



2010 Tax Guide for Peace Corps Volunteers

Overview

- If your only income in 2010 was from your Peace Corps service, you are not required to file a **federal** tax return. Every **state** makes its own rules for who must file. Check your state's website for more information.
- You may choose to file a return to claim the Making Work Pay Credit. It's part of the current economic stimulus plan. The credit is equal to 6.2% of your wages. For a typical full-year Volunteer, the value of the credit is approximately \$250. The maximum credit is \$400.
- **You should file your return by April 18, 2011.** If you are living overseas on April 15, 2011, you have until June 15, 2011 to file and pay your taxes, but you must include a statement that you live outside the US and your primary place of business or post of duty is outside the US. If you are receiving a refund, you have three years to file your return and claim your refund. Late filing and late payment penalties only apply to those who owe taxes.
- The 2010 W-2 shows only the readjustment allowance earned monthly from December 1, 2009 – November 30, 2010. This is what is reported on the tax return, not the actual payment of this allowance after a Volunteer's close of service.
- Your Peace Corps W-2 does not contain all the information you need to file your return. In addition to the W-2 amounts, you will need to calculate your taxable living and leave allowances. On the website, you will find a taxable allowances calculator spreadsheet to help you with this. Once you have calculated your total taxable Peace Corps income, follow the instructions in the calculator to complete the Substitute W-2 form and use that to file your return on paper. The substitute W-2 replaces the W-2 you received from Peace Corps. Do not attach both to your return. If you are using tax software, the program should include this form. If you are using TurboTax, there are special instructions. You can find a link to these instructions in the Peace Corps Tax Guide.
- If your name or Social Security number is incorrect on your Peace Corps W-2, cross out the error and write in the correction. You can still submit the W-2 with a marked correction to the IRS; you do not need a new W-2 issued by Peace Corps. You may not correct any dollar amounts on the W-2.
- You can file on paper or use tax software. You may use the 1040EZ, 1040A, or 1040 to complete your return. Go to www.irs.gov to get tax forms and instructions. The IRS has a Free File program that you may want to use. You can get to the program from the main IRS website.
- Do not send your paper tax forms to Peace Corps. Send them directly to the IRS.
- If you have questions and cannot find answers in the FAQ, email taxhelp@peacecorps.gov. You can also call toll-free at 1-800-424-8580, option 2, option 1, ext. 1229. You can also call 202-692-1229 (long distance rates apply).

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FILING A TAX RETURN

1. Do I have to file a federal tax return?

If your total income was above these amounts, you MUST file a tax return.

Use your age on December 31, 2009

| Filing Status | Age & Income |
|---------------|--------------|
|---------------|--------------|

| | <i>Under 65</i> | <i>65 & Over</i> | <i>Both 65 & Over</i> |
|-----------------------------|------------------------|-----------------------------|----------------------------------|
| Married Filing Separately * | \$3,650 | \$3,650 | |
| Single | \$9,350 | \$10,750 | |
| Head Of Household | \$12,050 | \$13,450 | |
| Qualifying Widow(er) | \$15,050 | \$16,150 | |
| Married Filing Jointly | \$18,700 | \$19,800 | \$20,900 |

* *MFS filers must itemize deductions if their spouse itemizes; If your spouse will not itemize, use the amounts for Single filers.*

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2. Do I have to file a state tax return?

If your only income is from Peace Corps, you may not need to file a state return. Generally, if you file as a non-resident or part-year resident, you can exclude income earned outside that state. However, each state has its own rules for who must file a tax return. Consult your state income tax authority for more information. Most states have online guides for taxpayers.

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3. Even though I don't have to file a tax return, should I file?

You may want to file, even if you are not required to file. For Volunteers planning to enroll in graduate school following their Peace Corps service, it is often helpful to file state taxes each year of your service. This will assist you when it comes to documenting your in-state status for admissions and tuition payments.

You may also choose to file a return to claim the Making Work Pay Credit. It's part of the current economic stimulus plan. The credit is equal to 6.2% of your wages. For a typical full-year Volunteer, the value of the credit is approximately \$250. The maximum credit is \$400.

If you have income taxes withheld from other jobs, you may want to file to get that money back.

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4. When should I file my return?

April 18, 2011 – If you are living in the US on this date, you must file your return and pay any tax, if applicable, by this date.

June 15, 2011 – If you are living outside of the US on April 15th, you must file your return and pay any tax, if applicable, by this date.

If you are a *living outside of the United States and Puerto Rico and your main place of business or post of duty is outside of the United States and Puerto Rico*, you are allowed an automatic 2-month extension until June 15 to file your return and pay any tax due. If you use this automatic 2-month extension, you **must** attach a statement explaining the above situation which qualifies you for the extension.

If you owe taxes, failure to file on time makes you subject to a 5% per month late filing penalty + late payment penalties + interest.

Generally, there are no penalties for late filing if you are due a refund or owe no taxes.

What if I need more time?

If you still need more time to file, file for an extension using [IRS Form 4868](#), *Application for Automatic Extension of Time to File U.S. Individual Tax Return*. This form can be filed electronically if you use tax software. Please be aware that an extension of time to file is NOT an extension of time to pay.

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5. What information do I need to complete my tax return?

In addition to any other tax documents you have, you'll need your Peace Corps W-2 and a calculation of your taxable allowances. Find our allowances calculator [here](#). Once you know your total taxable Peace Corps income, you can prepare a Substitute W-2 showing that total. The allowances calculator includes instructions for completing the form. The completed Substitute W-2 replaces the W-2 you received from Peace Corps. You can use the Substitute W-2 built into your tax software or find the paper form [here](#). If you are using TurboTax, you can skip the Substitute W-2 and follow [these instructions](#).

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6. What's a Substitute W-2 and why do I need one?

The Substitute W-2 is an IRS form that allows people to report income that should appear on a W-2 but does not. The Peace Corps W-2 currently does not include all of your taxable income. It includes only a Volunteer's readjustment allowance, but not their pre-service training, living, and leave allowances. We are currently launching a new accounting system at all Peace Corps posts that will report all earnings on the W-2.

To be sure that your total income is entered on the tax return correctly, the IRS has advised us to tell Volunteers to use a Substitute W-2. This is especially important in 2010 because the economic stimulus payment, known as the Making Work Pay Credit is based on your wages. Using the Substitute W-2 tells the IRS to count your taxable allowances as wages.

The maximum amount on a Volunteer W-2 is \$3,100. Reporting only the W-2 amount on the tax return, the Making Work Pay Credit would be worth \$192.

If your taxable allowances for 2010 are \$1,300, then your total taxable Peace Corps income is \$4,400. Now the credit is worth \$273.

The maximum credit is \$400.

We have a tool to help you calculate your taxable allowances and complete the Substitute W-2. Find it [here](#). Be sure to look at the '**Tax Return Instructions**' tab in this Excel file. It gives instructions on reporting your total Peace Corps income on the tax forms.

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7. Can I prepare my return without a Substitute W-2?

If you use TurboTax (part of the [IRS Free File program](#)) and follow [these instructions](#), you can skip the Substitute W-2.

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8. Which tax form should I use – 1040EZ, 1040A, or the 1040?

You may use any of these forms to report Peace Corps income.

In addition to these forms, you should also prepare [IRS Form 4852, Substitute W-2](#). Not all of your Peace Corps income is reported on your W-2. In order to report it correctly on the tax return, you should use the Substitute W-2 as a replacement for the W-2s you received. The Substitute W-2 takes the total of your W-2 wages and adds your pre-service training, living, and leave allowances.

We have a tool to help you calculate your taxable allowances and complete the Substitute W-2. Find it [here](#). Be sure to look at the '**Tax Return Instructions**' tab in this Excel file. It gives instructions on reporting your total Peace Corps income on the tax forms.

If you use TurboTax (part of the [IRS Free File program](#)) and follow [these instructions](#), you can skip the Substitute W-2.

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9. How can I file my tax return?

There are many ways to file.

Paper—Get the forms from your AO, your local library, or www.irs.gov. Fill them out and mail them in according to the instructions for that form.

Free e-file—Try the [IRS Free File program](#). You can e-file for free using a variety of tax software or IRS online forms that can be filled in and e-filed.

Tax software—Many volunteers use products like TurboTax and TaxCut to prepare their taxes. Many of these programs are available through the Free File program. Consult with your tax advisor for advice on using tax software.

Free tax prep clinics—The IRS supports the VITA program (Volunteer Income Tax Assistance). This program provides free tax preparation services to low-income taxpayers all across America. To find a site near you, call 1-800-TAX-1040.

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10. How do I sign my return electronically?

To file your return electronically you must sign the return electronically using a personal identification number (PIN).

If you are filing online using software, you must use a Self Select PIN. The Self Select PIN method allows you to create your own PIN. If you are married filing jointly, both you and your spouse will each need to create a PIN and enter these PINs as your electronic signature.

A PIN is any combination of five digits you choose except five zeros. If you use a PIN, there is nothing to sign, and nothing to mail, not even your W-2s.

To verify your identity, you will be prompted to **enter your adjusted gross income (AGI) from your originally filed 2009 federal income tax return**, if applicable. Do not use your AGI from an amended return (Form 1040X) or a math error correction made by IRS.

AGI is the amount shown on your 2009 Form 1040, line 38; Form 1040A, line 22; or Form 1040EZ, line 4. If you did not file a 2009 return, enter \$0.

If you do not have your 2009 income tax return, call the IRS at 1-800-829-1040 to get a free transcript of your return. (If you filed electronically last year, you may use your prior year PIN to verify your identity instead of your prior year AGI. The prior year PIN is the five-digit PIN you used to electronically sign your 2009 return.) You will also be prompted to enter your date of birth (DOB). Make sure your DOB is accurate and matches the information on record with the Social Security Administration by checking your annual social security statement.

See more from the IRS on the [Self-Select PIN](#).

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11. Can my Power of Attorney sign my return for me?

Any unsigned return will be immediately rejected by the IRS.

The IRS has a form for power of attorney relating to filing your income tax return. [Form 2848](#) and [instructions](#) are available on the IRS website.

This may not solve your problem easily as the person giving the power of attorney needs to sign that form.

You may be able to prepare the Volunteer's return and have the Volunteer sign electronically.

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12. Can my Privacy Act Waiver designee sign my return for me?

The Privacy Act Wavier form you may have signed is not a power of attorney.

It is simply a document that informs Peace Corps that you are willing to let us release financial information to your designee.

A Privacy Act Waiver designee has no standing with the IRS and will not be recognized as a power of attorney.

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13. When should I pay any taxes I owe?

Pay any taxes by your filing date, April 18, 2011, or June 15, 2011 if you are living outside the US.

Filing for an extension gives you an extension of time to file, not an extension of time to pay.

Failure to pay by the due date makes you subject to penalties and interest.

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14. I have to pay taxes. How can the Peace Corps help?

If you have a tax debt, a payment can be made from your readjustment allowance. Up to 50% of your readjustment balance is available to make a one-time payment. Contact your Administrative Officer to set up this payment.

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PEACE CORPS INCOME

15. What is my Peace Corps income?

There are several types of Peace Corps allowances. Not all Peace Corps Volunteers will have all of these types of income. Peace Corps income includes:

Re-adjustment allowance: All PCVs earned \$225/month through March 31, 2010 and \$275/month from April 1, 2010 through current. Volunteers on a service extension or serving in Peace Corps Response earned \$375/month from April 1, 2010 through current.

Pre-Service Training Walk-Around Money: The money you received during PST to cover small expenses.

Living Allowance: Money to provide for a PCV's basic needs in their country of service

Leave Allowance: All PCVs earn \$24/month for leave. It is paid with your living allowance.

Special Leave Allowance: \$12/day for up to 30 days paid to PCVs who extend their service for a year

Per diems: Money paid to PCVs while away from site (ISTs, conferences, etc.)

Evacuation Allowance: Money paid to a PCV during a time of country evacuation

Medical Leave Allowance: Money given to a PCV on medical leave out of country

Please note that per diems (staging, in-service training, volunteer conference, evacuation, medical, etc), evacuation, medical leave, and settling-in allowance are NOT taxable and do not need to be reported on your tax return.

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16. Is my Peace Corps Income Taxable?

Some Peace Corps income is fully taxable; some is partially taxable; some is not taxable. Some income is subject to FICA taxes (Social Security & Medicare taxes). **Not all of your Peace Corps income is reported on your W-2.**

See the table for more information.

| Peace Corps Income | Income Tax | FICA Taxes | On W-2? | 1040-EZ Line | 1040/1040A Line |
|----------------------------|--------------------------|---------------------|------------|--------------|-----------------|
| Re-adjustment Allowance | 100% Taxable | 100% Taxable | Yes | 1 | 7 |
| PST Walk-Around Money | 100% Taxable | Not taxable | No | 1 | 7 |
| Living Allowance | Partially Taxable | Not taxable | No | 1 | 7 |
| Leave Allowance | 100% Taxable | Not taxable | No | 1 | 7 |
| Special Leave Allowance * | 100% Taxable | Not taxable | No | 1 | 7 |
| Untaxed Allowances | | | | | |
| Per Diems | Not Taxable | Not Taxable | No | n/a | n/a |
| Settling-in allowance | Not Taxable | Not Taxable | No | n/a | n/a |
| Evacuation Allowance | Not Taxable | Not taxable | No | n/a | n/a |
| Medical Leave Allowance ** | Not Taxable | Not taxable | No | n/a | n/a |

* \$12 per day for up to 30 days paid to volunteers who extend service for 1 year.

** Allowance paid while Volunteers are on medical leave in or out of their country of service

Please note that per diems (staging, in-service training, volunteer conference, evacuation, medical, etc), evacuation, medical leave, and settling-in allowance are NOT taxable and do not need to be reported on your tax return.

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17. How do I calculate my taxable allowances?

Since not all of your Peace Corps income is reported on your W-2, you will need to calculate your taxable pre-service, living, and leave allowances

Peace Corps has created a taxable allowances calculator. Find it [here](#). To complete the calculation, you will need to know a Volunteer's 2010 dates of service. Some countries have more than one living allowance rate, usually due to cost of living differences in the city and countryside. If you are calculating these allowances for a Volunteer, ask the volunteer which rate is appropriate for them. If you are a Volunteer, consult your Administrative Officer to find this information.

To calculate your allowances, follow the instructions on the '**Allowances Instructions**' tab. There are several completed calculations as examples in the Excel file e.g. new Volunteer, full-year Volunteer, finishing Volunteer.

Be sure to look at the '**Tax Return Instructions**' tab in the Excel file. It gives instructions on reporting your total Peace Corps income on the tax forms.

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18. I don't know my dates of service. How can I find that information?

To complete the taxable allowances calculation, you only need to know your dates of service in 2010. If you started in 2009 and served all of 2010, your dates of service are Jan 01 – Dec 31. If you started service in 2010, you only need to know roughly when you began. The [taxable allowances calculator](#) will have the dates for every pre-service training group in the year. Simply select your PST group and you will have the correct start date.

If you still need help,

Email taxhelp@peacecorps.gov with your name, country of service, and the years that you served.

Call us toll-free at 1-800-424-8580, option 2, option 1, ext. 1229. You can also call 202-692-1229 (long distance rates apply).

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19. I got \$5,600 in readjustment allowance. How do I report that on tax return?

The readjustment allowance amount you received at the end of your service does not need to be reported on your tax return. It has already been on your W-2 during your years of service. It was reported as you earned it.

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20. I received some money while I was receiving medical care. Is this taxable?

Any money you received from Peace Corps in your country of service or in the US is not taxable and does not need to be reported on your tax return.

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21. How do I enter my Peace Corps income on my tax return?

All taxable Peace Corps income, whether reported on your W-2 or calculated based on your allowances, should be reported on the wages line.

This is line 1 of the 1040-EZ or line 7 of the 1040A or 1040.

Non-taxable amounts are not reported on the tax forms. They are reported on the FAFSA as untaxed income if you are completing that form in order to qualify for financial aid.

Volunteers should complete a Substitute W-2 so that all of their taxable income is correctly reflected in the tax return. The [taxable allowances calculator](#) gives full instructions on completing this form. Do not use both the Substitute W-2 and your Peace Corps W-2. The completed Substitute W-2 replaces your Peace Corps W-2.

[Form 4852](#) and its instructions are available on the IRS website.

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22. I took cash in lieu of a plane ticket home. Is that taxable?

No, it is not taxable and will not show up anywhere on your tax return.

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W-2 ISSUES

23. What's on my W-2?

Your W-2 shows the readjustment allowance you earned during the year. All PCVs earned \$225/month through March 31, 2010 and \$275/month from April 1, 2010 through current. Volunteers on a service extension or serving in Peace Corps Response earned \$375/month from April 1, 2010 through current.

The Peace Corps tax year is December 1 through November 30. Your W-2 reflects this time period. For example, a volunteer serving ending service in May would show five full months of readjustment allowance (December – April) plus a partial allowance for the days of service in May.

The W-2 shows the amount of readjustment allowance you earned in the year, income tax withheld (\$0), Social Security taxes paid (6.20%) and Medicare taxes paid (1.45%).

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24. Why isn't all of my Peace Corps income on my W-2?

Peace Corps makes a monthly accrual of readjustment allowance for every Volunteer. This is the amount on your W-2. A Volunteer's other allowances are paid by the post. In the past, it was difficult to coordinate these records between headquarters and Peace Corps posts around the world. Since headquarters does not have a complete record of living and leave allowances paid to each Volunteer, we cannot include this information on the W-2.

Peace Corps has launched a program to improve the integration of accounting systems between the 74 Peace Corps posts and headquarters. As a result of this integration, all taxable Volunteer income will appear on the W-2 in the future.

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25. When will I get my W-2?

W-2s are mailed in late January. You should have yours by mid-February at the latest.

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26. Will I get a 2nd W-2 for my living allowance?

No. Volunteers only receive one W-2. It shows the amount of readjustment allowance earned. Taxable living and leave allowances must be calculated by the volunteer and reported on the tax return.

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27. Will I get a 2nd W-2 for my readjustment allowance?

No. The W-2 you received shows your readjustment allowance earned during the year. The amount you actually received is not reported on a W-2 since it has already been reported on your W-2s during the course of your service.

The W-2 your received does not show your living allowance. The amount may appear similar to the amount you received in-country as a volunteer, but it is not the amount of your living allowance. That amount must be calculated by the volunteer and entered on the tax return.

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28. I didn't get my W-2. What should I do?

If you have not received your W-2 by mid-February, contact Peace Corps.

If you are an active PCV, contact your Administrative Officer to see if they have been delivered to your country.

If you are an RPCV, write to taxhelp@peacecorps.gov with your name, country of service and address. W-2s can be sent to your home of record, current address, or Privacy Act Waiver designee.

Privacy Act Waiver designees can write to taxhelp@peacecorps.gov to request a W-2. Include the volunteer's name and country of service.

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29. My W-2 was damaged. What should I do?

If you are an RPCV, write to taxhelp@peacecorps.gov with your name, country of service and address. W-2s can be sent to your home of record, current address, or Privacy Act Waiver designee.

Privacy Act Waiver designees can write to taxhelp@peacecorps.gov to request a W-2. Include the volunteer's name and country of service.

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30. I lost my W-2. What should I do?

If you are an RPCV, write to taxhelp@peacecorps.gov with your name, country of service and address. W-2s can be sent to your home of record, current address, or Privacy Act Waiver designee.

Privacy Act Waiver designees can write to taxhelp@peacecorps.gov to request a W-2. Include the volunteer's name and country of service.

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31. My W-2 was sent to my old address. What should I do?

If you are an RPCV, write to taxhelp@peacecorps.gov with your name, country of service and address. W-2s can be sent to your home of record, current address, or Privacy Act Waiver designee. Please note that this will not update your address in the Peace Corps system. To update your address, go to: www.peacecorps.gov/rpcv/info

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32. My W-2 has an error. What should I do?

If your name or Social Security number is incorrect on your Peace Corps W-2, cross out the error and write in the correction. You can still submit the W-2 with a marked correction to the IRS; you do not need a new W-2 issued by Peace Corps.

You may not correct any dollar amounts on your W-2.

If you feel the readjustment allowance amount listed on our W-2 is incorrect, please immediately contact Peace Corps' Volunteer and PSC Financial Services at taxhelp@peacecorps.gov to allow us to investigate and reissue, if needed.

If you do have a change to your name or Social Security number, also contact Peace Corps at the above number so we may make the correction to our records.

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33. My Close of Service in December 2009. Why did I get a 2010 W-2?

The Peace Corps tax year runs from December 1 – November 30. Volunteers who COS in December are considered to be in the following tax year. That's why you received a 2010 W-2 even though you actually served in 2009.

Include the information from your 2010 W-2 in your 2010 tax return. You do not need to include any information about taxable allowances in your 2010 return.

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34. What is Peace Corps' Employer Identification Number (EIN) and address?

- Employer EIN: 53-0261522
- Address: Peace Corps 1111 20th Street NW Washington DC 20526

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TAX BENEFITS

35. Am I eligible for the Earned Income Credit?

The EIC has several tests. You must meet all the tests to qualify. The test that is most difficult for PCVs to meet is that you must have been physically present in the United States for more than half the year. Just maintaining a home in the US does not count as being in the US.

There is a special rule for military which counts overseas service as being in the United States. That rule does not apply to Peace Corps Volunteers.

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36. How much can I contribute to my IRA?

The limit for contributions to an IRA (Roth or Traditional) is the lower of:

- \$5,000 (\$6,000 if 50 or older by December 31), or
- Your taxable compensation for the year

For instance, if your readjustment allowance was \$2,250 and your taxable allowances were \$1300, your maximum IRA contribution is \$3,550.

IRA contributions can be made until April 15 and counted as a contribution for the prior year. If you wish to do this, be sure to specify with your broker that it is a prior year contribution.

Some volunteers choose to convert their existing 401k savings to a Roth IRA while they are serving in Peace Corps. Converting to a Roth IRA requires that you pay income tax on the amount of the conversion. As a volunteer, your income is low and you will pay taxes at a lower rate, making this conversion less costly. Peace Corps offers no advice on this subject. Consult your financial advisor for full information on Roth conversion.

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MISCELLANEOUS

37. I collect Social Security benefits. Will my Peace Corps income affect my benefits?

Earnings Limits and Reduced Benefits

Under federal law, people who are receiving Social Security benefits who have not reached [full retirement age](#) are entitled to receive all of their benefits as long as their earnings are under the certain limits. For people born in 1943, the full retirement age is 66. The full retirement age will increase gradually each year until it reaches age 67 for people born in 1960 or later. See the full Social Security Administration article [here](#)

Taxable Social Security Benefits

Social Security benefits are generally not taxable. Above over certain limits -- \$25,000 (\$32,000 for married couples), your benefits may become partly or fully taxable. For a quick test, add ½ of your Social Security benefits and all your other income. If the total is higher than the limit, some of your benefits may be taxable. See [this article](#) for more information.

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38. I'm a Massachusetts resident. What goes on the Massachusetts Schedule HC?

If you are an *active* Peace Corps Volunteer, use this information on Schedule HC:

- Name of insurance company or administrator: Seven Corners for Peace Corps
- FID number of insurance co. or administrator: 35-2025404
- Subscriber Number: Your Peace Corps Volunteer ID number

If you are a *Returned* Peace Corps Volunteer and have CorpsCare insurance, use this info:

- Name of insurance company or administrator: MultiNational Underwriters
- FID number of insurance co. or administrator: 20-3384567
- Subscriber Number: Your Peace Corps Volunteer ID number

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39. How do I change my address with Peace Corps?

Active Volunteers – Contact your Administrative Officer with your new address.

RPCVs – Go to www.peacecorps.gov/rpcv/info

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40. Who can I contact at Peace Corps with tax questions?

We are unable to provide tax guidance beyond issues relating to your Peace Corps service. If you need additional tax information not addressed in this guide, please contact a tax professional.

If you have specific questions related to your Peace Corps wages and taxes, please contact Volunteer & PSC Financial Services

Email us at: taxhelp@peacecorps.gov

Call us toll-free at 1-800-424-8580, option 2, option 1, ext. 1229.

You can also call 202-692-1229 (long distance rates apply).

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