Study Unit One

Filing Requirements

To determine the proper tax liability, the taxpayer must claim the appropriate filing status, elect the available deductions, and comply with the necessary filing requirements.

1.1 Preliminary Work to Prepare Tax Returns

Prior-Year Return

Use of the prior year's returns for comparison helps prevent gross mathematical errors and identify significant changes.

- If the comparison shows that there were no significant changes, the current-year return should result in similar amounts and tax liability or refund.
- Comparison of the prior year's returns helps to identify applicable items that are not common to all individuals (retirement pay, sale of principal residence, itemized deductions, applicable taxes, etc.).

Example 1-1 Prior-Year Return

The taxpayer's prior-year Form 1040 shows repayment of the Premium Tax Credit.

The preparer should ask questions such as

- What was the total amount of the original credit received?
- How much of the credit has already been repaid?
- What estimate was used for family income?
- Did the taxpayer receive Premium Tax Credits for the current year?

The accuracy of the prior year's return affects the accuracy of the current year's return in areas in which the prior year is relied upon (state taxes paid or refunded). It also increases efficiency in completing the current return.

Previous IRS Correspondence

A taxpayer's previous correspondence (e.g., letters, notices) with the IRS is likely to provide insight to issues still affecting a current return. It should be reviewed to ensure, among other things, compliance with prior audits, adjustments, or judgments.

Personal Information

Taxpayer personal information (e.g., date of birth, age, marital status, dependents, etc.) is used to verify the identity of the taxpayer and related dependents.

- The age of an individual determines if (s)he qualifies for additional deductions (65 and over), retirement distributions, dependency, etc.
- Married filing jointly status often increases beneficial dollar limits for deductions and credits.
- A state-issued photo ID from the taxpayer is a good source for obtaining personal information.

Social Security Number

A Social Security number (SSN) is a type of taxpayer identification number (TIN) and is issued by the Social Security Administration. The importance of having a SSN has increased over the years because more credits and deductions require one. This means other types of TINs do not satisfy the qualification requirements.

Nationality

Determine the taxpayer's immigration status and/or citizenship (e.g., citizen, resident alien, or nonresident alien).

- If a taxpayer is an alien (not a U.S. citizen), (s)he is considered a nonresident alien unless either the green card test or the substantial presence test for the calendar year is met.
- Even if a taxpayer does not meet either of these tests, (s)he may be able to choose to be treated as a U.S. resident for part of the year (dual-status aliens). This usually occurs in the year of arrival in or departure from the United States.
- A non-U.S. citizen typically is denied a SSN. Any individual required to have a U.S. taxpayer identification number but not eligible for a SSN obtains an Individual Taxpayer Identification Number (ITIN) from the IRS.
  - The ITIN is used to comply with U.S. tax laws and to process and account for tax returns and payments.
  - ITINs are issued regardless of immigration status (e.g., for both resident and nonresident aliens).

Key Forms and Due Dates

IF you are liable for . . .	THEN use . . .	DUE by . . .
Income tax	Form 1040 and Schedule C	15th day of 4th month after end of tax year
Self-employment tax	Schedule SE	File with Form 1040
Estimated tax	Form 1040-ES	15th day of 4th, 6th, and 9th months of tax year, and 15th day of 1st month after the end of tax year
Social Security and Medicare taxes and income tax withholding	Form 941 or 944	April 30, July 31, October 31, and January 31 See Publication 15
Providing information on Social Security and Medicare taxes and income tax withholding	Form W-2 (to employee) Forms W-2 and W-3 (to the Social Security Administration)	January 31 January 31
Federal unemployment (FUTA) tax	Form 940	January 31 April 30, July 31, October 31, and January 31, but only if the liability for unpaid tax is more than $500

Information Returns

The following information returns provide potential sources of taxpayer gross income:

- Form W-2 – Wage and Tax Statement
- Form W-2G – Certain Gambling Winnings
- Form 1099-B – Proceeds from Broker and Barter Exchange Transactions
- Form 1099-C – Cancellation of Debt
- Form 1099-DA – Digital Asset Proceeds From Broker Transactions
- Form 1099-DIV – Dividends and Distributions
- Form 1099-G – Certain Government Payments
- Form 1099-INT – Interest Income
- Form 1099-K – Payment Card and Third Party Network Transactions
- Form 1099-MISC – Miscellaneous Information
- Form 1099-NEC – Nonemployee Compensation
- Form 1099-OID – Original Issue Discount
- Form 1099-PATR – Taxable Distributions Received From Cooperatives
- Form 1099-Q – Payments From Qualified Education Programs (Under Sections 529 and 530)
- Form 1099-R – Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- Form 1099-S – Proceeds From Real Estate Transactions
- Form 1099-SA – Distributions From an HSA, Archer MSA, or Medicare Advantage MSA
- Schedule K-1 (Form 1065) – Partner's Share of Income, Deductions, Credits, etc.
- Schedule K-1 (Form 1120-S) – Shareholder's Share of Income, Deductions, Credits, etc.

Individual or Business

Determine if an individual and/or a business entity is involved.

A personal, living, or family expense is not deductible unless the Code specifically provides otherwise. Nondeductible expenses include

- Rent and insurance premiums paid for the taxpayer's own dwelling;
- Life insurance premiums paid by the insured;
- Upkeep of a personal automobile;
- Personal interest; and
- Payments for food, clothing, or domestic help.

Items Affecting Future Returns

Certain items from the prior-year return may be needed to complete the current-year return [state income tax refund, alternative minimum tax (AMT) for credit, gain or loss carryover, charitable gift carryover, Schedule D, Form 8801, etc.].

All Required Taxes Filed

A determination should be made as to which taxes apply to the taxpayer, e.g., income tax, withholding (estimated tax), FICA (self-employment tax) and FUTA, AMT, estate tax, gift tax, generation-skipping transfer (GST) tax.

Special Filing Requirements -- Foreign Income

For purposes of determining whether a taxpayer must file a return, gross income includes any income that can be excluded as foreign-earned income or as a foreign housing amount.

If a taxpayer is a U.S. citizen or resident alien, the rules for filing income, estate, and gift tax returns and for paying estimated tax are generally the same whether the taxpayer is in the United States or abroad.

- A taxpayer’s income, filing status, and age generally determine whether a taxpayer’s income tax return must be filed.
- In general, U.S. citizens and resident aliens are taxed on their worldwide income. Generally, nonresident aliens are only taxed on U.S. source income. An exception to this general rule is if a nonresident elects to be treated as a U.S. resident, e.g., in order to file a joint return with the spouse who is a citizen or resident alien.

Reporting Foreign Financial Accounts and Specified Foreign Assets

Generally, any U.S. citizen, resident, or person doing business in the United States who has an ownership interest in, or signatory authority or other authority over, a financial account (or several accounts) in a foreign country with an aggregate value in excess of $10,000 at any time during the calendar year must file a Form FinCEN Report 114, *Report of Foreign Bank and Financial Accounts* (commonly referred to as an FBAR), reporting certain information with respect to that account by April 15 of the subsequent year or the extension due date of October 15.

- Failure to file an FBAR is subject to both civil and criminal penalties.

Example 1-2 Required FBAR Filing

On January 1, a U.S. taxpayer deposits $5,000 in an account in foreign country X. On July 1, the taxpayer deposits $5,001 in an account in foreign country Y. On July 2, the taxpayer withdraws the $5,000 from X to make a purchase. Because the taxpayer had a total of more than $10,000 (in this case $10,001) in foreign accounts (in this case a combined total of two separate countries/accounts) at any time during the year (i.e., July 1), the taxpayer must file an FBAR for the year.

Individuals living in the U.S. must use Form 8938, *Statement of Specified Foreign Financial Assets*, to report specified foreign financial assets with an aggregate value greater than $50,000 at the last day of the year or more than $75,000 at any time during the tax year (these thresholds double for married individuals filing jointly).

- For single individuals and married individuals filing separately who are living outside the U.S., the thresholds are $200,000 at the last day of the year or more than $300,000 at any time during the tax year (like those living in the U.S., these thresholds double for married individuals filing jointly who are living outside the U.S.).

- Form 8938 is required to be filed with an individual's annual income tax return. Individuals not required to file an annual income tax return are not required to file Form 8938.

The purposes of Form 8938 and the FBAR are similar, and there is significant overlap. Yet filing Form 8938 does not relieve an individual of the requirement to file the FBAR. Many individuals will be required to file both Form 8938 and the FBAR to report substantially the same information.

- Despite the similarities, there are some differences between the FBAR and Form 8938.
  - The FBAR is not filed with an individual's federal income tax return and must be filed online with the Financial Crimes Enforcement Network by April 15 each year.
  - In contrast, Form 8938 is filed with any annual return, whether it is an income tax return or an information return, listed as follows: Form 1040, Form 1040-NR, Form 1040-SR, Form 1041, Form 1041-N, Form 1065, Form 1120, and Form 1120-S.
  - In addition, the filing thresholds for Form 8938 and the FBAR are different, and the foreign financial assets that must be reported on Form 8938 are not limited to bank and financial accounts.

Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations*, is used by certain U.S. citizens and residents who are officers, directors, or shareholders in certain foreign corporations. The forms and schedules are used to satisfy the reporting requirements of Secs. 6038, 6046, and 965 (transition tax) and the related regulations. This form is filed with the tax return.

Transactions with Foreign Trusts

U.S. persons and executors of estates of U.S. decedents file Form 3520, *Annual Return to Report Transactions with Foreign Trusts and Receipts of Certain Foreign Gifts*, to report certain transactions with foreign trusts, ownership of foreign trusts under the rules of Secs. 671 through 679, and receipts of certain large gifts or bequests from certain foreign persons.

Interest in Foreign Partnerships

U.S. persons qualifying, based on interest in a foreign partnership, under one or more of the following four categories of filers must complete and file Form 8865, *Return of U.S. Persons With Respect to Certain Foreign Partnerships*, with the tax return.

- Category 1: 50% or greater ownership
- Category 2: 10% or greater ownership of U.S.-controlled partnership
- Category 3: Contributed property (1) resulting in at least a 10% interest or (2) with a value of more than $100,000
- Category 4: Had a reportable event (acquisition, disposition, or change in proportional interest)

Reporting Changes

The following table is a basic listing of changes to be discussed as part of the preliminary work to prepare a tax return:

Personal and Financial Changes

Factor	Examples
Lifestyle change	Marriage Divorce Birth or adoption of a child Loss of right to claim a dependent Purchase of a new home Retirement Filing Chapter 11 bankruptcy
Wage income	Either spouse starts or stops working or starts or stops a second job Overtime pay or tip income
Change in the amount of taxable income not subject to withholding	Interest income Dividends Capital gains Self-employment income IRA (including certain Roth IRA) distributions
Change in the amount of adjustments to income	IRA deduction Student loan interest deduction Alimony expense (pre-2019 divorces) Car loan interest deduction
Change in the amount of itemized deductions or tax credits	Medical expenses Taxes Interest expense Gifts to charity Dependent care expenses Education credit Child Tax Credit Earned Income Credit Premium Tax Credit (marketplace health insurance)

Tax Return Due Date

The return is due the 15th day of the 4th month after the end of the tax year (this includes when filed with respect to a decedent or filed by the estate).

- A taxpayer is allowed an automatic 2-month extension to file if, on the regular due date of the return, (s)he is living outside of the U.S. and Puerto Rico due to (1) his or her main place of business or post of duty or (2) on-duty military service.

Publicly Traded Partnerships

A publicly traded partnership (PTP) is any partnership an interest in which is regularly traded on an established securities market regardless of the number of its partners.

- A PTP that has effectively connected income, gain, or loss must pay withholding tax on any distributions of that income made to its foreign partners.
  - In this situation, a PTP must use Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, and Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, to report withholding from distributions.

A taxpayer's net income from a PTP may not be used to offset net losses from other PTPs or net losses from other passive activities. A disallowed loss from a PTP is carried forward and allowed as a deduction in a tax year when the PTP has net income or when the taxpayer disposes his or her entire interest in the PTP.

1.2 Filing Status

The standard deduction amount and applicable tax rates vary with filing status, which is generally determined by the taxpayer's marital status on the last day of the year. The five filing statuses are as follows: married filing jointly (MFJ), married filing separately (MFS), qualifying surviving spouse (QSS), head of household (HH), and single.

Married Filing a Joint Return

Taxpayers can choose married filing jointly as their filing status if they are considered married and both spouses agree to file a joint return. On a joint return, both spouses report combined income and deduct combined allowable expenses. Taxpayers can file a joint return even if one of the spouses had no income or deductions.

- Two individuals are treated as legally married for the entire tax year if, on the last day of the tax year, they are
  - Legally married and cohabiting as spouses
  - Legally married and living apart but not separated pursuant to a valid divorce decree or separate maintenance agreement
  - Separated under a valid divorce decree that is not yet final

NOTE: If a spouse dies, status for each spouse is determined when the spouse dies, unless the surviving spouse remarries before the end of the tax year (in which case the decedent files married filing separate).

A joint return is not allowed if one spouse was a nonresident alien (NRA) at any time during the tax year, unless the U.S. citizen and the NRA spouse so elect and agree to be taxed on their worldwide income.

Generally, if one spouse files separately, so must the other. An exception to this is if the other spouse qualifies for head of household while married. Then one spouse may file separately and the other may file as head of household.

The only way a joint return can be amended from married filing joint to married filing separate is if it is done before the April 15 deadline.

Married individuals who file separate returns may later file a joint (amended) return within the allowed 3-year time frame. Payment of the entire joint tax liability is not required at the time the amended return is filed.

If an individual obtains a marriage annulment (no valid marriage ever existed), the individuals must file amended returns claiming a filing status of single or head of household, whichever applies.

- All prior tax years not closed by the statute of limitations must be amended.

A joint return is signed by both spouses.

Married individuals who file a joint return account for their items of income, deduction, and credit in the aggregate.

- A joint return is allowed when spouses use different accounting methods.
- Spouses with different tax years may not file a joint return.

Same-Sex Spouses

Same-sex couples qualify for married filing status. This only applies to married individuals, not to those in domestic partnerships or civil unions.

Injured Spouse Relief

When a joint return is filed and only one spouse owes a past-due amount, the other spouse can be considered an injured spouse.

- Refunds on a joint tax return may be applied to past-due debts such as
  - Past-due child support
  - Debts to federal agencies
  - State income tax obligations
  - State unemployment compensation debts
- An injured spouse can get a refund for the injured spouse's share of the joint overpayment that would otherwise be used to pay the past-due amount.

To be considered an injured spouse, the taxpayer must

- File a joint return,
- Have reported income (such as wages, interest, etc.),
- Have made and reported tax payments (such as federal income tax withheld from wages or estimated tax payments) or claimed the Earned Income Credit or other refundable credit,
- Not be required to pay a past-due amount, and
- File Form 8379, *Injured Spouse Allocation*, within 3 years from the due date of the return or 2 years from the date the tax was paid, whichever is later. If a return was not filed, the form must be filed within 2 years of the date the tax was paid.
  - A new Form 8379 must be filed for each year a reclaim of a refund is requested.
  - Form 8379 can be filed electronically or by mail to the IRS Service Center where the original return was filed.

Innocent Spouse Relief

Generally, both spouses are responsible for paying the full amount of the tax, interest, and penalties due on a joint return. However, if qualified for innocent spouse relief, a taxpayer may be relieved of part or all of the joint liability.

- Qualifying events include
  - An understatement of tax because the spouse omitted income or claimed false deductions or credits, and the innocent spouse was not aware of the understatement;
  - An understatement of tax, and the innocent spouse is divorced or otherwise no longer living with the spouse; or
  - Given all the facts and circumstances, it is not fair to hold the innocent spouse liable for the tax.
- Innocent spouse relief is only for taxes due on the spouse's income from employment or self-employment.
  - An innocent spouse cannot claim relief for taxes due on
    - Innocent spouse's own income
    - Household employment taxes
    - Individual shared responsibility payments
    - Business taxes
    - Trust fund recovery penalties for employment taxes
- Knowledge of Errors
  - Innocent spouse relief cannot be claimed for understated taxes if
    - The innocent spouse had actual knowledge of the errors on the return
    - A reasonable person in similar circumstances would have known about the errors
  - Actual knowledge exists if the innocent spouse
    - Knew that the spouse received unreported income
    - Knew of facts that made a deduction or credit unallowable
    - Knew that the spouse deducted false or inflated expenses
- Exception for Victims of Domestic Abuse
  - Eligibility for relief is available even if the innocent spouse knew about errors if the innocent spouse
    - Was the victim of spousal abuse or domestic violence before signing the return
    - Did not challenge the items on the return because of fear
    - Signed the joint return because the innocent spouse was pressured or threatened

Related types of relief include separation of liability relief, equitable relief, and relief from liability arising from community property law.

To request relief, file Form 8857, *Request for Innocent Spouse Relief*.

- Innocent spouse relief must be requested within 2 years of receiving an IRS notice of an audit or taxes due because of an error on the return.

Married Filing Separate Returns

Each spouse accounts separately for items of income, deduction, and credit. A spouse who uses his or her own funds to pay expenses of jointly owned property is entitled to any deduction attributable to the payments. MFS is often the least beneficial filing status because many deductions are either limited or disallowed.

Qualifying Surviving Spouse

This status is available for 2 tax years following the year of death of a spouse and may be elected if

- The surviving spouse did not remarry during the tax year.
- The surviving spouse qualified (with the deceased spouse) for married filing joint return status for the tax year of the death of the spouse.
- The surviving spouse maintained a household for the taxable year. Household maintenance means the spouse furnishes more than 50% of the costs to maintain the household for the tax year.
  - The household must be the principal place of abode of a qualifying dependent of the surviving spouse.
  - The dependent must be a son or daughter, a stepson or stepdaughter, or an adopted child. This does not include a foster child. (This is an exception to the general dependent rules covered in Subunit 1.4.)

  NOTE: An adopted child is always treated as the taxpayer’s own child; i.e., the term “child” includes “adopted child.”

Head of Household

An individual qualifies for head of household status if (s)he satisfies conditions with respect to filing status, marital status, and household maintenance.

Filing Status

The individual may not file as a surviving spouse.

Marital Status

Generally, the taxpayer must be unmarried on the last day of the year.

A married person may qualify for head of household status if the conditions under Married Individual on page 17 are satisfied, i.e., considered unmarried.

- An individual is not treated as married for head of household status if the spouse is a nonresident alien at any time during the tax year.

Household Maintenance

An individual must maintain a household that is the principal place of abode for a qualifying individual.

- To maintain a household for federal filing status purposes, an individual must furnish more than 50% of the costs, of mutual benefit, of maintaining the household during the tax year.

Qualifying Expenditures	Nonqualifying Costs
Property tax	Clothing
Mortgage interest	Education
Rent	Medical treatment
Utilities	Life insurance
Upkeep	Transportation
Repair	Vacations
Property insurance	Services by the taxpayer
Food consumed in-home	Services by the dependent

Qualifying Person and Time

The taxpayer must maintain a household that constitutes the principal place of abode for more than half of the taxable year for at least one qualified individual who is

- A qualifying child or
- A qualifying relative. (Both of these are defined in Subunit 1.4.)

Note that there are two special rules concerning a qualifying person:

1. First, the taxpayer with a dependent parent qualifies even if the parent does not live with the taxpayer.
2. Second, if a qualifying child lives with the taxpayer, the qualifying child need not be the taxpayer's dependent. For example, if all regular requirements are met but the custodial parent releases claim to the child as his or her dependent to the noncustodial parent per Form 8332, *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*.

- Otherwise, the IRS maintains that the qualifying individual must occupy the same household (except for temporary absences).

The following table is an additional guide for qualifying children and relatives:

IF the person is a . . .	AND . . .	THEN that person is . . .
qualifying child (such as a son, daughter, or grandchild who lived with the taxpayer more than half the year and meets certain other tests)	(s)he is single	a qualifying person, whether or not the taxpayer can claim the person as a dependent.
	(s)he is married **and** the taxpayer can claim him or her as a dependent	a qualifying person.
	(s)he is married **and** the taxpayer cannot claim him or her as a dependent	not a qualifying person.
qualifying relative who is the taxpayer's father or mother	the taxpayer can claim him or her as a dependent	a qualifying person.
	the taxpayer cannot claim him or her as a dependent	not a qualifying person.
qualifying relative other than the taxpayer's father or mother (such as a grandparent, brother, or sister who meets certain tests)	(s)he lived with the taxpayer more than half the year, **and** (s)he is related to the taxpayer in one of the ways listed under immediate relationships in Subunit 1.4, **and** the taxpayer can claim him or her as a dependent	a qualifying person.
	(s)he did not live with the taxpayer more than half the year	not a qualifying person.
	(s)he is not related to the taxpayer in one of the ways listed under immediate relationships in Subunit 1.4 **and** is the taxpayer's qualifying relative only because (s)he lived with the taxpayer all year as a member of the taxpayer's household	not a qualifying person.
	the taxpayer cannot claim him or her as a dependent	not a qualifying person.

Married Individual

A married individual who lives with a dependent apart from the spouse will be considered unmarried and qualify for head of household status if, for the tax year,

- The individual files separately;
- The individual pays more than 50% toward maintaining the household;
- The spouse is not a member of the household for the last 6 months;
- The household is the principal home of the individual's child, stepchild, or qualified foster child for more than half the year; and
- The individual can claim the child as a dependent.

Example 1-3 Head of Household Filing Status

Hector and Maria are married with one child. Hector moves out of the residence in May. They are not divorced by the end of the year. Maria maintains the household for the remainder of the year and claims the child on her individual tax return. Maria may claim head of household status. Hector would then be required to file as married filing separately.

Single

An individual must file as an unmarried individual if (s)he neither is married nor qualifies for surviving spouse or head of household status.

Example 1-4 Filing Status -- Year of Separation

George and Rebecca married 5 years ago. At the end of the current year, they were legally separated under a final decree of separate maintenance. They are considered unmarried for the year and, if neither has a qualified dependent, they will each file as single individuals.

1.3 Filing Requirements

An individual must file a federal income tax return if gross income is above a threshold, net earnings from self-employment is $400 or more, or (s)he is a dependent (i.e., listed on another person's tax return) with more gross income than the standard deduction or with unearned income over $1,350.

The Standard Deduction

Taxable income (TI) is adjusted gross income (AGI) minus the greater of (1) itemized deductions or (2) the standard deduction, then minus the qualified business income deduction (QBID), the tips deduction, the overtime deduction, the car loan deduction, and, finally, the enhanced deduction for seniors.

	Adjusted Gross Income
–	**Greater of Itemized Deductions or Standard Deduction**
–	**Qualified Business Income Deduction (QBID)**
–	**Tips Deduction**
–	**Overtime Deduction**
–	**Car Loan Deduction**
–	**Enhanced Deduction for Seniors**
=	**Taxable Income**

The taxpayer generally itemizes deductions if the total allowable itemized deductions is greater than the standard deduction. Otherwise, the taxpayer claims the standard deduction. A person must elect to itemize, or no itemized deductions will be allowed.

- Election is made by filing Schedule A of Form 1040.
- Election in any other taxable year is not relevant.
- Election may be changed by filing an amended return (Form 1040-X).

The standard deduction is the sum of the basic standard deduction and additional standard deductions.

Ineligible

The following persons are not allowed the standard deduction:

- Persons who itemize deductions
- Nonresident alien individuals
- Individuals who file a "short period" return
- A married individual who files a separate return and whose spouse itemizes
- Partnerships, estates, and trusts
- Corporations

Example 1-5 Ineligible Standard Deduction

Gary and Sara Beers are married but file separately. Gary has AGI of $40,000 and $8,200 of itemized deductions. Sara has $30,000 of AGI and $17,000 of itemized deductions. Gary and Sara can elect to take the standard deduction of $15,750 each. If they elect to itemize, Gary will have itemized deductions of $8,200 and Sara will have itemized deductions of $17,000. If either Gary or Sara choose to itemize, the other is required to itemize.

Basic Standard Deduction

The basic standard deduction amount depends on filing status and dependency status on another's return. The table below lists the amount per filing status.

- The basic standard deduction amount of a child under age 19 or a student under age 24 who can be claimed as a dependent on another individual's income tax return is limited to the greater of either
  - $1,350 or
  - Earned income for the year plus $450 up to $15,750 (i.e., the applicable single standard deduction).
- Earned income does not include dividends or capital gains from the sale of stock.

Additional Standard Deduction

Additional standard deduction amounts, indexed for inflation, appear in the table below.

- An individual who has attained the age of 65 or is blind is entitled to the amount.
  - "Blind" in this context means no better than 20/200 vision in the better eye even with corrective lenses.
- The individual is entitled to the amount if (s)he attains age 65 before the end of the tax year
  - Even if (s)he dies before the end of the year
  - But not if (s)he dies before attaining age 65, even if (s)he would have otherwise reached age 65 before year's end.
- A person who becomes blind on or before the last day of the taxable year is entitled to the amount.
- Once qualified, the standard deduction is allowed in full.
  - It is not prorated if a person dies during a tax year.
- An individual who has reached age 65 **and** is blind is entitled to two deductions.

2025 Standard Deduction Amounts		
Filing Status	**Basic**	**Additional**
Married Filing Jointly	$31,500	$1,600
Qualifying Surviving Spouse	31,500	1,600
Head of Household	23,625	2,000
Single (other than above)	15,750	2,000
Married Filing Separately	15,750	1,600

Example 1-6 Standard Deduction -- Head of Household

Toni Mills, 52, qualifies as head of household. Her basic standard deduction is $23,625. She does not qualify for an additional standard deduction.

Example 1-7 Additional Standard Deduction -- Head of Household

Mike Forth is 68, legally blind, and qualifies as head of household. His basic standard deduction is $23,625. He also qualifies for two additional standard deductions of $4,000 ($2,000 for being 65 or older + $2,000 for being blind). His total standard deduction is $27,625.

Example 1-8 Additional Standard Deduction -- Married Filing Jointly

Adam and Betty Washington are both over 65 and legally blind. They are married and file a joint return. They qualify for four additional standard deductions (one each for being over 65 and one each for being blind). Their total standard deduction for the year is $37,900 [$31,500 basic standard deduction + ($1,600 × 4 additional standard deductions)].

Example 1-9 Standard Deduction -- Head of Household

Joni Woodson is unmarried and fully supports her 72-year-old mother. Joni qualifies as head of household. Joni's basic standard deduction is $23,625. Joni may not claim the additional standard deduction for her dependent mother.

Gross Income Filing Threshold

The gross income filing threshold amount generally is the standard deduction (excluding any amount for being blind).

- The first exception to the general rule is the $5 filing threshold for married filing separately taxpayers.
- The second exception is that, except for married filing separately, the filing requirement limitations are increased for taxpayers by the additional standard deductions for being over 65, but not for being blind.

NOTE: Gross income does not include any Social Security benefits unless (1) the taxpayer(s) is (are) married filing a separate return and lived with the spouse at any time during the year or (2) one-half of the Social Security benefits plus other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly).

Married individuals filing separately are not allowed to include the standard deduction in the threshold computation because if one taxpayer itemizes his or her deductions, the other is required to itemize.

Each individual who is over age 65 is entitled to an additional standard deduction when calculating the gross income threshold.

Additional Standard Deduction	
Married Filing Jointly Qualifying Surviving Spouse Married Filing Separately	$1,600
Head of Household Single	$2,000

Any personal residence disposition gain that was excluded and any foreign-earned income that was excluded must be added back to gross income for purposes of this filing requirement.

Example 1-10 Gross Income Filing Requirements

Josie is retired and receives only $2,500 in interest income for the year. She sold her residence, which she has lived in for over 10 years, for $180,000 with a gain of $40,000. Even though any gain on the sale of the residence is excluded from income, Josie is required to file an income tax return because the gain is added to gross income for filing purposes.

Special conditions may also require filing, e.g., liability for a special tax, such as AMT or receipt of wages from a church.

Even if not required, an individual should file to obtain a refund and possibly to establish a record and trigger running of statutes of limitation.

Signature Requirement

The taxpayer, the taxpayer's spouse, and the paid return preparer all must sign the completed return, declaring under penalty of perjury that they have examined the return and the accompanying schedules and statements and, to the best of their knowledge and belief, the return and schedules are true, correct, and complete.

- The penalty of perjury means if the taxpayer willfully makes and subscribes any return, statement, or other document that the taxpayer does not believe to be true and correct as to every material matter, the taxpayer has committed a felony and could be penalized up to $250,000 (for an individual).

Due Date

Generally, the income tax return must be filed (postmarked) not later than the 15th day of the 4th month following the close of the tax year. This is April 15 for calendar-year taxpayers. If the 15th day is a Saturday, a Sunday, or a legal holiday, the due date is the next day that is not a Saturday, a Sunday, or a legal holiday.

- An **automatic extension** of 6 months is provided for an individual who files Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*, or makes the required tax payment on or before the initial due date.

- A U.S. citizen or resident who is on **military or naval duty outside the U.S.** (or Puerto Rico) on April 15 is given an automatic 2-month extension without the necessity of filing Form 4868.
  - Filing of Form 4868 during the 2 months will allow another 4-month extension.

The due date for a decedent's final return is the date on which the return would have been due if death had not occurred.

A Form 1040-NR **nonresident alien's** tax return (when not subject to wage withholding) must be filed by the 15th day of the 6th month after the close of the tax year (unless extended).

- A nonresident alien must file his or her tax return on the 15th day of the 4th month after the close of the tax year (unless extended) if his or her wages are subject to withholding.

Liability Payment

Tax liability must be paid when the return must be filed. Automatic extension for filing the return does not extend time for payment.

- Interest will be charged from the original due date.
- A penalty of 5% per month up to 25% of unpaid liability is assessed for failure to file a return.
- In general, a failure to pay penalty is imposed from the due date for taxes (other than the estimated taxes) shown on the return.
  - The penalty is 0.5% per month of the tax not paid, up to 25%.
  - A failure to pay penalty may offset a failure to file penalty.
  - When an extension to file is timely requested, a failure to pay penalty may be avoided by paying an estimate of unpaid tax in conjunction with the extension request.
    - The payment may not be less than 90% of the actual tax liability due, and the balance must be paid when the return is filed.
    - Exceptions and adjustments to these rules do apply in unique situations.

Recordkeeping

Books of account or records sufficient to establish the amount of gross income, deductions, credit, or other matters required to be shown in any tax or information return must be kept.

- Records must be maintained as long as the contents may be material in administration of any internal revenue law.
- Employers are required to keep records on employment taxes until at least 4 years after the due date of the return or payment of the tax.

Employee Identification Number (EIN)

If an individual is required to report employment taxes or give tax statements to employees, (s)he must have an EIN.

- The EIN is a 9-digit number the IRS issues to identify the tax accounts of employers.

Employer Penalties

Penalties are applied when an employer fails to make a required deposit of taxes on time.

- The penalties do not apply if any failure to make a proper and timely deposit was due to reasonable cause and not to willful neglect.
- For amounts not properly or timely deposited, the penalty rates are
  - 2% for deposits made 1 to 5 days late
  - 5% for deposits made 6 to 15 days late
  - 10% for deposits made 16 or more days late

Author's Note

The exception for a 15% rate is beyond the scope of the exam and therefore not covered in detail.

Identity Protection Personal Identification Number (IP PIN)

The IRS IP PIN is a 6-digit number assigned to eligible taxpayers to help prevent the misuse of their Social Security numbers on fraudulent federal income tax returns. The IP PIN helps the IRS verify a taxpayer's identity and accept their electronic or paper tax return.

- If a return is e-filed with the taxpayer's SSN and an incorrect or missing IP PIN, the IRS system will reject it until the return is submitted with the correct IP PIN or filed on paper. If the same conditions occur on a paper-filed return, the IRS will delay its processing and any refund that may be due for taxpayer protection while the IRS determines if the return is the taxpayer's.

1.4 Dependents

The rules pertaining to qualified dependents determines a taxpayer's eligibility for various valuable tax credits, specific deductions, and certain favorable filing statuses, all of which can significantly reduce the tax bill or increase a refund. For example, as discussed in Subunit 1.2, having dependents is required for qualifying for Head of Household. It is also required to qualify for the Child Tax Credit, certain Earned Income Credit amounts, and to claim medical expense deductions for others. Therefore, it is important to learn the rules qualifying someone as a dependent of the taxpayer.

Dependent Status

To qualify as a dependent, the individual must be a qualifying child or a qualifying relative. A spouse is never considered a dependent.

Qualifying Child

To be a qualifying child, four tests must be met:

1. Relationship – The child must be the taxpayer's son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, or any descendant of any such relative. Adopted individuals and eligible foster children meet the relationship test.

NOTE: An adopted child is always treated as the taxpayer's own child; i.e., the term "child" includes "adopted child."

2. Age – The child must, at the end of the year, be (a) under the age of 19, (b) a full-time student under the age of 24, or (c) any age if permanently and totally disabled. Full-time student status requires 5 months of enrollment or registration at a school or in an on-farm training course.
3. Principal Residence – The child must have the same principal place of abode as the taxpayer for more than half of the year.
4. Not Self-Supporting – The child must not have provided over half of his or her own support.

Qualifying Relative

To be a qualifying relative, four tests must be met.

1. Relationship or residence. An individual must satisfy either a relationship or a residence requirement to qualify as a dependent.
   - The residence requirement is satisfied for any individual who merely resides with a potential claimant (of the dependent) for the entire tax year.
   - The relationship requirement is satisfied by existence of an extended (by blood) or immediate (by blood, adoption, or marriage) relationship. The relationship need be present to only one of the two married persons who file a joint return. Any relationship established by marriage is not treated as ended by divorce or by death.
     - Extended relationships: grandparents and ancestors; grandchildren and descendants; uncles or aunts; nephews or nieces
     - Immediate relationships
       - Parent: natural, adoptive, stepparent; father or mother-in-law
       - Child: natural, adoptive, stepchild; son or daughter-in-law; foster child
       - Sibling: full or half brother or sister; adoptive brother or sister; stepbrother or sister; brother or sister-in-law

   NOTE: A cousin can only be claimed as a dependent if (s)he lived with the taxpayer all year.
2. Gross income of the individual (to be claimed as a dependent) must be less than $5,200 for 2025.
   - Gross income for the gross income dependency test is all income that is received but not exempt from tax.
     - Any expenses from rental property do not reduce rental income.
     - Gross income from a business is the total net sales minus the cost of goods sold, plus any miscellaneous income from the business.
     - Gross income includes all unemployment compensation.
     - Social Security benefits are generally excluded from gross income unless additional income is received.
     - Municipal bond interest is exempt from tax.

Example 1-11 Qualifying Relative

Allan Cripes, 22, earned $6,600 working part time while attending school full time. Allan lives with Doris, his cousin, the entire year. Doris pays more than one-half of Allan’s support. Allan will not be a dependent of Doris since Allan exceeds $5,200 of gross income.

3. Support. The person who may claim an individual as a dependent must provide more than 50% of the (economic) support of the individual for the year.
   - Support includes welfare benefits, Social Security benefits, and any support provided by the dependency exemption claimant, the dependent, and any other person.
   - Only amounts provided during the calendar year qualify as support. Amounts paid in arrears (i.e., payment for child support for a previous year) are not considered as support for the current year.
   - Support includes money and items, or amounts spent on items, such as
     - Food, clothing, shelter, utilities
     - Medical and dental care and insurance
     - Education
     - Child care, vacations, etc.
   - Certain items (or amounts spent on them) have been excluded (not been treated as support), e.g., scholarship received by a dependent, taxes, medical insurance benefits, and life insurance premiums.
     - The purchase of capital items (e.g., furniture, appliances, and cars) cannot be included in total support if they are purchased for personal and family reasons and benefit the entire household.
   - The amount of an item of support provided in a form other than cash is usually its cost, if purchased, or FMV, if otherwise obtained.
   - Support received as a single amount is prorated among more than one possible dependent, e.g., three children.
   - A divorced or separated individual need not meet the support test if (s)he and the (ex-)spouse meet (or have met) the following conditions:
     - Provided more than 50% of the support
     - Had (between them) custody for more than 50% of the year
     - Lived apart for the last half of the year
     - Did not have a multiple support agreement in effect

     NOTE: The parent having custody for more than 50% of the year is entitled to the dependency exemption, but the dependency exemption may be allocated to the noncustodial parent if there is an agreement signed by the custodial parent and attached to the noncustodial parent's return.
   - Multiple support agreement (Form 2120). One person of a group that together provides more than 50% of the support of an individual may, pursuant to agreement, be allowed the dependency exemption.
     - The person must be otherwise eligible to claim the dependency exemption and must provide more than 10% of the support.
     - No other person may provide more than 50% of the support.
     - Each other person in the group who provided more than 10% of the support must sign a written consent filed with the return of the taxpayer who claims the dependency exemption.

4. The individual must not be a qualifying child of the taxpayer or any other taxpayer.
   - A child being adopted is eligible to be claimed as a dependent by the adopting parents if an identifying number for the child is obtained. Initially, an adoption taxpayer identification number (ATIN) is assigned.
   - Both a dependent who dies before the end of the calendar year and a child born during the year may be claimed as dependents.

Qualifying as a Dependent

Special rules apply to individuals qualifying as a dependent:

- Dependent taxpayer test
  - If an individual meets the requirements to be classified as a dependent on another person's tax return, the individual (dependent) will be treated as having no dependents for the tax year.
- Filing status (occasionally referred to as the joint return test)
  - An individual does not qualify as a dependent on another's return if the individual is married and files a joint return.
  - However, such an individual can qualify as a dependent if (s)he files a joint return solely to claim a refund of withheld tax without regard to the citizenship test.

Example 1-12 Filing by Dependents to Obtain a Refund

Mr. and Mrs. Kind provided more than half the support for their married daughter and son-in-law who lived with the Kinds all year. Neither the daughter nor the son-in-law is required to file a 2025 tax return. They do so only to get a refund of withheld taxes. The Kinds may claim the daughter and the son-in-law as dependents on their 2025 joint return.

- Citizenship or resident
  - To qualify as a dependent, an individual must be, for any part of the year, a U.S. citizen, resident, or national, or a Canadian or Mexican resident.

Example 1-13 Citizenship of Dependents

Resident aliens living in the U.S. provide all the support for their four minor children even though they all live with various relatives in other countries. One is in Mexico, two others are in Canada, and the fourth is in Chile. All family members are citizens of Chile. The resident aliens may claim dependent exemptions for only the three children residing in Mexico and Canada.

- Taxpayer identification number
  - The taxpayer must provide the correct taxpayer identification number (TIN) of a dependent on the income tax return.

Overview of the Rules for Claiming a Dependent

This table is only an overview of the rules.

- A taxpayer cannot claim any dependents if the taxpayer, or the spouse if filing jointly, could be claimed as a dependent by another taxpayer.
- A taxpayer cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.
- A taxpayer 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.
- A taxpayer cannot claim a person as a dependent unless that person is the taxpayer's **qualifying child** or **qualifying relative**.

Tests to Be a Qualifying Child	Tests to Be a Qualifying Relative
1. The child must be a son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them. Adopted individuals qualify. 2. The child must be (a) under age 19 at the end of the year and younger than the taxpayer (or the spouse if filing jointly); (b) under age 24 at the end of the year, a student, and younger than the taxpayer (or the spouse if filing jointly); or (c) any age if permanently and totally disabled. 3. The child must have lived with the taxpayer for more than half of the year. 4. The child must not have provided more than half of his or her own support for the year. 5. The child is not filing a joint return for the year (unless that joint return is filed only as a claim for refund of withheld income tax 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.	1. The person cannot be the taxpayer's qualifying child or the qualifying child of anyone else. 2. The person either (a) must be related to the taxpayer in one of the ways listed previously under Immediate relationships or (b) must live with the taxpayer all year as a member of the taxpayer's household (and the taxpayer's relationship must not violate local law). 3. The person's gross income for the year must be less than $5,200. 4. The taxpayer must provide more than half of the person's total support for the year.

1.5 Dependent's Unearned Income

The standard deduction for a dependent with unearned income is limited to the greater of $1,350 or the amount of earned income plus $450.

Example 1-14 Standard Deduction of Dependent

If a dependent has $900 or less of earned income, the standard deduction is $1,350. If a dependent has more than $900 and less than $15,300 of earned income, the standard deduction is earned income plus $450. If a dependent has $15,300 or more of earned income, the standard deduction is $15,750.

Kiddie Tax

For 2025, net unearned income (NUI) of a dependent under 19 (under 24 for full-time students) at the close of the tax year is taxed to the dependent at the parent's marginal rate. This is referred to as the "kiddie" tax.

- Net unearned income is unearned income minus the sum of
  - $1,350 (first $1,350 clause) and
  - The greater of (1) $1,350 of the standard deduction or $1,350 of itemized deductions or (2) the amount of allowable deductions that are directly connected with the production of unearned income.

Example 1-15 Taxable Income of a Dependent Child

Chris, dependent child age 5, has $5,100 of unearned income and no earned income. How much of his income may be taxed at the parent's marginal rate?

Unearned income	$5,100
First $1,350 clause	(1,350)
Standard deduction	(1,350)
Net unearned income	**$2,400**

Example 1-16 Kiddie Tax

Melvin, an unmarried individual age 15, is claimed as a dependent by his parents. He received income of $6,450 from earnings and had taxable interest of $2,800 on a savings account. Melvin's taxable income is $2,350 [$9,250 gross income ($6,450 + $2,800) – $6,900 standard deduction ($6,450 + $450)]. The amount taxed at the parents' marginal rate is $100 ($2,800 unearned income – $1,350 – $1,350). The amount taxed at Melvin's tax rate is $2,250 ($2,350 taxable income – $100 taxed at his parents' marginal tax rate).