

The Income Tax Return

This self-study course discusses important tax changes for 2023 tax returns and basic information on the tax system. It also discusses the requirements for filing a tax return and which filing status to choose. Though this basic tax course does not require any prerequisites, its recommended target audience is for existing Enrolled Agents, however anyone may take this course. This course provides 2 CE credits in the IRS Federal Tax Law category.

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NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice

Introduction

Chapter Objective

After completing this chapter, you should be able to:

- Recall important tax changes to be used for 2023 tax returns.

Note

Many of the changes/provisions affecting 2023 are from the Tax Cuts and Jobs Act of 2017 (TCJA) and the usual inflation adjustments. Subsequent to the TCJA, the SECURE Act of 2019, the American Rescue Plan Act, the Further Consolidated Appropriations Act of 2021, the Inflation Reduction Act, and the SECURE Act 2.0 were passed and include key provisions that continue to affect taxes in 2023. These changes are summarized here and also noted throughout the course.

This course is a general overview of federal income tax laws for individuals filing 2023 tax returns. The course begins with the rules for filing a tax return. The course explains who must file a return, which tax forms to use, when the return is due, and other general information. It will help identify which filing status your clients qualify for and whether the income they are receiving is taxable. The course goes on to explain the standard deduction, the kinds of expenses they may be able to deduct, and the various kinds of credits they may be able to take to reduce their tax.

Throughout the course are examples showing how the tax law applies in typical situations. Sample forms and schedules show how to report certain items on tax returns. Also, throughout the course are flowcharts and tables that present tax information in an easy-to-understand manner.

We start with a section on important tax changes.

I. Important Tax Changes/Provisions For 2023

- **Individual tax rates are set at 0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**
- **Increase of the standard deduction** to \$13,850 and \$27,700 for individuals and married couples filing jointly, respectively (2023).

Elderly and/or blind taxpayers receive an additional standard deduction amount added to the basic standard deduction. The additional standard deduction for a blind taxpayer—a taxpayer whose vision is less than 20/200—and for a taxpayer who is age 65 or older at the end of the year is:

- \$1,500 for married individuals; and
- \$1,850 for singles and heads of household.

The additional standard deduction for taxpayers who are both age 65 or older at yearend and blind is double the additional amount for a taxpayer who is blind (but not age 65 or older) or age 65 (but not blind). For example, a 65 year-old single blind taxpayer would add \$3,700 to his or her usual standard deduction: \$1,850 for being age 65 plus \$1,850 for being blind ($\$1,850 \times 2 = \$3,700$). Thus, his or her standard deduction would be \$17,550 ($\$13,850 + \$3,700 = \$17,550$).

- **Personal exemptions are eliminated for 2018-2025.**
- **Write off of state and local taxes are restricted to \$10,000.**
- **Many itemized deductions are eliminated.** The tax law eliminates itemized deductions for:
 - Unreimbursed employee expenses, such as mileage (previously deductible to the extent they exceeded 2% of adjusted gross income)
 - Tax preparation expenses
 - Alimony payments (see details)

- Investment expenses
- Miscellaneous itemized deductions
- Moving expenses to move to a new job, and
- Personal casualty losses (except for losses associated with special disaster relief legislation).
- **Charitable contributions.** People who itemize are allowed to deduct cash contributions up to 60% of their adjusted gross income, instead of 50% under prior law.
- **The mortgage interest deduction.**
 - For all homeowners with existing mortgages at 12/17/2017 that were taken out to buy a home, there is no change to the prior mortgage interest deduction.
 - For homeowners with new mortgages after 12/17/2017 on a first or second home, the home mortgage interest deduction is available for up to \$750,000 of mortgage debt.
- **Medical bills.** Medical expenses can be deducted in 2023 for medical expenses exceeding 7.5 percent of adjusted gross income.
- **Alimony - Post 2018 Divorce Agreements.** Under the tax code before TCJA passage, alimony (but not child support) was deductible by the payer and included in the income of the recipient for tax purposes. Under the TCJA, that tax treatment continues only for alimony payments made pursuant to a divorce or separation agreement entered into on or before December 31, 2018. However, under TCJA, §11051 as of January 1, 2019, alimony payments are no longer tax deductible to the payer or includible in the income of the recipient if made under:
 - a) A divorce or separation agreement entered into after December 31, 2018; or
 - b) A divorce or separation agreement entered into on or before December 31, 2018 but modified after that date if the modified agreement specifically provides that the provisions of the Tax Cuts and Jobs Act of 2017 will apply.

Alimony payments made under a divorce or separation agreement entered into on or before December 31, 2018 but paid after that date—with the exception of such payments made under a modified agreement described in b) above—will continue to be tax deductible to the payer and includible in the income of the recipient.

- **Adjusted estate taxes.** Estates worth up to \$12.92 million per person are exempt from the federal estate tax in 2023. This means that married couples with estates worth up to \$25.84 million will not be affected by the federal estate tax. These numbers are increased for inflation each year.
- **The corporate tax rate was lowered to 21% (beginning January 1, 2018).**
- **Section 199A. 20% tax deduction that applies to the first \$364,200 (2023) of joint income** earned by all businesses organized as S corporations, partnerships, LLCs, and sole proprietorships.
- **Rental Real Estate Safe Harbor for § 199A.** As discussed in Notice 2019-07, a safe harbor is available to individuals and owners of pass through entities. Under the safe harbor, a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Taxpayers may still treat rental real estate that does not meet the requirements of the safe harbor as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business. Solely for the purposes of section 199A, a rental real estate enterprise will be treated as a trade or business if the following requirements are satisfied during the taxable year with respect to the rental real estate enterprise:
 - (A) Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise;
 - (B) For taxable years beginning prior to January 1, 2023, 250 or more hours of rental services are performed per year with respect to the rental enterprise. For taxable years beginning after December 31, 2022, in any three of the five consecutive taxable years that end with the taxable year (or in each year for an enterprise held for less than five years), 250 or

more hours of rental services are performed per year with respect to the rental real estate enterprise; and

- (C) The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding –
- (i) hours of all services performed;
 - (ii) description of all services performed;
 - (iii) dates on which such services were performed; and
 - (iv) who performed the services.

The records must be made available for inspection at the request of the IRS. The contemporaneous records requirement did not apply to taxable years beginning prior to January 1, 2019.

- **Increase to Section 179 expensing.** The Section 179 maximum annual deduction limit is increased to \$1,160,000, and increases the phase-out threshold to \$2,890,000 in tax year 2023.
- **Decrease of bonus depreciation percentage.** Decreases to 80% the first-year bonus depreciation percentage (from the prior 100% rate) for long-term assets placed in service in 2023. Bonus depreciation is allowed to be used for purchases of used property, as well as new property.
- **Computers are no longer listed property.** Computers are not classified as listed property in tax year 2023.
- **Elimination of entertainment and meals deduction.** Deductions for entertainment expenses are eliminated for tax year 2023. Businesses may still deduct 50% of the cost of food consumed by employees during work or travel.

Note

IRS Notice 2018-76, issued in October 2018, indicates that meals provided during an entertainment event fall under the meals deduction limit, and are not considered to be entertainment expenses.

- **Increase of business vehicle depreciation limits for 2023.** The allowable depreciation limits for certain passenger automobiles are increased to: \$12,200 for the first year in which the vehicle was placed in service, \$19,500 for the second year, \$11,700 for the third year, and \$6,960 for the fourth and later years in the recovery period.
If a taxpayer claims 80% bonus depreciation, the greatest allowable passenger automobile depreciation is:
 - \$20,200 for the first year;
 - \$19,500 for the second year;
 - \$11,700 for the third year; and
 - \$6,960 for each later taxable year in the recovery period.
- **Business use of a taxpayer's personal vehicle.** Taxpayers may no longer deduct unreimbursed employee expenses—including unreimbursed expenses related to business use of a personal vehicle—as “miscellaneous itemized deductions” to the extent the total of such expenses exceeds 2% of his or her AGI.
However, the 2023 alternative standard mileage rate applicable to eligible business use of a vehicle is 65.5 cents per mile.
- **Use of a personal vehicle for charitable purposes remains at 14 cents per mile.**
- **Use of a taxpayer's personal vehicle to move.** Many taxpayers change their residence each year, and many of those taxpayer relocations involve new jobs. Prior law permitted a taxpayer to deduct moving expenses by car, provided the new location was at least 50 miles farther from the taxpayer's former home than the former main job location. The moving expense deduction has been suspended and has made the moving expense reimbursement taxable income.

- **Alternative minimum tax exemption amount increased.** The tax code provides for an AMTI exemption for purposes of determining the alternative minimum tax amount. The amount of the AMTI exemption varies according to the taxpayer’s filing status and the tax year. The applicable AMTI exemption amounts for 2023 are as follows:

Filing Status	Phaseout of Exemption Amount	Alternative Minimum Taxable Income Exemption*
Single or Head of Household	\$578,150	\$81,300
Married Filing Jointly & Qualifying Surviving Spouse	\$1,156,300	\$126,500
Married Filing Separately	\$578,150	\$63,250

*The AMTI exemption amounts are indexed for inflation.

The AMTI exemption amount is reduced (but not below zero) by 25 percent of the amount by which the taxpayer’s alternative minimum taxable income exceeds:

- \$1,156,300 for taxpayers whose filing status is “married filing jointly” or “qualifying surviving spouse”; and
- \$578,150 for taxpayers whose filing status is “single,” “head of household,” and “married filing separately.”
- **Limitation on itemized deductions.** The TCJA suspended the phase-out of itemized deductions for 2018 through 2025. Accordingly, itemized deductions are unlimited regardless of the taxpayer’s income.
- **Maximum capital gain/dividend tax rate.** High-income taxpayers are subject to higher capital gain and qualified dividend tax rates. For tax years beginning in 2023, the longterm capital gain and qualified dividend tax rate is 20% for married taxpayers filing jointly whose taxable income exceeds \$553,850 and for singles whose taxable income exceeds \$492,300. For taxpayers in lower income tax brackets:
 - The 0% rate applies to –
 - Single filers with income up to \$44,625,
 - Joint filers with income up to \$89,250; and
 - The 15% rate applies to –
 - Single filers with income between \$44,625 and \$492,300, and
 - Joint filers with income between \$89,250 and \$553,850.

II. Summary Of The Tax Cuts And Jobs Act Of 2017

The Tax Cuts and Jobs Act of 2017 (the Act)—legislation generally effective for years beginning after 12/31/17 and before 1/1/26—made changes to both individual and corporate taxation. The more significant tax changes impacting individual tax preparation and planning made by the Act include:

- Revising individual tax rates downward;
- Eliminating personal exemptions;
- Increasing the AMT exemption and the income at which AMT exemption phaseout occurs;
- Increasing the standard deduction;
- Limiting the deduction for state and local taxes;
- Reducing the mortgage debt on which mortgage interest is deductible;
- Eliminating the equity debt interest deduction except for interest on loans used to buy, build or substantially improve the home that secures the loan;
- Increasing the limit on the deductibility of charitable cash contributions;

- Eliminating miscellaneous itemized deductions subject to 2% of AGI limit;
- Eliminating the moving expense deduction/exclusion for other than military;
- Eliminating the deduction for alimony payments made and the inclusion in income of alimony payments received for agreements after 12/31/2018;
- Eliminating the phaseout of itemized deductions for higher income taxpayers;
- Increasing the Child Tax Credit and making part of the credit refundable;
- Broadening the definition of eligible education expenses under §529 College Savings
- Plans to include limited annual tax-free distributions for elementary and secondary school tuition;
- Eliminating the recharacterization of traditional-to-Roth IRA conversions;
- Eliminating the individual mandate penalty for failing to maintain health coverage beginning in 2019; and
- Increasing the estate and gift tax exemption.

III. Secure Act Of 2019

The SECURE Act of 2019 was signed into law on December 20, 2019. Key provisions of the Act include the following:

- Removes the maximum age limits on retired contributions, formerly capped at age 70½.
- Raises the required minimum distribution age from 70½ to 72. However, the age for RMDs was raised again to 73 by the SECURE Act 2.0, discussed later.
- Allows penalty-free withdrawals of up to \$5,000 from retirement plans for the birth or adoption of a child.

IV. Summary Of The Further Consolidated Appropriations Act Of 2021

The Further Consolidated Appropriations Act of 2021 was signed into law on December 27, 2020. Included below are some of the most important tax changes, extenders, and other provisions signed into law and extended through the end of 2023 and in some situations, even later:

- Makes the 7.5% of AGI limitation for the medical expense deduction permanent for all tax years beginning after December 31, 2020.
- Eliminated the tuition and fees deduction.
- Increased the modified AGI limitation for the lifetime learning credit to equal that of the American opportunity credit for tax years beginning after December 31, 2020. Phase-out ranges for both credits are \$160,000 to \$180,000 for married filing joint, and \$80,000 to \$90,000 for all other taxpayers.
- Extended the cancellation of qualified principal residence indebtedness exclusion from gross income through the end of 2025.
- Extended the residential energy efficient property credit through the end of 2023.

V. Summary Of The American Rescue Plan Act Of 2021

The American Rescue Plan Act of 2021 was signed into law on March 11, 2021. Included below are some of the most important tax changes, extenders, and other provisions signed into law and extended through the end of 2022:

- Temporarily increased the maximum exclusion for the dependent care assistance program to \$10,500 (from \$5,000) for 2021, but reverts to \$5,000 for 2022 and 2023.

- For 2021 through 2025, any discharge of student loan debt for any reason may be excluded from taxable income, as long as there is no provision for the student to provide services to the discharging lender.
- The premium tax credit (PTC) is a refundable credit designed to subsidize the purchase of health insurance through an exchange. The PTC is based on a sliding scale. The PTC amount is determined based on the percentage of income the cost of premiums represents. For tax years 2021 and 2022, an individual with household income at 300% of the federal poverty line (FPL) pays 6% of his or her household income for the cost of health insurance after receiving the credit. These percentages are indexed to the excess of premium growth over income growth for the preceding calendar year.

The reduction of the percentage amounts under the ARP applied for tax years beginning in 2021 and 2022. For 2023, the percentages reverted to the 2020 amounts as adjusted for inflation.

VI. Inflation Reduction Act

The Inflation Reduction Act was signed into law on August 16, 2022 and provides tax credits for energy efficient home improvements and the purchase of electric vehicles, which took effect in 2023.

VII. Secure Act 2.0

The SECURE Act 2.0 was signed into law on December 29, 2022. The Act builds on the SECURE Act of 2019. The three goals of the Act are to increase individual retirement savings, simplify and clarify the retirement plan rules, and lower the employer cost of setting up a retirement plan.

Key provisions of the Act that impact 2023 include the following:

- Increases the age for required minimum distributions for retirement plans from 72 to 73. Individuals who had not reached the age of 72 prior to January 1, 2023 are not required to take RMDs until April 1, 2025.
- Reduces the penalty for failure to take required minimum distributions from 50% to 25%. Further, if a failure to take a required minimum distribution from an IRA is corrected in a timely manner (within 2 years) the penalty is further reduced from 25% to 10%.

INTRODUCTION: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. What is the highest individual tax rate in 2023:

- 21%
- 25%
- 37%
- 39.5%

2. Which of the following deductions have been eliminated:

- miscellaneous itemized deductions
- personal casualty losses

- C. moving expenses to move to a new job
- D. all of the above

3. For 2023, what medical expenses can be deducted:

- A. none
- B. those greater than 7.5% of the taxpayer's adjusted gross income
- C. those greater than 10% of the taxpayer's adjusted gross income
- D. 100%

INTRODUCTION: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

- A. Incorrect. Twenty-one percent is the maximum tax rate for corporations.
- B. Incorrect. The highest rate is greater than 25%.
- C. **CORRECT**. The TCJA reduced the top rate down to 37%.
- D. Incorrect. The top rate in 2017 was 39.5%, but this was lowered by the TCJA.

2.

- A. Incorrect. The TCJA eliminated several itemized deductions, including miscellaneous itemized deductions. However, this is not the best answer.
- B. Incorrect. Personal casualty loss deductions, other than those associated with special disaster relief legislation, have been eliminated by the TCJA, but this is not the best answer.
- C. Incorrect. The deduction for moving expenses to a new job for most employees has been eliminated by the TCJA, but this is not the best answer.
- D. **CORRECT**. All of the responses are included in the list of deductions that were eliminated by the TCJA.

3.

- A. Incorrect. Medical expenses are still at least partly deductible.
- B. **CORRECT**. For 2023, medical expenses that exceed 7.5% of a taxpayer's adjusted gross income can be deducted.
- C. Incorrect. Beginning with the year 2021, the limit on deductible medical expenses was permanently adjusted by the Further Consolidated Appropriations Act of 2021 to those expenses greater than 7.5% of the taxpayer's adjusted gross income.
- D. Incorrect. Not all of medical expenses incurred are deductible.

PART ONE: THE INCOME TAX RETURN

The four chapters in this part provide basic information on the tax system.

Chapter 1: Filing Information

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the length of the automatic extension provided by filing Form 4868.

I. Important Reminders

Who must file. Generally, the amount of income you can receive before you must file a return has been increased. See Table 1-1 for the specific amounts.

Installment agreement. If you cannot pay the full amount due with your return, you may ask to make monthly installment payments.

Automatic 6-month extension. Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, provides for an automatic 6-month extension. When you file Form 4868, you will get an automatic extension to file for 6 months.

Service in combat zone. You are allowed extra time to take care of your tax matters if you are a member of the Armed Forces who served in a combat zone, or if you served in the combat zone in support of the Armed Forces.

Adoption taxpayer identification number. If a child has been placed in your home for purposes of legal adoption and you will not be able to get a social security number for the child in time to file your return, you may be able to get an adoption taxpayer identification number (ATIN).

Taxpayer identification number for aliens. If you or your dependent is a nonresident or resident alien who does not have and is not eligible to get a social security number, file Form W-7 with the IRS to apply for an Individual Taxpayer Identification Number (ITIN).

II. Introduction

Table 1-1 summarizes the key filing requirements.

TABLE 1-1. 2023 FILING REQUIREMENTS FOR MOST TAXPAYERS

IF your filing status is...	AND at the end of 2023 you were...*	THEN file a return if your gross income was at least...**
single	under 65	\$13,850
	65 or older	\$15,700
married filing jointly***	under 65 (both spouses)	\$27,700
	65 or older (one spouse)	\$29,200
	65 or older (both spouses)	\$30,700
married filing separately	any age	\$5
head of household	under 65	\$20,800
	65 or older	\$22,650
qualifying widow(er) with dependent child	under 65	\$27,700
	65 or older	\$29,200

* If you were born on January 1, 1959, you are considered to be age 65 at the end of 2023.

** Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States (even if you may exclude part or all of it). Do not include social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time during 2023, or (b) one-half of your social security benefits plus your other gross income is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b)

applies, see the Instructions for Form 1040 to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, do not reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

**** If you did not live with your spouse at the end of 2023 (or on the date your spouse died) and your gross income was at least \$5, you must file a return regardless of your age.*

CERTAIN CHILDREN UNDER AGE 19 OR FULL-TIME STUDENTS

If a child's only income is interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends), the child was under age 19 at the end of 2023 or was a full-time student under age 24 at the end of 2023, and certain other conditions are met, a parent can elect to include the child's income on the parent's return. If this election is made, the child does not have to file a return.

CHAPTER 1: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. If your filing status is married filing jointly, and at the end of 2023 both you and your spouse were under age 65, then you need to file a return if your gross income was at least how much:

- A. \$13,850
- B. \$27,700
- C. \$29,200
- D. \$30,700

CHAPTER 1: SOLUTION AND SUGGESTED RESPONSES

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.

- A. Incorrect. If your filing status is single, and at the end of 2023 you were under 65, then you need to file a return if your gross income was at least \$13,850.
- B. **CORRECT**. If your filing status is married filing jointly, and at the end of 2023 both spouses were under 65, then you need to file a return if your gross income was at least \$27,700.
- C. Incorrect. If your filing status is married filing jointly, and at the end of 2023 one spouse was 65 or older, then you need to file a return if your gross income was at least \$29,200.
- D. Incorrect. If your filing status is married filing jointly, and at the end of 2023 both spouses were 65 or older, then you need to file a return if your gross income was at least \$30,700.

Chapter 2: Filing Status

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the various filing statuses and who is eligible to use them.

I. Introduction

This chapter helps you determine which filing status to use. There are five filing statuses:

- Single,
- Married Filing Jointly,
- Married Filing Separately,
- Head of Household, and
- Qualifying Surviving Spouse.

Tip

If more than one filing status applies to you, choose the one that will give you the lowest tax.

You must determine your filing status before you can determine your filing requirements (chapter 1), your standard deduction, and your tax. You also use your filing status in determining whether you are eligible to claim certain deductions and credits.

II. Marital Status

In general, your filing status depends on whether you are considered unmarried or married.

Unmarried persons. You are considered unmarried for the whole year if, on the last day of your tax year, you are either unmarried or legally separated from your spouse under a divorce or a separate maintenance decree. State law governs whether you are married or legally separated under a divorce or separate maintenance decree.

Divorced persons. If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year.

Divorce and remarriage. If you obtain a divorce in one year for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intended to and do, in fact, remarry each other in the next tax year, you and your spouse must file as married individuals in both years.

Annulled marriages. If you obtain a court decree of annulment, which holds that no valid marriage ever existed, you are considered unmarried even if you filed joint returns for earlier years. You must file amended returns (Form 1040-X, Amended U.S. Individual Income Tax Return) claiming single or head of household status for all tax years affected by the annulment that are not closed by the statute of limitations for filing a tax return. Generally, for a credit or refund, you must file Form 1040-X within 3 years (including extensions) after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later. If you filed your original return early (for example, March 1), your return is considered filed on the due date (generally April 15). However, if you had an extension to file (for example, until October 15) but you filed earlier and we received it on July 1, your return is considered filed on July 1.

Head of household or qualifying widow(er) with dependent child. If you are considered unmarried, you may be able to file as a head of household or as a qualifying widow(er) with a dependent child. See Head of Household and Qualifying Surviving Spouse with Dependent Child to see if you qualify.

Married persons. If you are considered married for the whole year, you and your spouse can file a joint return, or you can file separate returns.

Considered married. You are considered married for the whole year, if on the last day of your tax year, you and your spouse meet any one of the following tests.

1. You are married and living together.
2. You are living together in a common law marriage that is recognized in the state where you now live or in the state where the common law marriage began.
3. You are married and living apart, but not legally separated under a decree of divorce or separate maintenance.
4. You are separated under an interlocutory (not final) decree of divorce.

Spouse died. If your spouse died during the year, you are considered married for the whole year for filing status purposes. If you did not remarry before the end of the tax year, you can file a joint return for yourself and your deceased spouse. For the next 2 years, you may be entitled to the special benefits described later under Qualifying Surviving Spouse. If you remarried before the end of the tax year, you can file a joint return with your new spouse. Your deceased spouse's filing status is married filing separately for that year.

Married persons living apart. If you live apart from your spouse and meet certain tests, you may be able to file as head of household even though you are not divorced or legally separated. If you qualify to file as head of household instead of as married filing separately, your standard deduction will be higher. Also, your tax may be lower, and you may be able to claim the earned income credit. See Head of Household, later.

III. Single

Your filing status is single if you are considered unmarried and you do not qualify for another filing status. To determine your marital status on the last day of the year, see Marital Status, earlier.

Your filing status may be single if you were widowed before January 1, 2023, and did not remarry in 2023. However, you might be able to use another filing status that will give you a lower tax. See Head of Household and Qualifying Surviving Spouse to see if you qualify.

How to file. On Form 1040 or 1040-SR, check the "Single" box at the top of the form.

IV. Married Filing Jointly

You can choose married filing jointly as your filing status if you are considered married and both you and your spouse agree to file a joint return. On a joint return, you and your spouse report your combined income and deduct your combined allowable expenses. You can file a joint return even if one of you had no income or deductions.

If you and your spouse decide to file a joint return, your tax may be lower than your combined tax for the other filing statuses. Also, your standard deduction (if you do not itemize deductions) may be higher, and you may qualify for tax benefits that do not apply to other filing statuses.

How to file. On Form 1040 or 1040-SR, check the "Married filing jointly" box at the top of the form.

Spouse died during the year. If your spouse died during the year, you are considered married for the whole year and can choose married filing jointly as your filing status. See Spouse died, earlier, for more information.

If your spouse died in 2024 before filing a 2023 return, you can choose married filing jointly as your filing status on your 2023 return.

Divorced persons. If you are divorced under a final decree by the last day of the year, you are considered unmarried for the whole year and you cannot choose married filing jointly as your filing status.

FILING A JOINT RETURN

Both you and your spouse must include all of your income, exemptions, and deductions on your joint return.

Joint responsibility. Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. This means that if one spouse does not pay the tax due, the other may have to. Or, if one spouse does not report the correct tax, both spouses may be responsible for any additional taxes assessed by the IRS. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse.

You may want to file separately if:

- You believe your spouse is not reporting all of his or her income, or
- You do not want to be responsible for any taxes due if your spouse does not have enough tax withheld or does not pay enough estimated tax.

Divorced taxpayer. You may be held jointly and individually responsible for any tax, interest, and penalties due on a joint return filed before your divorce. This responsibility may apply even if your divorce decree states that your former spouse will be responsible for any amounts due on previously filed joint returns.

Relief from joint liability. In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint return for items of the other spouse that were incorrectly reported on the joint return. You can ask for relief no matter how small the liability. There are three types of relief available.

1. Innocent spouse relief.
2. Separation of liability, which is available only to joint filers who are divorced, widowed, legally separated, or have not lived together for the 12 months ending the date election of this relief is filed.
3. Equitable relief.

You must file Form 8857, Request for Innocent Spouse Relief, to request any of these kinds of relief.

Signing a joint return. For a return to be considered a joint return, both spouses must generally sign the return. If your spouse died before signing the return, the executor or administrator must sign the return for your spouse. If neither you nor anyone else has yet been appointed as executor or administrator, you can sign the return for your spouse and enter “filing as surviving spouse” in the area where you sign the return.

Spouse away from home. If your spouse is away from home, you should prepare the return, sign it, and send it to your spouse to sign so that it can be filed on time.

Signing as guardian of spouse. If you are the guardian of your spouse who is mentally incompetent, you can sign the return for your spouse as guardian.

Spouse in combat zone. If your spouse is unable to sign the return because he or she is serving in a combat zone (such as the Persian Gulf Area, Serbia, Montenegro, or Albania), and you do not have a power of attorney or other statement, you can sign for your spouse. Attach a signed statement to your return that explains that your spouse is serving in a combat zone.

Nonresident alien or dual-status alien. A joint return generally cannot be filed if either spouse is a nonresident alien at any time during the tax year. However, if one spouse was a nonresident alien or dual-status alien who was married to a U.S. citizen or resident at the end of the year, the spouses can choose to file a joint return. If you do file a joint return, you and your spouse are both treated as U.S. residents for the entire tax year.

V. Married Filing Separately

You can choose married filing separately as your filing status if you are married. This filing status may benefit you if you want to be responsible only for your own tax or if it results in less tax than filing a joint

return. If you and your spouse do not agree to file a joint return, you must use this filing status, unless you qualify for head of household status.

If you live apart from your spouse and meet certain tests, you may be considered unmarried and may be able to file as head of household. This can apply to you even if you are not divorced or legally separated. If you qualify to file as head of household, instead of as married filing separately, your tax may be lower, you may be able to claim the earned income credit and certain other credits, and your standard deduction will be higher. The head of household filing status allows you to choose the standard deduction even if your spouse chooses to itemize deductions. See Head of Household, later, for more information.

Tip

You will generally pay more combined tax on separate returns than you would on a joint return primarily because the tax rate is higher for married persons filing separately. However, unless you are required to file separately, you should figure your tax both ways (on a joint return and on separate returns). This way you can make sure you are using the filing status that results in the lowest combined tax.

VI. Head Of Household

You may be able to file as head of household if you meet all of the following requirements.

1. You are unmarried or “considered unmarried” on the last day of the year. You are “considered unmarried” on the last day of the year if you meet the following requirements:
 - You file a separate return.
 - You paid more than half the cost of keeping up your home for the tax year.
 - Your spouse did not live in your home during the last 6 months of the tax year. Your spouse is considered to live in your home even if he or she is temporarily absent due to special circumstances.
 - Your home was the main home of your child, stepchild, or foster child for more than half the year.
 - You must be able to claim the child as a dependent. However, you meet this test if you cannot claim the child as a dependent only because the noncustodial parent can claim the child. The general rules for claiming the child as a dependent are explained in chapter 3.
2. You paid more than half the cost of keeping up a home for the year.
3. A qualifying person lived with you in the home for more than half the year (except for temporary absences, such as school). However, if the qualifying person is your dependent parent, he or she does not have to live with you.

Tip

If you qualify to file as head of household, your tax rate usually will be lower than the rates for single or married filing separately. You will also receive a higher standard deduction than if you file as single or married filing separately.

QUALIFYING PERSON

A qualifying person can be either a qualifying child or qualifying relative.

Example - Child

Your unmarried son lived with you all year and was 18 years old at the end of the year. He did not provide more than half of his own support and does not meet the tests to be a qualifying child of anyone else. As

a result, he is your qualifying child (see Table 3-1, Overview of the Rules for a Dependent in chapter 3) and, because he is single, your qualifying person for you to claim head of household filing status.

Home of qualifying person. Generally, the qualifying person must live with you for more than half of the year.

Special rule for parent. If your qualifying person is your father or mother, you may be eligible to file as head of household even if your father or mother does not live with you. However, you must be able to claim your father or mother as a dependent. Also, you must pay more than half the cost of keeping up a home that was the main home for the entire year for your father or mother.

If you pay more than half the cost of keeping your parent in a rest home or home for the elderly, that counts as paying more than half the cost of keeping up your parent's main home.

Temporary absences. You and your qualifying person are considered to live together even if one or both of you are temporarily absent from your home due to special circumstances such as illness, education, business, vacation, military service, or detention in a juvenile facility. It must be reasonable to assume that the absent person will return to the household after the temporary absence. You must continue to keep up the home during the absence.

Death or birth. You may be eligible to file as head of household if the individual who qualifies you for this filing status is born or dies during the year. If the individual is your qualifying child, the child must have lived with you for more than half the part of the year he or she was alive.

VII. Qualifying Surviving Spouse

If your spouse died in 2023, you can use married filing jointly as your filing status for 2023 if you otherwise qualify to use that status. The year of death is the last year for which you can file jointly with your deceased spouse. See Married Filing Jointly, earlier.

You may be eligible to use qualifying surviving spouse with dependent child as your filing status for 2 years following the year of death of your spouse. For example, if your spouse died in 2022, and you have not remarried, you may be able to use this filing status for 2023 and 2024.

This filing status entitles you to use joint return tax rates and the highest standard deduction amount (if you do not itemize deductions). This status does not entitle you to file a joint return.

How to file. On Form 1040 or 1040-SR, check the "Qualifying surviving spouse" box on the top of the form.

Eligibility rules. You are eligible to file your 2023 return as a qualifying surviving spouse if you meet all of the following tests.

1. You were entitled to file a joint return with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return.
2. Your spouse died in 2021 or 2022 and you did not remarry before the end of 2023.
3. You have a child or stepchild (not a foster child) whom you can claim as a dependent or could claim as a dependent except that, for 2023:
 - a) The child had gross income of \$4,700 or more,
 - b) The child filed a joint return, or
 - c) You could be claimed as a dependent on someone else's return.

If the child is not claimed as your dependent in the Dependents section on Form 1040 or 1040-SR, enter the child's name in the entry space at the far right of the filing status checkboxes (next to Qualifying surviving spouse).

4. This child lived in your home all year, except for temporary absences.
5. You paid more than half the cost of keeping up a home for the year.

Example

John's wife died in 2021. John has not remarried. During 2022 and 2023, he continued to keep up a home for himself and his child who lives with him and for whom he can claim as a dependent. For 2021, he was entitled to file a joint return for himself and his deceased wife. For 2022 and 2023, he can file as qualifying surviving spouse. After 2023, he can file as head of household if he qualifies.

Death or birth. You may be eligible to file as a qualifying widow(er) if the child who qualifies you for this filing status is born or dies during the year. You must have provided more than half of the cost of keeping up a home that was the child's main home during the entire part of the year he or she was alive.

Caution!

As mentioned earlier, this filing status is only available for 2 years following the year of death of your spouse.

CHAPTER 2: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. For a tax return to be considered a joint return, both spouses generally must sign the return. Each of the following is a recognized exception allowing a one-party signature except:

- A. signing as a guardian of spouse
- B. spouse in combat zone
- C. spouse is a nonresident alien
- D. if your spouse died before filing the return and an executor or administrator had not been appointed

2. You will generally pay more combined tax on separate tax returns than you would on a joint return.

- A. true
- B. false

3. Generally, a qualifying person must have lived with you for how long in order for you to be able to file as head of household:

- A. more than half of the year
- B. at least one year
- C. 18 months
- D. two consecutive years

CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

- A. Incorrect. Being the guardian of your spouse is a valid situation where one spouse can sign a joint tax return for the other spouse.
- B. Incorrect. If your spouse is serving in a combat zone and you do not have a power of attorney or other statement, you can sign the joint tax return.
- C. **CORRECT**. This is not a recognized exception, as a nonresident alien generally cannot sign a joint tax return.
- D. Incorrect. If your spouse died before signing the return, the executor or administrator must sign the return for your spouse. If neither you nor anyone else has yet been appointed as executor or administrator, you can sign the return for your spouse and enter "filing as surviving spouse" in the area where you sign the return.

2.

- A. **CORRECT**. This is because the tax rate is higher for married persons filing separately.
- B. Incorrect. However, unless you are required to file separately, you should figure your tax both ways, and make sure you are using the filing status that results in the lowest combined tax.

3.

- A. **CORRECT**. Along with other qualifications, you may be able to file as head of household if a qualifying person has lived with you for more than half of the year. If the person is your dependent, however, he or she does not have to live with you.
- B. Incorrect. Generally, the qualifying person only has to live with you for more than half of the year, but not necessarily for the entire year. Be aware there are other requirements that must also be met in order to file as head of household.
- C. Incorrect. In order to file as head of household, a person must live with you for more than half of the year. Be aware there are other requirements that must also be met in order to file as head of household.
- D. Incorrect. Generally, the qualifying person only has to live with you for more than half of the year, not for two consecutive years. Be aware there are other requirements that must also be met in order to file as head of household.

Chapter 3: Dependents

Chapter Objective

After completing this chapter, you should be able to:

- Recall the various requirements for a qualifying relative.

I. Introduction

Exemption amount. The exemptions have been suspended for the years 2018 through 2025 as part of the passage of the TCJA.

II. Dependents

The term “dependent” means:

- A qualifying child, or
- A qualifying relative.

You can claim a qualifying child or qualifying relative as a dependent only if these three tests are met.

1. Dependent taxpayer test.
2. Joint return test.
3. Citizen or resident test.

All the requirements for dependents are summarized in Table 3-1.

TABLE 3-1. OVERVIEW OF THE RULES FOR A DEPENDENT

<ul style="list-style-type: none">• You cannot claim any dependents if you (or your spouse if filing jointly) could be claimed as a dependent by another taxpayer.• You cannot claim a married person who files a joint return as a dependent unless that joint return is filed only to claim a refund of withheld income tax or estimated tax paid.• You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico.¹• You cannot claim a person as a dependent unless that person is your qualifying child or qualifying relative.
--

Tests to Be a Qualifying Child	Tests to Be a Qualifying Relative
1) The child must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsiste, or a descendant of any of them.	1) The person cannot be your qualifying child or the qualifying child of any other taxpayer.
2) The child must be (a) under age 19 at the end of the year and younger than you (or your spouse, if filing jointly), (b) under age 24 at the end of the year, a student, and younger than you (or your spouse, if filing jointly), or (c) any age if permanently and totally disabled.	2) The person either: (a) must be related to you in one of the ways listed under the IRS's Relationship test, or (b) must live with you all year as a member of your household (and your relationship must not violate local law). ²
3) The child must have lived with you for more than half of the year. ²	3) The person's gross income for the year must be less than \$4,700. ³

4) The child must not have provided more than half of his or her own support for the year.	4) You must provide more than half of the person's total support for the year. ⁴
5) The child must not be filing a joint return for the year (unless that return is filed only to get a refund of income tax withheld or estimated tax paid). If the child meets the rules to be a qualifying child of more than one person, only one person can actually treat the child as a qualifying child.	
<p>1. <i>There is an exception for certain adopted children.</i></p> <p>2. <i>There are exceptions for temporary absences, children who were born or died during the year, children of divorced or separated parents (or parents who live apart), and kidnapped children.</i></p> <p>3. <i>There is an exception if the person is disabled and has income from a sheltered workshop.</i></p> <p>4. <i>There are exceptions for multiple support agreements, children of divorced or separated parents (or parents who live apart), and kidnapped children</i></p>	

CHAPTER 3: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. Each of the following is one of the tests that must be met in order to claim an exemption for a qualifying child or qualifying relative as a dependent except:

- A. dependent taxpayer test
- B. joint return test
- C. citizen or resident test
- D. age test

CHAPTER 3: SOLUTIONS AND SUGGESTED RESPONSES

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.
 - A. Incorrect. Under the dependent taxpayer test, the taxpayer cannot claim anyone else as a dependent if he or she can be claimed as a dependent by another person. Even if you have a qualifying child or qualifying relative, you cannot claim that person as a dependent.
 - B. Incorrect. Under the joint return test, you generally cannot claim a married person as a dependent if he or she files a joint return. Therefore, even if you have a qualifying child, if that child files a joint return (other than to claim a refund), you cannot claim him or her as a dependent.
 - C. Incorrect. Under the citizen or resident test, you cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico. However, there is an exception for adopted children.
 - D. **CORRECT**. The age test is specific to a qualifying child, but not a qualifying relative. In order to be a qualifying child, the child must be under age 19 at the end of the year and younger than you (or your spouse if filing jointly), a full-time student under age 24 at the end of the year and younger than you (or your spouse if filing jointly), or permanently and totally disabled at any time during the year, regardless of age.

Chapter 4: Estimated Tax

Chapter Objective

After completing this chapter, you should be able to:

- Identify the purpose of estimated taxes.

I. Important

Estimated tax safe harbor for higher income taxpayers. If your 2023 adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you will have to deposit the smaller of 90% of your expected tax for 2024 or 110% of the tax shown on your 2023 return to avoid an estimated tax penalty.

II. Estimated Tax

Estimated tax is the method used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, certain alimony, rent, gains from the sale of assets, prizes, and awards. You also may have to pay estimated tax if the amount of income tax being withheld from your salary, pension, or other income is not enough.

Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes and amounts reported on your tax return. If you do not pay enough tax, either through withholding or estimated tax, or a combination of both, you may have to pay a penalty. If you do not pay enough by the due date of each payment period (see *When To Pay Estimated Tax*, later), you may have to pay a penalty even if you are due a refund when you file your tax return.

WHO MUST PAY ESTIMATED TAX PAYMENTS?

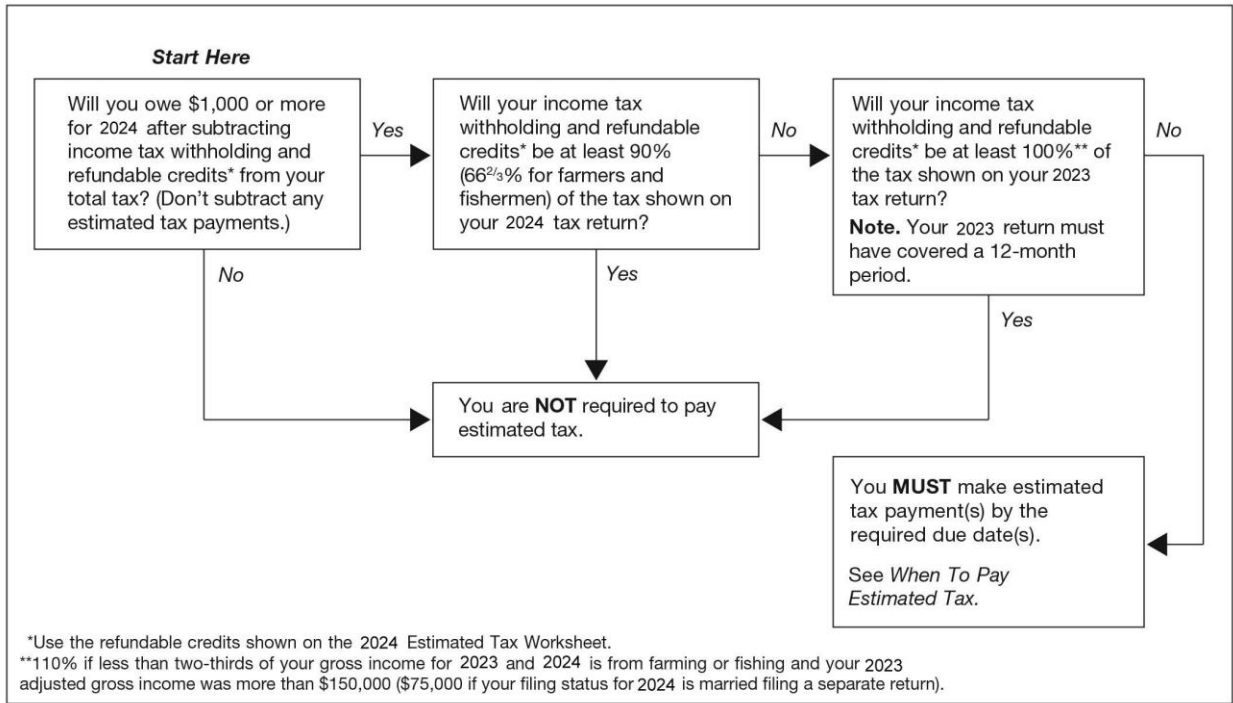
If you owe additional tax for 2023, you may have to pay estimated tax for 2024.

General rule. In most cases, you must pay estimated tax for 2024 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2024 after subtracting your withholding and refundable credits.
2. You expect your withholding plus your refundable credits to be less than the smaller of:
 - 90% of the tax to be shown on your 2024 tax return, or
 - 100% of the tax shown on your 2023 tax return. Your 2023 tax return must cover all 12 months.

Special rules for farmers, fishermen, and higher income taxpayers. There are exceptions to the general rule for farmers, fishermen, and certain higher income taxpayers. See Figure 4-A.

FIGURE 4-A. DO YOU HAVE TO PAY ESTIMATED TAX?



WHEN TO PAY ESTIMATED TAX

For estimated tax purposes, the year is divided into four payment periods. Each period has a specific payment due date. If you do not pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if you are due a refund when you file your income tax return. The following chart gives the payment periods and due dates for estimated tax payments.

For the period:	Due Date:
Jan. 1 through Mar. 31	Apr. 15
Apr. 1 through May 31	Jun. 15
Jun. 1 through Aug. 31	Sept. 15

Saturday, Sunday, holiday rule. If the due date for an estimated tax payment falls on a Saturday, Sunday, or legal holiday, the payment will be on time if you make it on the next day that is not a Saturday, Sunday, or legal holiday.

CHAPTER 4: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. There is an estimated tax safe harbor for high income taxpayers.

- A. true
- B. false

2. Estimated tax payments can be used to pay all of the following taxes except:

- A. income taxes
- B. self-employment taxes
- C. alternative minimum taxes
- D. property taxes

3. When is your estimated tax payment for the period January 1st through March 31st due:

- A. April 15th
- B. June 15th
- C. September 15th
- D. January 15th of the next year

CHAPTER 4: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

- A. **CORRECT**. For 2023, if your adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you will have to deposit the smaller of 90% of your expected tax for 2024 or 110% of the tax shown on your 2023 return to avoid penalties.
- B. Incorrect. You may have to pay estimated tax if the amount withheld from your salary, pension, or other income is not enough. There is a safe harbor for higher income taxpayers whose adjusted gross income was more than given amounts.

2.

- A. Incorrect. Income taxes are usually payable for self-employed individuals through quarterly estimated tax payments.
- B. Incorrect. Self-employment taxes can be paid through quarterly estimated tax payments.
- C. Incorrect. Alternative minimum taxes can be paid through quarterly estimated tax payments.
- D. **CORRECT**. Property taxes are typically paid to state and local governments and not to the federal government.

3.

- A. **CORRECT**. Your estimated tax payment for the period January 1st through March 31st is due April 15th.
- B. Incorrect. Your estimated tax payment for the period April 1st through May 31st is due June 15th.
- C. Incorrect. Your estimated tax payment for the period June 1st through August 31st is due September 15th.
- D. Incorrect. Your estimated tax payment for the period September 1st through December 31st is due January 15th of the next year.

GLOSSARY

401(k) plan. A deferred compensation plan, authorized by Section 401(k) of the Internal Revenue Code, under which a percentage of an employee's salary is withheld and placed in a savings account or the company's profit-sharing plan. Income accumulates on the deferred amount until withdrawn by the employee at age 59½ or when the employee retires or leaves the company.

Accelerated cost recovery system (ACRS). A statutory method of depreciation allowing accelerated rates for most types of property used in business and income-producing activities during the years 1981 through 1986. It has been superseded by the modified accelerated cost recovery system (MACRS) for assets placed in service after 1986.

Accelerated death benefit. Certain payments received under a life insurance contract on the life of a terminally or chronically ill individual before the individual's death.

Accelerated depreciation. A method of depreciation that allows a person to deduct the cost of property more rapidly than straight-line depreciation. Accelerated depreciation rates are included in ACRS rates and most Modified Accelerated Cost Recovery System (MACRS) rates if a person wants to use them.

Accountable plan. An employer's plan for reimbursing employees for business – related expenses, under which the employees are required to substantiate each business expense to the employer and return any reimbursement in excess of the substantiated expenses. Reimbursements received under an accountable plan are generally excluded from wages and are not subject to employment taxes.

Accrual method. A business method of accounting requiring income to be reported when earned and expenses to be deducted when incurred. However, deductions generally may not be claimed until economic performance has occurred.

Acquisition debt. Debt used to buy, build, or construct a principal residence or second home and that generally qualifies for a full interest expense deduction.

Active participation. The level of activity necessary to claim rental losses up to \$25,000 from real estate rental activities.

Adjusted basis. A statutory term describing the cost used to determine your profit or loss from a sale or exchange of property. It is generally your original cost, increased by capital improvements, and decreased by depreciation, depletion, and other capital write-offs.

Adjusted gross income (AGI). Important tax term representing gross income less allowable adjustments, such as IRA, alimony, and Keogh deductions. AGI determines whether various tax benefits are phased out, such as, itemized deductions and the rental loss allowance. Also see modified adjusted gross income (MAGI).

Administrator. Person who is usually appointed by the court if no will exists, if no executor was named in the will, or if the named executor cannot or will not serve. The administrator will have to administer the estate (property or debts left by the decedent) and distribute properties as the decedent has directed.

Alimony. Payments made to a separated or divorced spouse as required by a decree or agreement.

Alternate payee. The recipient of qualified retirement benefits under a court order, judgment, decree, or approved property settlement constituting a qualified domestic relations order.

Alternative Depreciation System (ADS). A way of depreciating assets using the straight-line depreciation method and longer recovery period than are available under MACRS. Mandatory for such items as foreign assets, luxury automobiles, and tax-exempt use property.

Alternative Minimum Tax (AMT). A tax that may apply in lieu of income tax when a taxpayer has tax preference items or certain deductions allowed in determining regular taxable income.

Amended return. Filed on Form 1040X within a three-year period to correct a mistake made on an original or previously amended return.

American Opportunity credit. The maximum credit is generally \$2,500 per student, and it is allowed for the first four years of post-secondary education. The phaseout of the credit applies if modified adjusted gross income is between \$80,000 and \$90,000, or between \$160,000 and \$180,000 on a joint return.

Amortization. A deductible expense allowed as a means of recovering the investment in an intangible asset. Compare with depreciation.

Amount realized. The fair market value of property, including money (at face value), received in a sale or an exchange.

Amount recognized. The amount of gain reportable and subject to tax. On certain tax-free exchanges of property, gain is not recognized in the year it is realized.

Annual gift tax exclusion. An exclusion that applies to gifts of present interests on a per donee basis.

Annualized rate. A rate for a period of less than a year computed as though for a full year.

Annuity. A sum of money paid periodically that includes the return of the invested capital plus income generated by it. An annuity is frequently purchased by an individual for investment purposes and is used by retirement plans to pay pensions.

Applicable federal rate. Interest rate fixed by the Treasury for determining imputed interest on transactions providing for below-market interest.

Archer Medical Savings Account (MSA). A type of medical plan combining high deductible medical insurance protection with an IRA-type savings account fund to pay unreimbursed medical expenses.

Assessment. The IRS action of fixing tax liability that sets in motion collection procedures, such as charging interest, imposing penalties, and, if necessary, seizing property.

At-risk limitations. Generally, partnership losses are deductible up to the amount you have a risk in the activity. The amount at risk is your basis in the activity and any amounts borrowed for use in the activity for which you are personally liable.

At-risk rules. Rules limiting loss deductions to cash investments and personal liability notes. An exception for real estate treats certain nonrecourse commercial loans as amounts "at risk."

Audit. An IRS examination of your tax return, generally limited to a three-year period after you file.

Average cost method. A method of figuring the basis of shares in mutual funds for purposes of determining gain or loss on the sale of less than one's entire holdings in a fund.

Bad debt. An amount owed you representing a cash outlay or an item already included in income that you are unable to collect.

Basis. Generally, the amount paid for property or the cost of an asset. Needed to figure gain or loss on a sale.

Below market loans. Demand loans on which interest is payable at a rate below the applicable federal rate or term loans where the amount loaned exceeds the present value of all payments due under the loan (using a discount rate equal to the applicable federal rate).

Cafeteria plan. A plan that allows employees to choose between cash and certain qualified benefits.

Calendar year. A year that begins on January 1st and ends on December 31st. Most individual taxpayers are required to file their returns on the basis of such a year. Compare to fiscal year.

Cancellation of debt. Release of a debt without consideration by a creditor. Cancellations of debts are generally taxable.

Capital asset. In general, property held for personal purposes or investment, rather than for business purposes. Property subject to capital gain or loss treatment. Almost all assets you own are considered capital assets except for certain business assets or works you created.

Capital expenses. Costs that are not currently deductible and that are added to the basis of property. A capital expense generally increases the value of property. When added to depreciable property, the cost is deductible over the life of the asset.

Capital gain dividend (capital gain distribution). A distribution to shareholders in a mutual fund of a capital gain realized by the fund on the sale of a part of its investment portfolio.

Capital gain or loss. A gain or loss arising from the sale or exchange of capital assets. Computed by comparing the amount realized on the sale or exchange of an asset with the adjusted basis of the asset.

Capital loss carryover. The excess of capital losses over capital gains that cannot be deducted in a particular year and must be carried over to the succeeding year.

Capitalization. Adding a cost or expense to the basis of the property.

Carryback. A tax technique for receiving a refund of back taxes by applying a deduction or credit from a current tax year to a prior tax year.

Carryforward. A tax technique of applying a loss or credit from a current year to a later year. For example, a business net operating loss may be carried forward indefinitely.

Cash method. Reporting income when actually or constructively received and deducting expenses when paid. Certain businesses may not use the cash method.

Casualty loss. Loss from an unforeseen and sudden event that is deductible, subject to a 10% income floor and \$100 reduction for losses attributable to a federally declared disaster.

Charitable contributions. An itemized deduction is allowed for donations to qualifying charities. For property donations, the deductible amount depends on the type of property and donee organization, the holding period, and in some cases how the property is used.

Child and dependent care credit. A credit of up to 35% based on certain care expenses incurred that allow the taxpayer to work.

Child support. Payments to support a minor child generally to a custodial parent under a divorce or separation decree or agreement. The payments cannot be deducted from gross income and are not taxable to the recipient parent. Starting in 1985, the parent with custody of the child is generally entitled to claim the dependent unless such a right is expressly waived.

Child tax credit. For tax years beginning after 1997, a tax credit is allowed against income with respect to each qualifying child for taxpayers with modified adjusted gross income below certain thresholds.

Community income. Income earned by persons domiciled in community property states and treated as belonging equally to husband and wife.

Community property. Property that belongs equally to husband and wife. This concept of property ownership is currently used in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Condemnation. The seizure of property by a public authority for a public purpose. Tax on gain realized on many conversions may be deferred.

Constructive receipt. Income you are taxed on because it was made available to you to draw on, even if it has not yet been physically transferred to you.

Coverdell Education Savings Account. A special account set up to fund education expenses of a student.

Credit. A tax credit directly reduces tax liability, as opposed to a deduction that reduces income subject to tax.

Declining balance depreciation. A method of accelerated depreciation by which each year's depreciation is a percentage of the reduced basis of the asset.

Deductions. Items directly reducing income. Personal deductions such as for mortgage interest, state and local taxes, and charitable contributions are allowed only if deductions are itemized on Schedule A, but deductions such as for certain alimony, capital losses, business losses, student loan interest, and IRA and Keogh deductions are deducted from gross income even if itemized deductions are not claimed.

Deferred compensation. A portion of earnings withheld by an employer or put into a retirement plan for distribution to the employee at a later date. If certain legal requirements are met, the deferred amount is not taxable until actually paid, for example, after retirement.

Deferred gain. A gain realized but not recognized as taxable income until a later time.

Deficiency. The excess of the tax assessed by the IRS over the amount reported on your return.

Defined benefit plan. A retirement plan that pays fixed benefits based on actuarial projections.

Defined contribution plan. A retirement plan that pays benefits based on contributions to individual accounts, plus accumulated earnings. Contributions are generally based on a percentage of salary or earned income.

Dependent. A person supported by another person.

Depletion. A deductible expense that reflects the decrease of a depletable natural resource, such as oil and gas, as it is extracted.

Depreciable property. A business or income-production asset with a useful life exceeding one year.

Depreciation. Writing off the cost of depreciable property over a period of years, usually its class life or recovery period specified in the tax law.

Depreciation recapture. An amount of gain on the sale of certain depreciable property that is treated as ordinary income in the case of personal property. Recapture is computed on Form 4797.

Designated beneficiary. A person, trust, tax-exempt organization or estate named to receive qualified plan benefits or IRAs after a taxpayer's death. In some cases, the designated beneficiary enables a taxpayer to figure required minimum distributions over joint lives (or joint life expectancy).

Direct rollover. An eligible rollover distribution that is paid directly to an eligible retirement plan for the benefit of the distributee.

Disaster losses. Casualty losses, such as from a storm, in areas declared by the President to warrant federal assistance. An election may be made to deduct the loss in the year before the loss or the year of the loss.

Dividend. A distribution made by a corporation to its shareholders generally of company earnings or surplus. Most dividends are taxable but exceptions do exist.

Domicile. The place that an individual intends to be his or her permanent residence.

Dual-status alien. An individual who is a nonresident alien for part of the year and a resident alien or U.S. citizen for the rest of the year.

Earned income. Compensation for performing personal services. You must have earned income for a deductible IRA, or to claim the earned income credit. Earned income does not include amounts received from an annuity or a pension.

Earned income credit. A credit allowed to taxpayers with earned income or adjusted gross income (AGI) below certain thresholds.

Education credits. There are two education credits: the American opportunity credit and the lifetime learning credit.

Education savings account. A trust or custodial account created for the purpose of paying the qualified higher education expenses of the designated beneficiary of the account.

Electronic Federal Tax Payment System (EFTPS). A tax deposit method using electronic transfers of funds from bank accounts that must be used by certain businesses with substantial employment tax liability.

Eligible retirement plan. A qualified retirement plan, an individual retirement account, or an individual retirement annuity.

Estate tax. A tax imposed on the value of a decedent's taxable estate, after deductions and credits.

Estimated tax. Advance payment of current tax liability based either on wage withholdings or installment payments of your estimated tax liability. To avoid penalties, you generally must pay to the IRS either 90% of your final tax liability, or either 100% or 110% of the prior year's tax liability, depending on your adjusted gross income.

Exclusion. An amount that is excluded from gross income.

Executor. Person named in the decedent's will to administer the estate (property or debts left by the decedent) and distribute properties as the decedent has directed.

Fair market value (FMV). What a willing buyer would pay to a willing seller when neither is under any compulsion to buy or sell.

Fiduciary. A personal or corporation such as a trustee, executor, or guardian who manages property for another person.

Flexible spending arrangements (FSAs). A salary reduction plan that allows employees to pay for enhanced medical coverage or dependent care expenses on a tax-free basis.

Foreign earned income exclusion. Foreign earned income exempt from tax if a foreign residence or physical presence test is met.

Foreign tax credit. A credit allowed for income taxes paid to a foreign tax jurisdiction (e.g., a foreign country) to mitigate double taxation.

Gift tax. Gifts in excess of a \$17,000 per donee annual exclusion are subject to gift tax, but the tax may be offset by a unified gift and estate tax credit.

Gross income. The total amount of income received from all sources before exclusions and deductions.

Gross receipts. Total business receipts reported on Schedule C before deducting adjustments for returns and allowances and costs of goods sold.

Group-term life insurance. Employees are not taxed on up to \$50,000 of group-term coverage.

Head of household. A taxpayer who is unmarried and pays more than 50% of the cost of maintaining a residence for the entire year for a qualifying individual. If you are a head of household, you qualify for special tax rates.

Holding period. The length of time an asset is held. The holding period of a capital asset determines whether a sale or an exchange results in a long-term or a short-term capital gain or loss.

Home equity debt. Debt secured by a principal residence or second home to the extent of the excess of fair market value over acquisition debt.

Home sale exclusion. The tax-free amount of gain on the sale of a principal residence where certain ownership and use tests are satisfied.

Imputed interest. Interest deemed to have been earned or charged on a debt if the stated interest rate is below the rate set by law.

Incentive stock option. A type of stock option that can be received and exercised without recognition of income until the option stock is sold, if certain statutory requirements are met.

Income in respect of a decedent. Income earned by a person before death but taxable to an estate or heir who receives it.

Income shifting. A strategy to direct income to a taxpayer in a lower tax bracket to produce an overall tax savings for both parties involved in the shift.

Independent contractor. One who controls his or her own work and reports as a self-employed person.

Individual retirement account (IRA). A retirement account to which a specific amount may be contributed annually, but deductions for the contribution are restricted if you are covered by a company retirement plan. Earnings accumulate tax free.

Innocent spouse relief. Reduction or forgiveness of joint and several liability for the tax on a joint return for the requesting spouse who meets certain requirements.

Installment sale. A sale of property that allows for tax deferral if at least one payment is received after the end of the tax year in which the sale occurs. The installment method does not apply to year-end sales of publicly traded securities. Dealers may not use the installment method. Investors with very large installment balances could face a special tax.

Intangible assets. Intangible assets that come within Section 197, such as goodwill, are amortizable over a 15-year period.

Internal Revenue Service. The division of the U.S. Treasury Department that is responsible for the enforcement of the tax laws.

Investment interest. Interest on debt used to carry investments, but not including interest expenses from a passive activity. Deductions are limited to net investment income.

Involuntary conversion. Forced disposition of property due to condemnation, theft, or casualty. Upon conversion, you usually receive cash through insurance proceeds or condemnation awards. Tax on gain from involuntary conversion may be deferred if replacement property is purchased.

Itemized deductions. Items, such as interest, state and local taxes, charitable contributions, and medical deductions, claimed on Schedule A for Form 1040. Itemized deductions are subtracted from adjusted gross income to arrive at taxable income.

Joint return. A return filed by a married couple reporting their combined income and deductions. Joint return status provides tax savings to many couples.

Joint tenants. Ownership of property by two persons. When one dies, the decedent's interest passes to the survivor.

Keogh plan. Retirement plan set up by a self-employed person that provides tax-deductible contributions, tax-free income accumulations until withdrawal, and favorable averaging for qualifying lump-sum distributions.

Kiddie tax. The tax on the investment income in excess of \$2,500 (2023) of a dependent child, based on the parent's marginal tax rate and computed on Form 8615.

Legally separated. A husband and wife who are required to live apart from each other by the terms of a decree of separate maintenance. Payments under the decree are deductible by the payor and taxable to the payee as alimony.

Lifetime learning credit. 20% credit for up to \$10,000 of qualified tuition and related expenses for undergraduate or graduate level courses.

Like-kind exchange. An exchange of similar assets used in a business or held for investment on which gain may be deferred.

Long-term capital gain or loss. Gain or loss on the sale or exchange of a capital asset that has been held for a legislatively mandated holding period.

Long-term care. A type of medical care for chronically ill individuals which generally is not covered by Medicare.

Long-term care insurance contract. Insurance contract that only provides coverage for qualified longterm care services.

Lump-sum distribution. Payments within one tax year of the entire amount due to a participant in a qualified retirement plan. Qualifying lump-sums may be directly rolled over tax free, or, in some cases, are eligible for current tax under a favorable averaging method.

Marginal tax rate. The tax rate at which each additional dollar of income over a specified ceiling is taxed.

Marital deduction. An estate tax and gift tax deduction for assets passing to a spouse. It allows estate and gift transfers completely free of tax.

Market discount. The difference between face value of bond and lower market price, attributable to rising interest rates. On a sale, gain on the bond is generally taxed as ordinary income to the extent of the discount.

Material participation. The level of participation required to deduct losses from trade or business activities otherwise subject to the passive activity loss limitations.

Miscellaneous itemized deductions. A class of itemized deductions (e.g., investment expenses, fee for tax advice, union dues) that previously were deductible to the extent that the total exceeded 2% of adjusted gross income.

Modified ACRS (MACRS). Depreciation methods applied to assets placed in service after 1986.

Modified adjusted gross income (MAGI). This is generally adjusted gross income increased by certain items such as tax-free foreign earned income. MAGI usually is used to determine phaseouts of certain deductions and credits.

Mortgage interest. Fully deductible interest on up to two residences if acquisition debt secured by a home up to certain limits of indebtedness.

Mutual fund. A company that is in the business of investing its shareholder's funds, usually in stocks or bonds; sometimes known as a regulated investment company.

Net operating loss. A loss taken in a period where a company's allowable tax deductions are greater than its taxable income. When more expenses than revenues are incurred during the period, the net operating loss for the company can generally be used to recover past tax payments.

Nonperiodic distributions. A 20% withholding rule applies to nonperiodic distributions, such as lumpsum distributions, paid directly to employees from an employer plan.

Nonqualified stock option. A type of stock option that when exercised creates ordinary income for the taxpayer.

Nonrecourse financing. Debt on which a person is not personally liable. In case of non-payment, the creditor must foreclose on property securing the debt. At-risk rules generally bar losses where there is nonrecourse financing, but an exception applies to certain nonrecourse financing for real estate.

Nonresident alien. A person who is not a United States citizen or a permanent resident. Tax is generally limited to income from U.S.

Nontaxable exchange. An exchange of property in which no gain or loss is recognized for tax purposes.

Offers in compromise. Arrangements in which the IRS agrees to accept less than full payment of taxes because it realizes that full payment may never be made.

Ordinary gain or loss. A gain or loss other than a capital gain or loss.

Ordinary income. Income that does not arise from the sale or exchange of a capital asset or a Section 1231 asset and is not subject to any preferential tax treatment.

Ordinary loss. A loss other than a capital loss.

Original issue discount (OID). The difference between the face value of a bond and its original issue price. OID is reported on an annual basis as interest income.

Owner-employee. An employee who is the proprietor of a business. Also, a partner who owns more than 10% of either the capital or the profit interest in a partnership.

Partnership. An unincorporated business or income-producing entity organized by two or more persons. A partnership is not subject to tax but passes through to the partners all income, deductions, and credits, according to the terms of the partnership agreement.

Passive activity loss. A loss from a trade or a business in which the taxpayer is not a material participant. Passive activity losses are subject to deduction limitations. Passive activities include rental activities and investments in limited partnerships.

Pension. Payments to employees from an employer-funded retirement plan for past services. Percentage depletion. A method of calculating depletion that applies a fixed percentage to the gross income generated by the mineral property.

Personal interest. Tax term for interest on personal loans and consumer purchases. Such interest is not deductible.

Personal-use property. Property that is not held for investment or use in a trade or a business.

Placed in service. The time when a depreciable asset is ready to be used. The date fixes the beginning of the depreciation period.

Points. Certain charges paid by a borrower, calculated as a percentage of the loan proceeds; each point is 1%. They are also called loan origination fees, maximum loan charges, or premium charges. Depending on the type of loan, points may be currently deductible or amortized over the life of the loan.

Premature distributions. Withdrawals before age 59½ from qualified retirement plans are subject to penalties unless specific exceptions are met.

Profit-sharing plan. A defined contribution plan under which the amount contributed to the employee's accounts is based on a percentage of the employer's profits.

Proprietor. An individual who is the sole owner of his or her trade or business.

Qualified business income deduction. For taxable years beginning after December 31, 2017, taxpayers other than corporations may be entitled to a deduction of up to 20 percent of their qualified business income from a qualified trade or business under the Tax Cuts and Jobs Act. This deduction can be taken in

addition to the standard or itemized deductions. The deduction is subject to multiple limitations based on the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid with respect to the qualified trade or business, and the unadjusted basis of qualified property held by the trade or business. Notwithstanding these limitations, however, taxpayers with qualified business income (which does not include income from performing services as an employee) and with taxable income under \$182,100 (2023) or \$364,200 (2023) for joint returns, will generally be eligible for the deduction.

Qualified charitable organization. A nonprofit philanthropic organization specifically approved by the U.S. Treasury as a recipient of charitable contributions that are deductible for tax purposes.

Qualified domestic relations order (QDRO). A court order, judgment, decree or approved property agreement which specifies the amount of qualified plan benefits to be paid to an alternate payee and which are not taxable to the plan participant.

Qualified improvement property. As of the TCJA, a combination of previously identified qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

Qualified plan. An employee benefit plan established by an employer that meets certain requirements and therefore qualifies for certain tax benefits.

Qualified tuition programs. State-sponsored plans to allow for higher education savings on a tax-advantaged basis. While there is no federal tax deduction for contributions to these programs, states may provide a deduction from state income tax.

Qualifying widow or widower. A filing status entitling the taxpayer with dependents to use joint tax rates for up to two tax years after the death of a spouse.

Real estate professionals. Taxpayers who are exempt from the passive activity loss limitations because of their level of involvement with real estate activities.

Real property (real estate). Physical property that is permanent and nonmovable in nature. Two examples are land and buildings.

Realized gain or loss. The difference between the amount you are entitled to receive on a sale or exchange of property and the adjusted basis of the property.

Recognized gain or loss. The amount of gain or loss to be reported on a tax return. Gain may not be recognized on certain exchanges of property.

Refundable tax credit. A credit that entitles you to a refund even if you owe no tax for the year.

Regulated investment company. An investment company subject to Security and Exchange

Commission regulations. If the investment company distributes its income to its shareholders, it does not pay any taxes.

Remainder interest. An interest in property or a trust that is left after the income beneficiaries have received their income interest.

Required minimum distributions. Distributions from qualified plans and IRAs that generally must commence at age 73 to avoid a 25% penalty (as of 2023).

Resident alien. An individual who is not a citizen of the United States but is a permanent resident of the United States.

Residential rental property. Real property in which 80% or more of the gross income is from dwelling units. Under MACRS, depreciation is claimed over 27.5 years under the straight-line methods.

Return of capital. A distribution of your investment that is not subject to tax unless the distribution exceeds your investment.

Rollover. A distribution from a qualified plan that is reinvested tax-free in another qualified plan or IRA within 60 days of the date of receipt.

Roth IRA. Contributions to a Roth IRA are nondeductible, and, if certain specified conditions are met, distributions are tax free. The contribution may be limited by certain threshold amounts.

Royalty income. Income received for the use of certain kinds of property (e.g., mineral and literary properties, patents).

Salvage value. The estimated value of an asset at the end of its useful life. Salvage value is ignored by ACRS and MACRS rules.

Scholarships. Grants to degree candidates receive tax-free treatment if awarded after August 16, 1986 and used for tuition and course-related expenses, but not room and board.

Section 1231 assets. Generally, depreciable assets used in a trade or a business and held for the required long-term holding period. Net gains from the sale or exchange of Section 1231 assets (after recapture of depreciation), are treated as capital gains; net losses are treated as ordinary losses.

Section 179 expensing. Allows a taxpayer to elect to deduct the cost of certain types of property on their income taxes as an expense, rather than requiring the cost of the property to be capitalized and depreciated.

Section 457 plan. Deferred compensation plan set up by a state or local government, or tax-exempt organization, which allows tax-free deferrals of salary.

Section 529 plans. Qualified tuition plans set up by states or private institutions as either prepaid tuition plans or savings-type plans. While contributions are not deductible for federal income tax purposes, distributions used to pay qualified higher education costs are tax free.

Self-employed person. An individual who operates a business or profession as a proprietor or independent contractor and reports self-employment income on Schedule C.

Self-employment tax. Tax paid by self-employed persons to finance Social Security coverage.

Separate maintenance payments. Payments made from one spouse to another when they are living apart. The payments are made in accordance with a court order or an agreement between the parties.

Separate return. Return filed by a married person who does not file a joint return. Filing separately may save taxes where each spouse has separate deductions, but certain tax benefits require a joint return.

Short-term capital gain or loss. A gain or loss on the sale or exchange of a capital asset that has been held for less than the legislatively mandated holding period.

SIMPLE plans. Qualified retirement plans restricted to small employers that can be either SIMPLE IRAs or SIMPLE 401(k) plans. These plans have easy nondiscrimination rules and no heavy reporting requirements.

Simplified Employee Pension (SEP). IRA-type plan set up by an employer, rather than the employee. Single. The filing status of an individual who is not married on December 31 of the year for which a return is filed.

Standard deduction. A deduction used to reduce income by taxpayers who do not itemize their deductions. The amount of the deduction depends on ones filing status, whether they are 65 or older or blind, and whether they can be claimed as a dependent on another taxpayer's return. Adjusted annually for inflation since 1989.

Standard mileage rate. An IRS-approved optional amount used to claim a deduction for business transportation expenses in lieu of deducting actual expenses (not including parking, tolls, interest, and taxes).

Statute of limitations. The time period within which the IRS can assess and collect taxes and taxpayers can file for refunds.

Statutory employees. Certain employees, such as full-time life insurance salesperson, who may report income and deductions on Schedule C.

Stock dividend. A distribution of additional shares of a corporation's stock to its shareholders. Stock option. A right to buy stock at a fixed price.

Straight-line depreciation. A method of depreciation in which the cost or other basis of the asset is deducted in equal amounts over the property's useful life.

Sum of the years' digits depreciation. A method of accelerated depreciation that is based on a formula developed from the expected useful life of the property.

Support. Payments made for the care and maintenance of a dependent. Expenditures for support include payments for food, lodging, medical expenses and so on.

Tax attributes. When debts are canceled in bankruptcy cases, the canceled amount is excluded from gross income. Tax attributes are certain losses, credits, and property basis that must be reduced to the extent of the exclusion.

Tax credit carryforward (or carryover). Tax credit that you were unable to use to reduce previous year's tax and that can be applied to offset future tax.

Tax deferral. Shifting income to a later year, such as where you defer taxable interest to the following year by purchasing a T-bill or savings certificate maturing after the end of the current year. Investments in qualified retirement plans provide tax deferral.

Tax preference items. Items that may subject a taxpayer to the alternative minimum tax (AMT). Two examples are accelerated depreciation of real property and percentage depletion.

Tax year. A period (generally 12 months) for reporting income and expenses.

Taxable income. Net income after claiming all deductions from gross income and adjusted gross income, such as IRA deductions, itemized deductions, or the standard deduction.

Taxpayer identification number. For an individual, his or her social security number; for businesses, fiduciaries, and other non-individual taxpayers, the employer identification number.

Tax-exempt income. Income that is not subject to federal income tax. An example is income for state and municipal bonds.

Tax-sheltered annuity. A type of retirement annuity offered to employees of charitable organizations and educational systems, generally funded by employee salary-reduction contributions.

Trade date. The date on which a purchase or sale of securities occurs. The trade date is used in determining the holding period of a security.

Trust. An arrangement under which one person transfers legal ownership of assets to another person or corporation (the trustee) for the benefit of one or more third persons (beneficiaries).

Undistributed capital gains. Capital gains that investors in mutual funds must report but for which they can claim a tax credit for their share of tax paid by the fund.

Useful life. For property not depreciated under ACRS and MACRS, the estimate of time in which a depreciable asset will be used.

Wash sales. Sales on which losses are disallowed because you recover your market position within a 61-day period.

Withholding. An amount taken from income as pre-payment of an individual's tax liability for the year. In the case of wages, the employer withholds part of every wage payment. Backup withholding from dividend or interest income is required if you do not provide the payer with a correct taxpayer identification number. Withholding on pensions and IRAs is automatic unless you elect to waive withholding.

FINAL EXAM

The Income Tax Return

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. What is the standard deduction for a 65 year old individual who files as single in 2023:

- A. \$13,850
- B. \$15,350
- C. \$15,700
- D. \$29,550

2. Which of the following is correct regarding the medical expense deduction for 2023:

- A. it is limited to expenses up to 7.5% of adjusted gross income
- B. it is limited to expenses greater than 7.5% of adjusted gross income
- C. it is limited to expenses up to 10% of adjusted gross income
- D. it is limited to expenses greater than 10% of adjusted gross income

3. For 2023, what is the maximum estate and gift tax exemption for an individual taxpayer:

- A. \$5.0 million
- B. \$10.0 million
- C. \$12.92 million
- D. \$25.84 million

4. In December 2023, what is the standard mileage rate for operating your car for charitable purposes:

- A. 14.0 cents a mile
- B. 18.0 cents a mile
- C. 22.0 cents a mile
- D. 65.5 cents a mile

5. All of the following are goals of the SECURE Act 2.0 except:

- A. to increase individual retirement savings
- B. to simplify and clarify the retirement plan rules
- C. to lower the employer cost of setting up a retirement plan
- D. to improve tax credits for energy efficient home improvements

6. Filing Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, provides an automatic extension to file of how long:

- A. 3 months
- B. 6 months
- C. 9 months
- D. 1 year

7. Generally, when is a taxpayer's filing status as either married or unmarried determined:

- A. on the date the taxpayer files his or her return
- B. on the first day of the tax year

- C. on the last day of the tax year
- D. on April 15th of the tax year

8. Which of the following is a requirement for filing as head of household:

- A. the taxpayer must be considered unmarried on the first day of the tax year
- B. the taxpayer must be considered unmarried on the last day of the tax year
- C. the taxpayer paid more than half of the cost of keeping up the home for the year
- D. both B and C above

9. If you are a surviving spouse with a dependent child and you have not remarried, you may be eligible to use the qualifying surviving spouse with dependent child as your filing status for a maximum of how long:

- A. the current tax year
- B. 1 year following the year of death of your spouse
- C. 2 years following the year of death of your spouse
- D. 3 years following the year of death of your spouse

10. In order to be a qualifying relative, the person's gross income for the year 2023 generally must be less than:

- A. \$2,300
- B. \$2,500
- C. \$4,700
- D. \$4,900