

INCOME TAXES and the VITA PROGRAM

Did you know that the government uses the tax code to raise revenue for the treasury, influence tax payer behavior, and to actually give money from the treasury to those who need it most? In order to accomplish this the tax code has created special credits, such as Earned Income Tax Credit (EITC), Child Tax Credit, and Credit for the Elderly for which you may qualify. Completing your taxes may or may not be difficult depending on the circumstances. If you are unsure about your options for preparing your return this paper will describe some pitfalls and some ways ahead.

Refund Anticipation Loans (RALs)

Often taxpayers get confused and overwhelmed by the task of filing taxes, so they use commercial tax preparation services and Refund Anticipation Loans (RALs or "Rapid Refunds"). Commercial enterprises charge in excess of \$100 to complete simple returns that require less than 15 minutes of time. The real unnecessary costs come from the RALs. Commercial tax preparers will often just ask, "Rapid Refund?" at the conclusion of the tax preparation and will fail to explain the cost of the money. Whatever they are called, a RAL is a short-term loan with exorbitant fees. These loans allow the consumer to walk out of the door with a refund check today rather than waiting an average of 10 days for the refund to be electronically filled in their bank account. The National Consumer Law Council states that the real cost of these loans can be as much as \$230 for a 10 day \$2000 refund/loan. This works out to an effective APR of 418%. Even the worst credit card doesn't come close to that.

So now you are feeling better for not getting a RAL this year and not paying a paid preparer to do your taxes for you. But the question becomes what will I do in the future? The smartest plan is to use the VITA program on base. However, if you are transferred to a base without a military VITA site or if you leave the service you will need additional options. One option for taxpayers who qualify is to use the low income VITA program.

Military VITA

The military is one of our strongest partners in the Volunteer Income Tax Assistance (VITA) Program. The Armed Forces Tax Council (AFTC) consists of the tax program coordinators for the Army, Air Force, Navy, Marine Corps, and Coast Guard. The AFTC oversees the operation of the military tax programs worldwide, and serves as the main conduit for outreach by the IRS to military personnel and their families.

Marines, airmen, soldiers, sailors, guardsmen, and their families worldwide get tax preparation help at offices within their installations. These VITA sites provide free tax advice, tax preparation, and assistance to military members and their families. They are trained and equipped to address military specific tax issues, such as combat zone tax benefits and the effect of the new Earned Income Tax Credit (EITC) guidelines. The military tax programs generated over 400,000 electronic 2002 federal income tax returns.

Commanders support the program by detailing service members to prepare returns and by providing space and equipment for tax centers. The IRS supports these efforts by providing tax software and by training service members to prepare taxes at the military sites.

Most service members file their tax returns electronically at their tax centers and, by selecting direct deposit, receive their refunds in as little as one week. This combined effort ensures that service members receive free tax assistance from well-trained and equipped military tax preparers.

Before your appointment begins, make sure you have the following items with you:

- Military Identification Card
- Social Security Cards for you, your spouse and dependents
- Birth Dates for primary, secondary and dependents on the tax return
- Current year's tax package if you received one
- Wage and earning statement(s) Form W-2, W-2G, 1099-R, from all employers
- Interest and dividend statements from banks (Forms 1099)
- A copy of last year's Federal and State returns if available
- Bank Routing Numbers and Account Numbers for Direct Deposit
- Other relevant information about income and expenses, including
- Total Paid for Day Care
- Day Care providers Identifying number
- Remember, to file taxes electronically on a married filing jointly tax return, both spouses must be present to sign the required forms.

Volunteer Income Tax Assistance Program (VITA)

The IRS VITA Program offers free tax help to low- to moderate-income (\$36,000 and below) people who cannot prepare their own tax returns. This program is the civilian counterpart to the Military VITA program. Volunteers sponsored by various organizations receive training to help prepare basic tax returns in communities across the country. VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations. Most locations also offer free electronic filing. To locate the nearest VITA site, call 1-800-829-1040.

IRS Free File Alliance

Another option for taxpayers with access to a computer and the Internet is free online tax preparation and free electronic filing through a partnership between the Internal Revenue Service and the Free File Alliance, a consortium of participating tax software companies.

Generally, eligibility will be based on military service, income levels, age and/or state residency. For 2005, some companies are offering free services without restrictions. Each Free File Alliance member will set taxpayer eligibility requirements for its program. However, the IRS requires the Alliance, as a whole, to provide free services to at least 60 percent of the nation's taxpayers.

How Does It Work?

Taxpayers can follow a few simple steps to determine if they are eligible for free services offered by the Alliance members. Using the online software, individuals can prepare their tax return and file it electronically without charge.

Step 1: Locating Free Services

Taxpayers can locate these free services through www.irs.gov. At the IRS.gov home page, taxpayers can link to the Free File home page. The Free File home page lists the

Free File Alliance members and their offerings. Taxpayers must go through irs.gov to ensure they qualify for Free File services.

Step 2: Determining Eligibility

At the Free File Web site, each company has a simple description of their eligibility criteria for using their free service. Taxpayers may also find additional company information by accessing the "more details" link for each respective company.

Alternatively, taxpayers may want to use the interactive help tool, "Guide me to a Service" to narrow down the possible companies offering free preparation and e-file services. Each Alliance member can have a different eligibility requirement based on income levels, age and/or state residency.

Step 3: Linking to Free Services

After taxpayers match their situations with a company's eligibility requirements, they can link directly to the Free File Alliance member's Web site. Taxpayers will leave the IRS.gov Web site and enter the Alliance member's Web site. These free services are available only through the Internet.

Step 4: Preparing and Filing Tax Return

At the Alliance member's Web site, taxpayers can prepare their tax returns using the member's online proprietary software. Taxpayers can file either Form 1040, Form 1040-A or Form 1040-EZ. Completed tax returns will be sent electronically from the Alliance member to the IRS using the existing IRS e-file system. The Free File Alliance members must comply with all federal laws protecting taxpayer information.

What are the Benefits?

The intent of IRS Free File is to reduce the burden on individual taxpayers, make tax preparation easier and expand the benefits of electronic filing to a majority of Americans. E-file benefits include:

- Reduced tax return preparation time.
- Faster refunds.
- Improved accuracy.
- Acknowledgement the IRS received the return.

Alliance members' proprietary software will assist taxpayers in completing their returns and help ensure taxpayers are aware of tax credits and deductions for which they may be eligible. The tax preparation software has been tested for accuracy by the IRS. Accurate online preparation and filing vastly reduces errors. Common mistakes, such as math errors or transposing Social Security numbers, can require the IRS to delay refunds while resolving the problem.