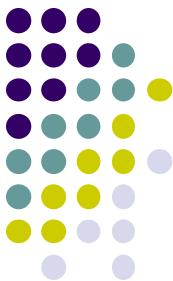




## (2) Individual Income Tax Overview, Exemptions, and Filing Status

***Edwin Renán Maldonado***  
*Catedrático – Universidad de Puerto Rico*  
*Seg. Sem. 2017-18*



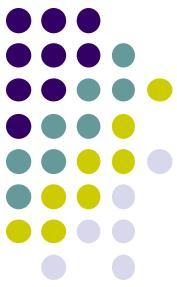
# Textbook: Taxation of Individuals and Business Entities, Spilker

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Taxation of Individuals and Business Entities, 2017 Ed., Spilker which is the textbook assigned for the course CONT 4076 – “Aspectos Contributivos de Individuos” at the University of Puerto Rico, Río Piedras Campus.

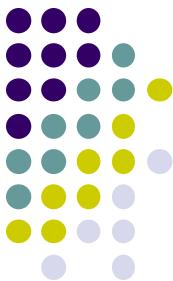


# Learning Objectives

1. Identify the filing requirements for income tax returns.
2. Describe the formula for calculating an individual's tax liability and generally explain each formula component.
3. Explain the requirements for determining a taxpayer's personal and dependency exemptions.
4. Determine a taxpayer's filing status.



# Taxpayer Filing Requirements



# Taxpayer Filing Requirements

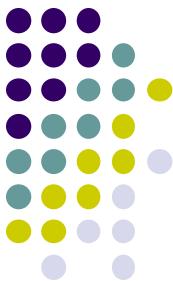
## 1.1 Filing Requirements - General



# Taxpayer Filing Requirements

## 1.1 Filing Requirements - General

- Each year, taxpayers file tax returns to report their taxable income (the tax base to calculate the income tax) to the Internal Revenue Services (IRS).
- However, taxpayers are required to file a tax return only if their gross income exceeds certain thresholds.



# Taxpayer Filing Requirements

## 1.2 Filing Requirements



# Taxpayer Filing Requirements

## 1.2 Filing Requirements

1. **Corporations:** All corporations must file regardless their gross income.



# Taxpayer Filing Requirements

## 1.2 Filing Requirements

2. **Estates and Trusts:** An Estate or a Trust is required to file if gross income exceeds \$600.



# Taxpayer Filing Requirements

## 1.2 Filing Requirements

3. **Individuals:** Individual taxpayers are required to file a income tax return based on:
  - a. Taxpayer's filing status
  - b. Age
  - c. Gross income

*See the table in next page with the general rule regarding the thresholds for an individual.*

# Taxpayer Filing Requirements

## Thresholds - Filing Status – Tax Year 2017



Status	Standard Deduction	Personal Exemption	Minimum Gross Income Required to File Tax Return (Standard Deduction + Personal exemption)
Single	\$6,350	\$4,050	\$10,400
Head of Household	9,350	4,050	13,400
Married, Joint Return	12,700	8,100	20,800
Married, Separate Return	6,350	4,050	10,400
Surviving Spouse	12,700	4,050	16,750

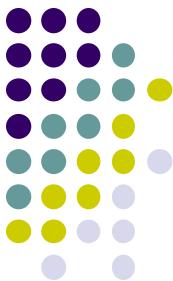


# Taxpayer Filing Requirements

## Example 1

- Jonathan, single, earned \$11,000 in salary during 2017.

*Determine if Jonathan is required to file a Federal Income Tax Return for the taxable year 2017.*



# Taxpayer Filing Requirements

## Example 1

- Jonathan, single, earned \$11,000 in salary during 2017.

*Determine if Jonathan is required to file a Federal Income Tax Return for the taxable year 2017.*

The minimum gross income required for a single individual to file an income tax return is \$10,400. The \$11,000 salary income exceeds the threshold of \$10,400. Jonathan is required to file an income tax return for 2016.

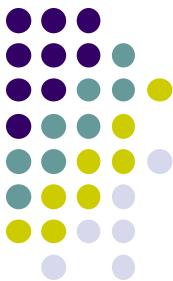


# Taxpayer Filing Requirements

## 1.2 Filing Requirements

3. **Individuals:** Taxpayers 65 years of age or over and/or blind are entitled to an additional standard deduction as follows:

Status	Additional Standard Deduction (65 or older)
Single	\$1,550
Head of Household	1,550
Married, Joint Return	1,250
Married, Separate Return	1,250
Surviving Spouse (Qualifying widower)	1,250



# Taxpayer Filing Requirements

## 1.2 Filing Requirements

3. **Individuals:** Consequently, to determine the minimum gross income required for an individual taxpayer to file a tax return, the corresponding additional standard deduction must be added, if applicable.



# Taxpayer Filing Requirements

## Example 2

- Jonathan, single, earned \$11,000 in salary during 2017. Jonathan is 70 years old.

*Determine if Jonathan is required to file a Federal Income Tax Return for the taxable year 2017.*



# Taxpayer Filing Requirements

## Example 2

- Jonathan, single, earned \$11,000 in salary during 2017. Jonathan is 70 years old.

*Determine if Jonathan is required to file a Federal Income Tax Return for the taxable year 2017.*

The minimum gross income required for a single individual to file an income tax return is \$11,950 (\$10,400 + \$1,550). A taxpayer 65 years age or over is entitled to an additional standard deduction of \$1,550.

The \$11,000 salary income does not exceed the threshold of \$11,950. Jonathan is NOT required to file an income tax return for 2017.



# Taxpayer Filing Requirements

## 1.3 Tax Return Due Date



# Taxpayer Filing Requirements

## 1.3 Tax Return Due Date

- **Individuals:** 15<sup>th</sup> day of 4<sup>th</sup> month following end of tax year.
  - Usually April 15<sup>th</sup> because individuals are usually on a calendar year.
- **Corporations:** 15<sup>th</sup> day of the 3<sup>rd</sup> month following end of tax year.



# Taxpayer Filing Requirements

## 1.3 Tax Return Due Date

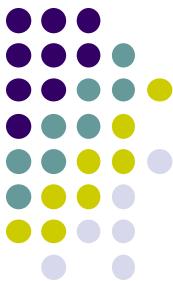
- **Business Day:** Due dates on a Saturday, Sunday, or holiday are extended to next business day.
- **Extension:** Individuals and corporations are allowed to apply for an automatic 6 month extensions.



# Taxpayer Filing Requirements

## Example 3

- Corporation XYZ, Inc. has a tax year which ends on August 31<sup>st</sup>. When will the tax return be due?

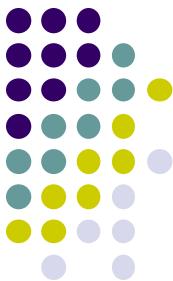


# Taxpayer Filing Requirements

## Example 3

- Corporation XYZ, Inc. has a tax year which ends on August 31<sup>st</sup>. When will the tax return be due?

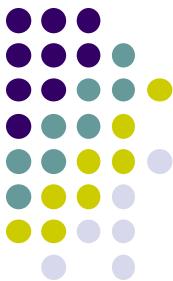
**November 15<sup>th</sup>**



# Taxpayer Filing Requirements

## Example 4

- Assume they filed an extension, when would the tax return be due?



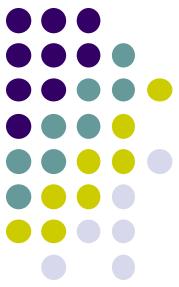
# Taxpayer Filing Requirements

## Example 4

- Assume they filed an extension, when would the tax return be due?

**May 15<sup>th</sup>**

# Individual Income Tax





# Individual Income Tax

## 2.1 Tax Return



# Individual Income Tax

## 2.1 Tax Return

- Individuals report their taxable income to the IRS filing the:

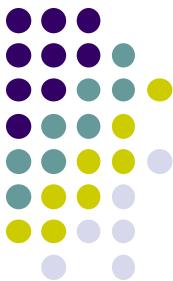
Form 1040

**U.S. Individual Income Tax Return**



# Individual Income Tax

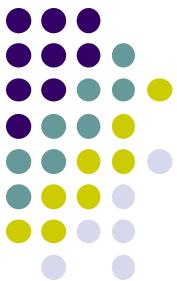
## 2.2 Formula



# Individual Income Tax

## 2.2 Formula

- Gross income
  - *Minus: For AGI deductions*
- Adjusted gross income
  - *Minus: From AGI deductions:*
    - *Greater of (a) Standard deduction or*
    - (b) Itemized deductions*
  - and
  - *Personal and dependency exemption*
- Taxable income



# Individual Income Tax

- Taxable income
  - *Times:* Tax rates
- Income tax liability
  - *Add:* Other taxes
- Total tax
  - *Minus:* Credits
  - *Minus:* Prepayments
- Taxes due or (refund)



# Individual Income Tax

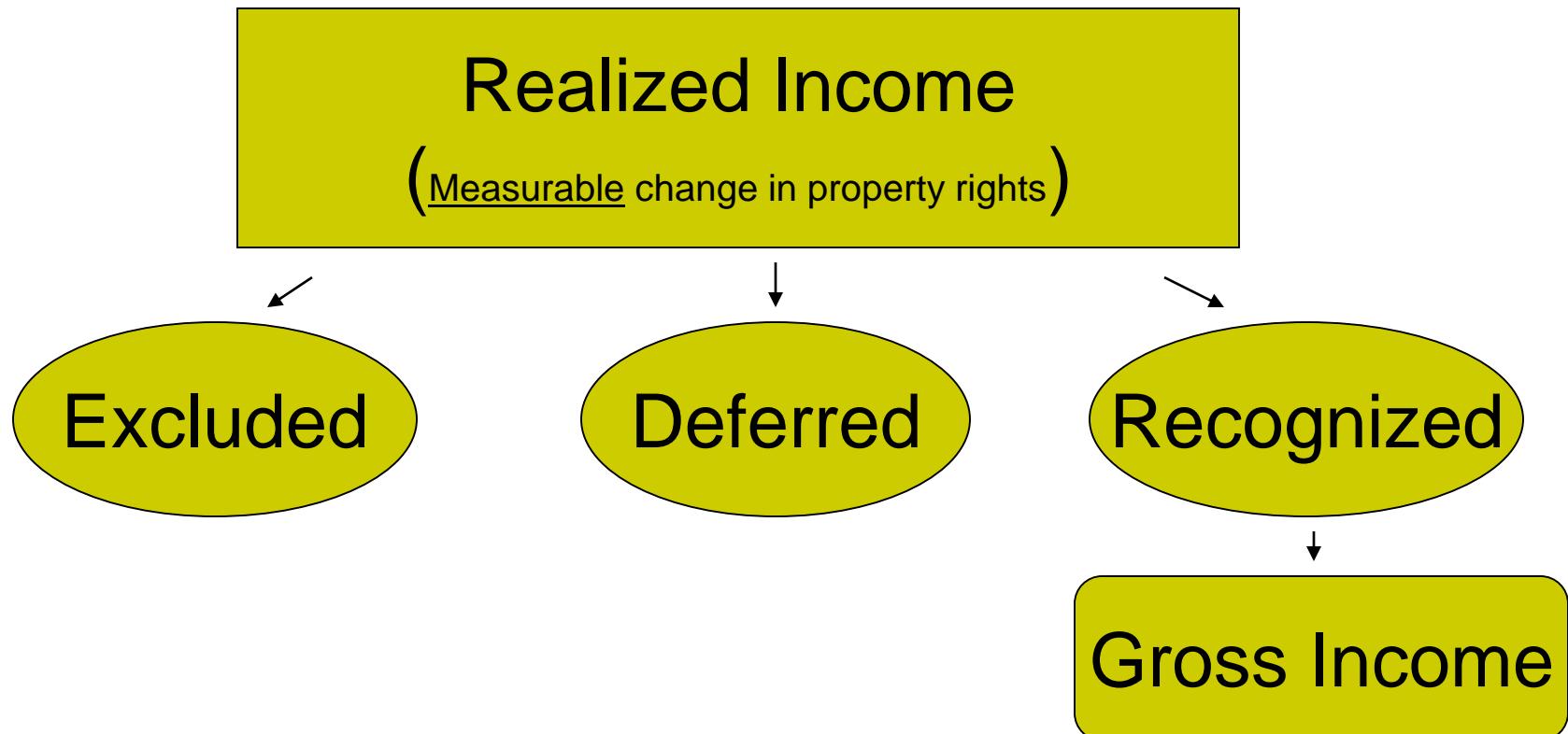
## 2.3 Gross Income



# Individual Income Tax

## 2.3 Gross Income

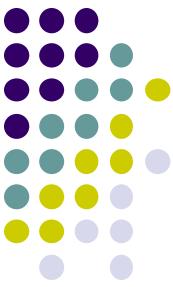
- U.S. tax laws use *all-inclusive gross income concept*:





# Individual Income Tax

## 2.4 Deduction for AGI



# Individual Income Tax

## 2.4 Deduction for AGI

Gross Income

Less:

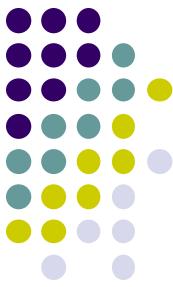
Deductions for AGI

1. Business expenses  
(sole-proprietorship)
1. Some Personal Expenses

Deductions  
above the line



Adjusted Gross Income

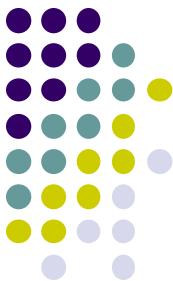


# Individual Income Tax

## Example 5

- Taxpayer salary income for 2017 is \$50,000. Taxpayer did not earn any other revenue during the taxable year. Deductible personal expenses are not claimed for 2017.

***What is his Gross Income and Adjusted Gross Income?***



# Individual Income Tax

## Example 5

*What is his Gross Income and Adjusted Gross Income?*

<b>Gross Income</b>	<b>\$50,000</b>
<b>Less: Deductions for AGI</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b><u>\$50,000</u></b>

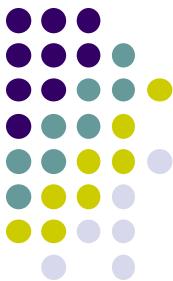


# Individual Income Tax

## Example 6

- Taxpayer owns a professional accounting firm organized as self-proprietorship. Service income for 2017 is \$150,000 and business expenses totaled \$60,000. Taxpayer did not earn any other revenue during the taxable year. Deductible personal expenses are not claimed for 2017.

***What is his Gross Income and Adjusted Gross Income?***



# Individual Income Tax

## Example 6

*What is his Gross Income and Adjusted Gross Income?*

<b>Gross Income</b>	<b>\$150,000</b>
<b>Less: Deductions for AGI</b>	<b><u>60,000</u></b>
<b>Adjusted Gross Income</b>	<b><u>\$ 90,000</u></b>

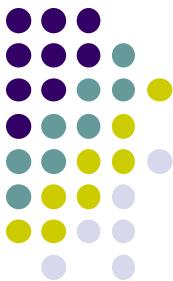


# Individual Income Tax

## Example 7

- Taxpayer owns a professional accounting firm organized as self-proprietorship. Service income for 2017 is \$150,000 and business expenses totaled \$60,000.
- In addition, Taxpayer earned salary income of \$50,000 during the taxable year. Deductible personal expenses are not claimed for 2017.

*What is his Gross Income and Adjusted Gross Income?*



# Individual Income Tax

## Example 7

*What is his Gross Income and Adjusted Gross Income?*

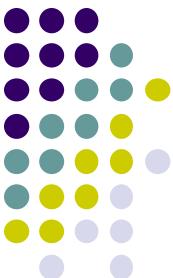
<b>Gross Income</b>	<b>\$200,000*</b>
<b>Less: Deductions for AGI</b>	<b><u>60,000</u></b>
<b>Adjusted Gross Income</b>	<b><u>\$140,000</u></b>

\* \$150,000 business income + \$50,000 salary.



# Individual Income Tax

## 2.5 Deduction from AGI



# Individual Income Tax

## 2.5 Deduction from AGI

Adjusted Gross Income

Less:

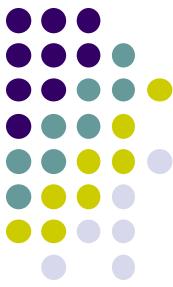
Deductions from AGI

1. Standard deduction or itemized deductions (Greater of).
2. Personal Exemption
3. Dependency Exemption

Deductions  
below the line



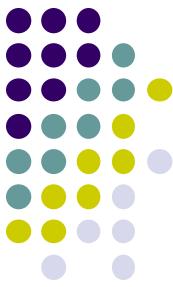
Taxable Income



# Individual Income Tax

## 2.5.1 Standard Deduction

- 2017 Standard deduction amounts:
  - \$12,700 Married filing jointly
  - \$12,700 Qualifying widow or widower
  - \$6,350 Married filing separately
  - \$9,350 Head of household
  - \$6,350 Single
- Additional standard deduction amounts for age (65 years of age or over) and eyesight (blind).
  - Single and head of household: \$1,550
  - Married (joint return) and surviving spouse: \$1,250



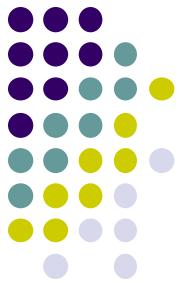
# Individual Income Tax

## 2.5.2 Exemptions

- 2016 and 2017 Dependency and Personal Exemption amount for each taxpayer and each dependent is:

**\$4,050**

# Individual Income Tax



## 2.5.2 Exemptions

### 1. Personal exemptions

- One personal exemption for taxpayer and another personal exemption for spouse, if married filing jointly.

### 2. Dependency exemptions

- For those who qualify as the taxpayers' dependents.
- Exemption amount for 2016 and 2017 is \$4,050.



# Individual Income Tax

## Example 8

- Taxpayer, single, has an adjusted gross income of \$50,000 for 2017. His itemized deductions amount \$7,000. The taxpayer claimed one dependent.

***What is his Taxable Income?***



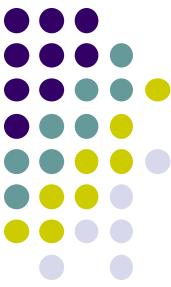
# Individual Income Tax

## Example 8

***What is his Gross Income and Adjusted Gross Income?***

<b>Adjusted Gross Income</b>	<b>\$ 50,000</b>
<b>Less: Standard or <u>Itemized</u></b>	<b>7,000*</b>
<b>Personal exemption</b>	<b>4,050</b>
<b>Dependency exemption</b>	<b><u>4,050</u></b>
<b>Taxable Income</b>	<b><u>\$ 34,900</u></b>

\* *The greater of standard deduction of \$6,350 or itemized deduction of \$7,000.*



# Individual Income Tax

## Example 9

- Taxpayer, married, has an adjusted gross income of \$50,000 for 2017. The itemized deductions amount \$7,000. The taxpayer claimed one dependent. Taxpayer files as married filing jointly. His wife earned no income during 2017.

***What is their Taxable Income?***



# Individual Income Tax

## Example 9

*What is their taxable income?*

Adjusted Gross Income	\$ 50,000
Less: <u>Standard or Itemized</u>	12,700*
Personal exemptions	8,100
Dependency exemption	<u>4,050</u>
Taxable Income	<u>\$ 25,150</u>

*\*The greater of standard deduction of \$12,700 or itemized deduction of \$7,000.*



# Dependency Exemptions



# Dependency Exemptions

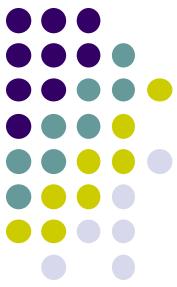
## 3.2 Dependency requirements



# Dependency Exemptions

## 3.2 Dependency requirements

- A dependent must comply with ALL of the following requirements:
  1. Citizen of U.S. or resident of U.S., Canada, or Mexico.
  2. Must *not* file joint return with spouse.
    - a. Exception – if no tax liability filing jointly or separately
  - a. Must be :
    - a. **qualifying child** or
    - b. **qualifying relative** of taxpayer.



# Dependency Exemptions

## 3.3 Qualifying Child



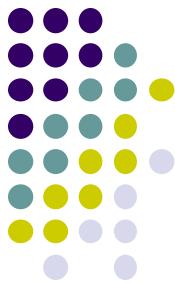
# Dependency Exemptions

## 3.3 Qualifying Child

- A qualifying child must comply with ALL of the following tests:
  1. Relationship test
  2. Age test
  3. Residence test
  4. Support test

# Dependency Exemptions

## Qualifying Child



### 3.3.1 Relationship test

- The child is the taxpayer's
  - son, daughter,
  - stepchild,
  - an eligible foster child,
  - brother, sister, half brother, half sister, stepbrother, stepsister or
  - a descendant of any of these relatives.



## Dependency Exemptions

### Qualifying Child

#### 3.3.2 Age test

- Child must be younger than the individual claiming the child as a qualifying child and either:
  - **General Rule:** Under age 19 at the end of the year. (18 yrs. old)
  - **Full Time Student:** Under age 24 at the end of the year. (23 yrs. old)
  - **Permanently and totally disabled.** (any age)



# Dependency Exemptions

## Qualifying Child

### 3.3.3 Residence test

- Same residence as taxpayer for more than half the year.
  - Exception for temporary absences such as education, sickness.



## Dependency Exemptions

### Qualifying Child

#### 3.3.4 Support test

- Child must not provide more than half of his or her own support.
- Scholarships of actual child (not grandchild, for example) are excluded from support computation.



# Dependency Exemptions

## Qualifying Child

### Example 10

- Rodney and Anita have two children:
  1. **Braxton**, age 12, who lives at home, and
  2. **Tara**, age 21 who is a full-time student and does not live at home (temporary absence-school).

While Tara earned \$9,000 in a summer job, she did not provide more than half of her own support during the year.

*Are Braxton and Tara qualifying children to Rodney and Anita?*

# Dependency Exemptions

## Qualifying Child

### Example 10



Test	Braxton	Tara
Relationship	Yes, son	Yes, daughter
Age	Yes, < 19 at year-end (and younger than his parents)	Yes, < 24 at year-end and full-time student (and younger than his parents)
Residence	Yes, lived at home entire year	Yes, temporary absences such as school ok
Support	Yes, he provides < $\frac{1}{2}$	Yes, parents provide > $\frac{1}{2}$ (scholarship does not count as self - support)



# Dependency Exemptions

## Qualifying Child

### 3.3.5 Tie breaking rules

- In case two or more taxpayers qualify to claim the same dependent, the following tie breaking rules will be followed:
  1. Parents first.
  2. Days living with each parent if parents living apart.
  3. AGI— higher AGI gets exemption.



# Dependency Exemptions

## Qualifying Child

### Example 11

- Refer to Example 10. **Braxton's uncle, Shawn,** (Rodney's brother) lived in the Halls's home (the same home Braxton lived in) for more than 11 months during the year.

*Does Braxton meet the requirements to be considered Shawn's qualifying child?*

# Dependency Exemptions

## Qualifying Child

### Example 11



<b>Test</b>	<b>Is Braxton Shawn's qualifying child?</b>
Relationship	Yes, son of Shawn's brother.
Age	Yes, < 19 at year-end (and younger than Shawn).
Residence	Yes, lived in the same residence as Shawn for more than half the year.
Support	Yes, does not provide more than half of own support.



# Dependency Exemptions

## Qualifying Child

### Example 12

- **Braxton** is considered to be Rodney and Anita's qualifying child and he is considered to be Shawn's qualifying child.

Under the tiebreaker rules, **who is allowed to claim Braxton as a dependent for the year?**



# Dependency Exemptions

## Qualifying Child

### Example 12

**Answer:** Rodney and Anita. Under the first tiebreaking rule, Rodney and Anita are allowed to claim the dependency exemption for Braxton because they are Braxton's parents.

#### Tie breaking rules

1. Parents first.
2. Days living with each parent if parents living apart.
3. AGI— higher AGI gets exemption.



# Dependency Exemptions

## Qualifying Relative

### 3.4 Qualifying relative



# Dependency Exemptions

## Qualifying Relative

### 3.4 Qualifying relative

- A qualifying relative must comply with ALL of the following tests:
  1. Relationship test
  2. Support test
  3. Gross income test

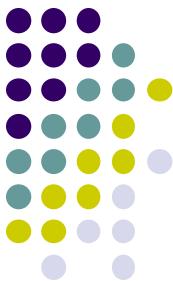


# Dependency Exemptions

## Qualifying Relative

### 3.4.1 Relationship test

- a descendant or ancestor of the taxpayer (e.g., child, grandchild, parent, or grandparent),
- a sibling (brother or sister) of the taxpayer including a stepbrother or stepsister.
- a son or daughter of the taxpayer's brother or sister (not cousins). ("sobrinos")
- a sibling of the taxpayer's mother or father. ("tíos")
- in-law (mother-in law, father-in-law, sister-in-law, and brother-in-law) of the taxpayer, or
- unrelated person who lives in taxpayer's home *entire* year.



## Dependency Exemptions Qualifying Relative

### 3.4.2 Support Test

- Taxpayer must pay more than half of living expenses (support).
  - Scholarships of actual child excluded.



# Dependency Exemptions

## Qualifying Relative

### 3.4.3 Gross Income Test

- Dependent's gross income must be less than the amount of the personal exemption amount (\$4,050 in 2016 and 2017).



# Dependency Exemptions

## Qualifying Relative

### Example 13

- John is a 22-year old student who has lived in the dorms for most of the year but spends the rest of the year living with his parents.
  - He earned a \$5,000 scholarship for the school year and has worked hard to support himself through school earning \$6,000 to pay for his own expenses.
  - His parents have supported him by paying for \$7,000 for food, clothing, and lodging expenses.

***Are John's parents able to claim him as a dependent?***



# Dependency Exemptions

## Qualifying Relative

### Example 13

*Are John's parents able to claim him as a dependent?*

- *John's parent are able to claim him as dependent under the rules of "qualifying child".*
- *However, they are not able to claim him as dependent under the rules of "qualifying relative".*

*See table on next page.*

# Dependency Exemptions

## Qualifying Relative Example 13



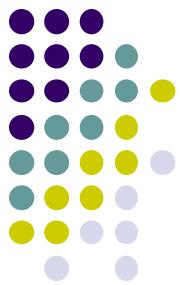
Test	Qualifying child	Qualifying relative
Relationship	Yes, child	Yes, child
Age	Yes, < 24 and full-time student	Not applicable
Residence	Yes, temporary absences ok	Not applicable
Support	Yes, he provides < $\frac{1}{2}$	Yes, parents provide > $\frac{1}{2}$
Gross income	Not applicable	<b>No</b> , gross income > \$4,000

# Personal and Dependency Exemptions

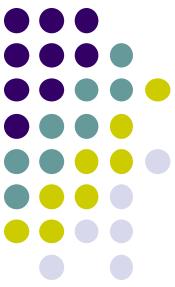


## EXHIBIT 4-8 Summary of Dependency Requirements

Test	Qualifying Child	Qualifying Relative
Relationship	Taxpayer's child, stepchild, foster child, sibling, half-brother or sister, stepbrother or sister, or a descendant of any of these relatives.	Taxpayer's descendant or ancestor, sibling, stepmother, stepfather, stepbrother or stepsister, son or daughter of taxpayer's sibling, sibling of the taxpayer's mother or father, in-laws, and anyone else who has the same principal place of abode as the taxpayer for the entire year (even if not otherwise related).
Age	Younger than the taxpayer claiming the individual as a qualifying child and under age 19 or a full-time student under age 24. Also anyone totally and permanently disabled.	Not applicable.
Residence	Lives with taxpayer for more than half of the year (includes temporary absences for things such as illness and education).	Not applicable.
Support	The qualifying child must not provide more than half of his or her own support.	Taxpayer must have provided more than half of the support for the qualifying relative.
Gross income	Not applicable.	Gross income less than exemption amount (\$4,000 in 2015).
Other	Not applicable.	Not a qualifying child.



# Filing Status



# Filing Status

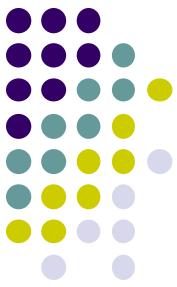
## 4.1 Filing Statuses



# Filing Status

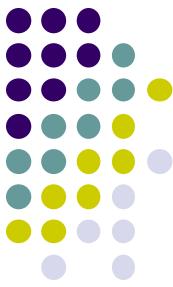
## 4.1 Filing Statuses

- There are five different filing statuses
  1. Married filing jointly
  2. Married filing separately
  3. Qualifying widow or widower (surviving spouse)
  4. Single
  5. Head of household



# Filing Status

## 4.2 Married filing jointly



# Filing Status

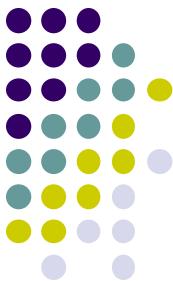
## 4.2 Married filing jointly

- Must be married on the last day of the year.
  - If one spouse dies the surviving spouse is considered to be married to decedent spouse at year end.
    - Exception – The surviving spouse remarries before year end.
- Joint and several liable for taxes owed.



# Filing Status

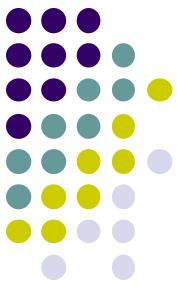
## 4.3 Married filing separately



# Filing Status

## 4.3 Married filing separately

- Taxpayers are married but file separate returns:
  - Typically not beneficial from tax perspective.
    - Tax rates and other tax benefits.
  - May be beneficial for non-tax reasons.
    - No joint and several liability.



# Filing Status

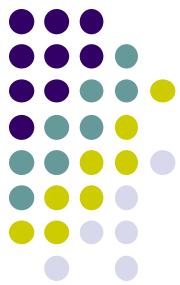
## 4.4 Qualifying widow or widower



# Filing Status

## 4.4 Qualifying widow or widower

- Available for the two years following the year of spouse's death.
- Surviving spouse does not qualify if remarries during two-year period.
- Surviving spouse must maintain household for dependent child.



# Filing Status

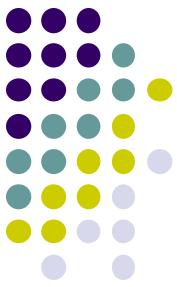
## 4.5 Single



# Filing Status

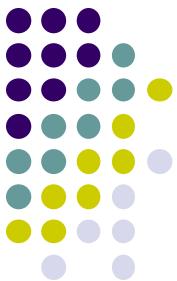
## 4.5 Single

- Unmarried unless qualify for head of household.
  - Never married.
  - Divorced.
  - Surviving spouse (not a Qualifying Widow or Widower).



# Filing Status

## 4.6 Head of household



# Filing Status

## 4.6 Head of household

- One of these persons:
  1. Unmarried. (Not a qualifying widow or widower)
  2. Married considered unmarried at end of year.  
(Treated as abandoned spouse)



# Filing Status

## Head of Household

### 4.6.1 Unmarried

- Pay more than half the costs of keeping up a home during the year.
- Lived in taxpayer's home with a "qualifying person" for more than half of the year.



# Filing Status

## Head of Household

### 4.6.1.a Qualifying person

1. Qualifying child.
2. Taxpayer's mother or father:
  - a. Parent need not live with taxpayer.
  - b. Taxpayer must pay more than half of the cost of maintaining separate household for taxpayer's mother or father.
  - c. Parent must qualify as taxpayer's dependent.



# Filing Status

## Head of Household

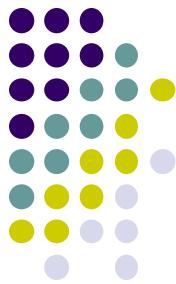
### 4.6.1.a Qualifying person

#### 3. Qualifying relative:

- a. Person must have lived with taxpayer for more than half the year.
- b. Must qualify as taxpayer's dependent.
- c. Must be related to taxpayer through qualified family relationship:
  - If related only because lived with taxpayer for entire year, not a qualified person.

# Filing Status

## House of Household



### 4.6.2 Married Individuals treated as Unmarried (abandoned spouse)

- If individual
  - Is married at end of year (or is not legally separated from the other spouse).
  - Does not file a joint tax return with the other spouse.
  - Pays more than half of the cost of maintaining a household that serves as principal abode for qualifying child for more than half the year.
  - Lived apart from the other spouse for the last six months of the year (other than temporary absences).



# Filing Status

## Example 14

- Assume that last year (2016) Rodney passed away, and during the current year Anita did not remarry but maintained a household for Braxton and Tara, her dependent children.

*Under these circumstances, what would Anita's filing status be for the taxable year 2017?*



# Filing Status

## Example 14

*Under these circumstances, what would Anita's filing status be for the taxable year 2017?*

**Qualifying widow:**

1. *Rodney passed away during the taxable year 2016, and Anita qualifies as "qualifying widow" for the taxable years 2017 and 2018. She does not qualify as widow for the taxable year 2016. For 2016, she is considered married filing jointly.*
2. *Anita maintained a household for her dependent children during 2017.*



# Filing Status

## Example 15

Assume Rodney and Anita divorced last year. During the current year, Braxton (son) lives with Anita and Anita pays all the costs of maintaining the household for herself and Braxton.

*Under these circumstances, what is Anita's filing status for the current year?*



# Filing Status

## Example 15

*Under these circumstances, what is Anita's filing status for the current year?*

### **Head of household:**

1. Pay more than half the costs of keeping up a home during the year.
2. Lived in taxpayer's home with a "qualifying person" for more than half of the year. (Braxton qualifies as "qualifying child")



# Filing Status

## Example 16

- Assume Shawn (Rodney's brother) lived with the Halls, but Shawn paid more than half the costs of maintaining a separate apartment that is the principal residence of his mother, Sharon, whose gross income is \$1,500.
- Because Shawn provided more than half of Sharon's support during the year, and because Sharon's gross income was only \$1,500, she qualifies as Shawn's dependent (as a qualifying relative).

*In these circumstances, what is Shawn's filing status?*



# Filing Status

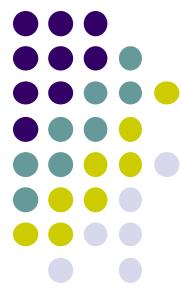
## Example 16

*In these circumstances, what is Shawn's filing status?*

**Head of household.**

1. **Shawn paid more than half the costs of maintaining a separate household that is the principal place of abode for his mother, and**
2. **his mother qualifies as his dependent.**

# Taxpayer Eligible to be Claimed as a Dependent



# Taxpayer Eligible to be Claimed as a Dependent



## 5.1 Standard Deduction

# Taxpayer Eligible to be Claimed as a Dependent



## 5.1 Standard Deduction (6-34)

- A taxpayer\* who is eligible to be claimed as a dependent on another's return, the **standard deduction** is the greater of
  - (1) \$1,050, or
  - (2) \$350 plus the individual's earned income limited to the regular standard deduction.

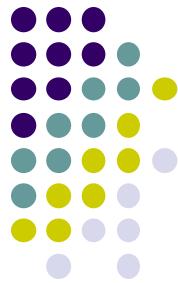
\*Taxpayer = A individual who must file a tax return or want to file a tax return.

# Taxpayer Eligible to be Claimed as a Dependent



## 5.2 Personal Exemption

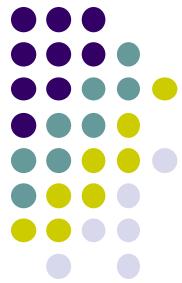
# Taxpayer Eligible to be Claimed as a Dependent



## 5.2 Personal Exemption

- A taxpayer who is eligible to be claimed as a dependent on another's return, the **personal exemption** is \$0.

# Taxpayer Eligible to be Claimed as a Dependent

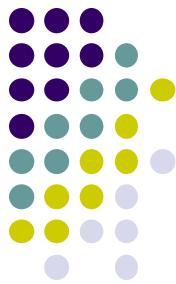


## Example 17

- Courtney's 10 year old son, Deron, earned \$600 this summer by mowing lawns for neighbors.

*If Courtney claims a dependency exemption for Deron, what amount of standard deduction can Deron claim on his individual return?*

# Taxpayer Eligible to be Claimed as a Dependent

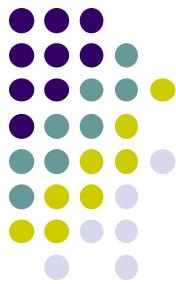


## Example 17

- The **standard deduction** is the greater of
  - (1) \$1,050, or
  - (2) \$350 plus the individual's earned income limited to the regular standard deduction (**of \$600 = \$950**).

Then, the **standard deduction is \$1,050.**

# Taxpayer Eligible to be Claimed as a Dependent

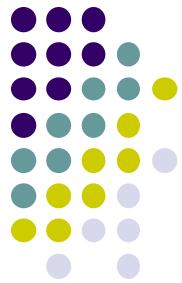


## Example 17

The **taxable income** follows:

Gross Income	\$ 600
AGI	<u>600</u>
Less:	
Standard deduction	1,050
Personal exemption	<u>0</u>
Taxable Income	\$ <u>0</u>

# Taxpayer Eligible to be Claimed as a Dependent

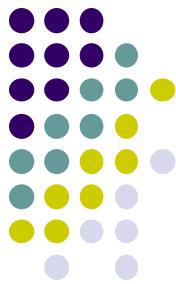


## Example 18

- Courtney's 10 year old son, Deron, earned \$2,100 this summer by mowing lawns for neighbors.

*If Courtney claims a dependency exemption for Deron, what amount of standard deduction can Deron claim on his individual return?*

# Taxpayer Eligible to be Claimed as a Dependent



## Example 18

The **standard deduction** is the greater of

- (1) \$1,050, or
- (2) \$350 plus the individual's earned income limited to the regular standard deduction (**of \$2,100 = \$2,450.**)

Then, the **standard deduction is \$2,450.**

# Taxpayer Eligible to be Claimed as a Dependent

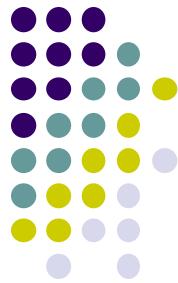


## Example 18

The **taxable income** follows:

Gross Income	<u>\$2,100</u>
AGI	<u>2,100</u>
Less:	
Standard deduction	2,450
Personal exemption	<u>0</u>
Taxable Income	<u>\$ 0</u>

# Taxpayer Eligible to be Claimed as a Dependent

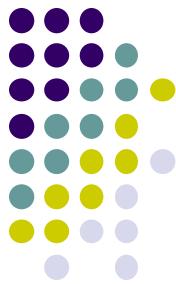


## Example 19

- Courtney's 10 year old son, Deron, earned \$8,600 this summer by mowing lawns for neighbors.

*If Courtney claims a dependency exemption for Deron, what amount of standard deduction can Deron claim on his individual return?*

# Taxpayer Eligible to be Claimed as a Dependent



## Example 19

The **standard deduction** is the greater of

- (1) \$1,050, or
- (2) \$350 plus the individual's earned income limited to the regular standard deduction (**of \$8,600**) = **\$8,950**.

Then, the **standard deduction is \$6,350**. (\$8,950 > maximum allowable standard deduction for a taxpayer filing single.)

# Taxpayer Eligible to be Claimed as a Dependent



## Example 19

The **taxable income** follows:

Gross Income	<u>\$8,600</u>
AGI	<u>8,600</u>
Less:	
Standard deduction	6,350
Personal exemption	<u>0</u>
Taxable Income	<u>\$2,250</u>