

As an AARP Foundation Tax-Aide Counselor, you will see interest from checking and savings accounts, certificates of deposit (CDs), savings certificates, U.S. government bonds, interest on insurance proceeds, and loans that the taxpayer makes to others.

### Learning Objectives

- Report income correctly on Form 1040:
  - Interest Income
  - Early withdrawal penalty
  - Interest on US Savings Bonds and Treasury Obligation including impact to state income tax
  - Tax exempt interest
  - Interest in a foreign bank account

### Getting Started:



Review the specific discussion related to Interest in the **VITA/TCE Volunteer Training Guide Pub 4491** pages 9-7

### Resources:

Volunteer Training Guide – Pub 4491  
Volunteer Resource Guide – Pub 4012

[www.irs.gov](http://www.irs.gov)

[IRS Form 1099-INT Instructions](#)

**Hint:** Search throughout the electronic PDF files using Adobe Reader on your computer (the Volunteer Resource Guide (Pub 4012)). In the document menu bar click on **EDIT** and then **FIND**. Enter the **keyword** in the search box. A short cut is to open the search box with the shortcut **Ctrl+F**.

**Feedback:** Please email:

[selfstudy@aarpfndntaxaide.org](mailto:selfstudy@aarpfndntaxaide.org)

Appreciate suggestions and comments.



In the Volunteer Resource Guide, find the references to “Interest Income” (inputting Interest):

- a) In Tab O, Using TaxSlayer Pro Online. Find all the references to “Interest Income”:  
Note the occurrences:

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- b) Find and Study the pages that relates to “Interest Income” in the Volunteer Resource Guide, Tab D. Note the pages you found?
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**Tax-Aide Hint:** Some savings and loans, credit unions, and banks call their distributions “dividends.” These distributions are really interest and are reported correctly as interest on Form 1099-INT.

**Practice Lab**

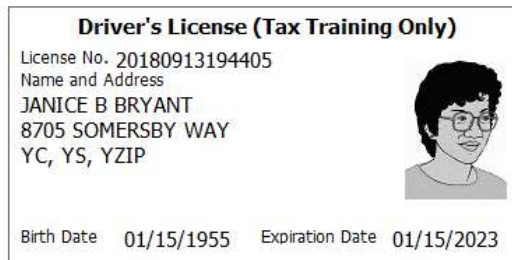
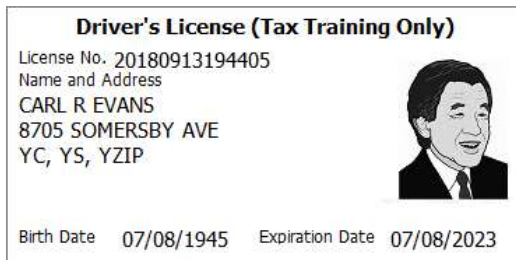
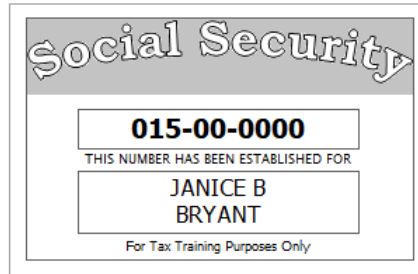
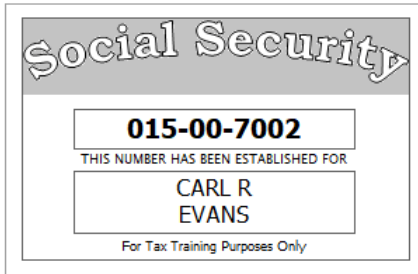
Open **TaxSlayer Practice Lab** and login.

- Find the **Entering Basic Income Part 1 video**.
- Notice this in the TaxSlayer videos in the Practice Lab - Home Page under **Section 4 ...** click.
- Follow the instructions and sign into the “Brainshark.”

## TaxSlayer Exercise:

This exercise is an excerpt from the 2018 NTTC Workbook. While it is similar there are changes incorporated for Self-Study.

1) Open Practice Lab and create a new return with this detail:



2) Evans/Bryant Scenario:

- Carl and Janice are married and will file Married Filing Jointly with no dependents
- Both have Minimum Essential Coverage through Janice's family plan from work
- Asked to use the Standard Deduction
- Want their refund mailed to them

Since Practice Lab returns cannot be efiled, the Primary Taxpayer's SSN are different for each Exercise. However, the spouse and dependent SSN can be the same.

3) Input the Form 1099-INT.

**See Volunteer Resource Guide, Pub 4012, Tab O, Navigating TaxSlayer for guidance.**

<input type="checkbox"/> CORRECTED (if checked)						
PAYER'S name, address, city, state, ZIP code DERBY FEDERAL CREDIT UNION 431 INVESTMENT ROW LOUISEVILLE KY 40202		Payer's RTN (optional)		<div style="text-align: center;"> <b>20 18</b>          Form 1099-INT       </div>		<b>Interest Income</b>
		1 Interest income \$238.80				
		2 Early withdrawal penalty \$23.00				
PAYER'S Federal identification number 25-7234567	RECIPIENT'S identification number 015-00-7002	3 Interest on US Savings Bonds and Treas. obligations \$600.49				
RECIPIENT'S name, address, city, state, and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		4 Federal income tax withheld	5 Investment expenses			
		6 Foreign Tax Paid	7 Foreign Country or US possession			
		8 Tax exempt interest \$45.00	9 Specified private activity bond interest			
FATCA filing requirement <input type="checkbox"/>		10 Market Discount	11 Bond Premium			
		12 Bond	13 Bond Premium on tax-exempt bond			
Account number (see instructions)		14 Tax-exempt and tax credit bond CUSIP no.	15 State	16 State Identification no	17 State tax withheld	
Form <b>1099-INT</b>						

Also, Janice had savings and checking accounts at City Bank and received \$5 and \$4 in interest respectfully. Review the Volunteer Training Guide (Pub 4491) if necessary, to determine what to do about these amounts.

**Hint:** Use the Volunteer Resource Guide (Pub 4012) to help with lines 3 Interest on US Savings bonds and 6 Foreign Tax Paid. For example, if your state has a state income tax, then handle this for both lines 3 and 6.

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

**Learning Review****Income – Interest**

1. What entries on a Form 1099-INT are out-of-scope?	
2. What information is required to enter seller-financed mortgage interest in TaxSlayer?	
3. Where is tax-exempt interest reported?	
4. The early withdrawal penalty is entered in the deductions (adjustments) section of TaxSlayer. True/False	
5. If a bond is issued at a price lower than its stated redemption value, the difference is called OID, and is simply a form of interest. The issuer of the bond reports a portion of OID each year to the bondholder on Form 1099-OID and we enter it in the interest section of TaxSlayer. True/False	
6. Can tax-exempt interest affect the rest of the return?	
7. Interest on life insurance dividends is not taxable, but is reportable. True/False	
8. The terms tax-exempt, non-taxable and tax-free can be used interchangeably and usually mean that the interest earned is reportable but not federally taxable. True/False	
9. The difference between the discounted price for savings bonds and the face value received at maturity is _____.	

## Answers to Learning Review

1. FATCA filing requirement, Box 10 Market discount, 11 Bond premium, 12 Bond, and 13 Bond premium on tax-exempt bond are out of scope for AARP Tax-Aide Volunteers (AARP Tax-Aide Scope Manual, Form 1099-INT)
2. The payer's name, address and social security number. (Pub 4012 Tab D, Schedule B Other Interest)
3. Although tax-exempt interest is not taxable, it must be reported on Form 1040. (Pub 4491, page 9-8, Pub 17 Chapter 7 Interest Income, State or Local Government Obligations)
4. In TaxSlayer the early withdrawal penalty can be entered with the 1099-INT input, or it can be entered in the Deductions (Adjustments) Section of TaxSlayer – but you should not enter it twice. (Pub 4012 Tab D, Interest and Dividend Income (continued))
5. True. Original issue discount (OID) is treated as normal interest. If the taxpayer says OID is only partially taxable then the return is out of scope. (Pub 4012 Tab D, Interest and Dividend Income (Continued))
6. Tax-exempt interest is used in calculating the taxability of some income items, such as Social Security benefits. (Pub 4491, page 9-8)
7. False. Interest on life insurance dividends is taxable. (Pub 4012 Tab D, Income Quick Reference Guide, Tables A and B)
8. True.
9. Interest on U.S. Savings bonds. (Pub 4012 Tab D, Interest and Dividend Income (continued))