor Note: Display slide 30. If at the beginning of the session if you asked learners to write down one thing they hoped to learn from attending the training today, ask them if they learned what they had hoped they would, and if not to share with the group what they wrote down. Provide a short answer or explanation to what learner's shared and invite them to make an appointment with a personal financial counselor to learn more.

Questions?



Slide 31

Instructor Note: Display slide 31.

Ask: Does anyone have any final questions about the topics we covered today?

Say: You now have valuable information needed to prepare your federal taxes:

- Information you need to gather
- Where information is entered on IRS Form 1040
- Tax preparation resources

Thank everyone for participating in the discussions and sharing their ideas!