EA Tax Training

EA Exam Preparation 2025
Part 1: Individuals

VIDEO 7:

SPECIALIZED RETURNS AND TOPICS

PRESENTER: TOM NORTON CPA, EA

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 1

1

EA Tax Training

What We'll Cover

- Amended returns
- Foreign income and accounts
- Household employees
- Marriage and divorce
- Estate and gift tax
- Tax planning

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 2

2

EA Tax Training

Free Resources (irs.gov)

- **Publication 17, *Your Federal Income Tax***
- **Instructions for Forms 1040 and 1040-SR**
- **Form 1040-X and its instructions**
- **Form 2555 and its instructions**
- Form 8938 and its instructions
- Schedule B (1040) and its instructions
- Form 3520 and its instructions
- Publication 519, *U.S. Tax Guide for Aliens*
- Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*
- **FinCen Form 114 and its instructions**

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 3

3

EA Tax Training

Free Resources (irs.gov)

- Form 5471 and its instructions
- **Schedule H and its instructions**
- Publication 926, *Household Employer's Tax Guide*
- Form 8379 and its instructions
- Form 8857 and its instructions
- See Publication 971, *Innocent Spouse Relief*
- Publication 555, *Community Property*
- Publication 504, *Divorced or Separated Individuals*
- **Form 709 and its instructions**
- **Form 706 and its instructions**

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 4

4

EA Tax Training

Amended Returns

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 5

5

EA Tax Training

Amended Returns

- If you discover an error and want to amend a previously filed 1040, 1040-SR or 1040-NR, do so on Form 1040-X.
- You must file the original return before you file the amended return.
- You can file a 1040-X more than once for the same year.
- If you file early and notice an error before the original due date (i.e. April 15) you can just file a new 1040 to supersede the first one. Once April 15th has passed, you must amend.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 6

6

EA Tax Training

Form **1040-X** (Rev. February 2024)

Department of the Treasury—Internal Revenue Service

Amended U.S. Individual Income Tax Return

OMB No. 1545-0074

Go to *www.irs.gov/Form1040X* for instructions and the latest information.

This return is for calendar year (enter year) **or fiscal year** (enter month and year ended)

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.	**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, didn't previously want \$3 to go to this fund, but now do. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
City, town, or post office. If you have a foreign address, also complete spaces below.	State	ZIP code	
Foreign country name	Foreign province/state/county	Foreign postal code	

Amended return filing status. You **must** check one box even if you are not changing your filing status. **Caution:** In general, you can't change your filing status from married filing jointly to married filing separately after the return due date.

☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

If you checked the MFS box, enter the name of your spouse unless you are amending a Form 1040-NR. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Enter on lines 1 through 23, columns A through C, the amounts for the return year entered above. Use Part II on page 2 to explain any changes.		A. Original amount reported or as previously adjusted (see instructions)	B. Net change—amount of increase or (decrease)—explain in Part II	C. Correct amount
Income and Deductions				
1 Adjusted gross income. If a net operating loss (NOL) carryback is included, check here ☐	1			
2 Itemized deductions or standard deduction	2			
3 Subtract line 2 from line 1	3			
4a Reserved for future use	4a			
b Qualified business income deduction	4b			
5 Taxable income. Subtract line 4b from line 3. If the result for column C is zero or less, enter -0- in column C	5			
Tax Liability				
6 Tax. Enter method(s) used to figure tax (see instructions):	6			
7 Nonrefundable credits. If a general business credit carryback is included, check here ☐	7			
8 Subtract line 7 from line 6. If the result is zero or less, enter -0-	8			
9 Reserved for future use	9			
10 Other taxes	10			
11 Total tax. Add lines 8 and 10	11			
Payments				
12 Federal income tax withheld and excess social security and tier 1 RRTA tax withheld. (**If changing**, see instructions.)	12			
13 Estimated tax payments, including amount applied from prior year's return	13			
14 Earned income credit (EIC)	14			
15 Refundable credits from: ☐ Schedule 8812 Form(s) ☐ 2439 ☐ 4136 ☐ 8863 ☐ 8885 ☐ 8962 or ☐ other (specify):	15			
16 Total amount paid with request for extension of time to file, tax paid with original return, and additional tax paid after return was filed	16			
17 Total payments. Add lines 12 through 15, column C, and line 16	17			
Refund or Amount You Owe				
18 Overpayment, if any, as shown on original return or as previously adjusted by the IRS	18			
19 Subtract line 18 from line 17. (If less than zero, see instructions.)	19			
20 **Amount you owe.** If line 11, column C, is more than line 19, enter the difference	20			
21 If line 11, column C, is less than line 19, enter the difference. This is the amount **overpaid** on this return	21			
22 Amount of line 21 you want **refunded to you**	22			
23 Amount of line 21 you want **applied to your (enter year):** estimated tax	23			

Complete and sign this form on page 2.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11360L Form **1040-X** (Rev. 2-2024)

7

7

EA Tax Training

Form 1040-X (Rev. 2-2024) Page **2**

Part I Dependents

Complete this part to change any information relating to your dependents. This would include a change in the number of dependents. Enter the information for the return year entered at the top of page 1.		A. Original number of dependents reported or as previously adjusted	B. Net change—amount of increase or (decrease)	C. Correct number
24 Reserved for future use	24			
25 Your dependent children who lived with you	25			
26 Reserved for future use	26			
27 Other dependents	27			
28 Reserved for future use	28			
29 Reserved for future use	29			

30 List **ALL** dependents (children and others) claimed on this amended return.

Dependents (see instructions):

If more than four dependents, see instructions and check here ☐

(a) First name	Last name	(b) Social security number	(c) Relationship to you	(d) Check the box if qualifies for (see instructions): Child tax credit	Credit for other dependents
				☐	☐
				☐	☐
				☐	☐
				☐	☐

Part II Explanation of Changes. In the space provided below, tell us why you are filing Form 1040-X.

Attach any supporting documents and new or changed forms and schedules.

Sign Here

Remember to keep a copy of this form for your records.

Under penalties of perjury, I declare that I have filed an original return, and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information about which the preparer has any knowledge.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: ☐ Self-employed
Firm's name			Phone no.	
Firm's address			Firm's EIN	

For forms and publications, visit *www.irs.gov/Forms*. Form **1040-X** (Rev. 2-2024)

8

8

EA Tax Training

Amended Returns

- To amend a return, generally must file within 3 years of filing the return, or 2 years of paying the tax, whichever is later
  - If you file before the original deadline, the return is considered filed on the deadline (usually 4/15). If you had an extension and filed after 4/15 but before the extension due date, use the date actually filed.
- More time to amend:
  - Physically or mentally unable to manage financial affairs
  - Federally declared disaster areas
  - Combat zones and contingency operations
  - Bad debt or worthless security: 7 years after the due date of the return for the year it became worthless
  - Foreign tax credit: 10 years from the due date of the return for year the foreign tax was paid or accrued.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 9

9

EA Tax Training

Amended Returns

- The IRS also has 3 years from date due or filed, whichever is later, unless you omit more than 25% of your income (6 years), commit fraud (no limit) or don't file a return (no limit).
- "Statute of Limitations"

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 10

10

EA Tax Training

Form 1045 Application for Tentative Refund

- In certain instances, you can file Form 1045 instead of 1040-X in order to get a refund.
- Individuals, estates and trusts can use Form 1045 to apply for a quick refund resulting from:
  - NOL carryback
  - General business credit carryback
  - Section 1256 contract loss carryback (futures contracts)
  - Overpayment of tax due to a claim of right adjustment.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 11

11

EA Tax Training

Foreign Income and Accounts

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 12

12

EA Tax Training

Foreign Income and Asset Reporting

- US citizens and resident aliens must report all foreign income, whether earned or unearned (interest, dividends, etc.).
- If you live outside the US, part of your earned income may be excluded (Form 2555).
- If you paid foreign taxes, you may get a credit against U.S. taxes.
- If you had foreign financial assets in 2024, you may have extra filing requirements.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 13

13

EA Tax Training

Foreign Earned Income- Form 2555

- US citizens and resident aliens, no matter where they live, must report all worldwide income, and file a 1040 (if the normal minimum income requirements are met).
- If you live in a foreign country, you may be able to exclude your **earned** income, up to $126,500 per person in 2024.
  - Still must file 1040, even if all income is excluded.
  - Attach Form 2555 to the 1040.
- May also be able to exclude or deduct housing costs of up to $37,950 in 2024.
- Does not apply to U.S. government employees or members of the military.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 14

14

EA Tax Training

Foreign Earned Income- Form 2555

- To qualify for the earned income exclusion, your **tax home** must be in a foreign country, and you must meet either of two tests:
  1. The bona fide residence test, or
  2. The physical presence test.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 15

15

EA Tax Training

Foreign Earned Income- Form 2555

- **Tax Home:** In order to qualify your tax home must be in a foreign country throughout your qualifying period.
- Usually this is where you have a permanent or indefinite work assignment, as opposed to a temporary one.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 16

16

EA Tax Training

Foreign Earned Income- Form 2555

- **Bona Fide Residence Test**:
  - U.S. citizen who is a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax (calendar) year, or
  - U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax (calendar) year.
- Whether someone is a bona fide resident depends on the facts and circumstances, such as the nature of their job assignment, setting up a permanent place to live, etc. Just living in a foreign country for a calendar year does not automatically mean you are a bona fide resident.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 17

17

EA Tax Training

Foreign Earned Income- Form 2555

- **Physical Presence Test:** U.S. citizen or resident alien who is physically present in a foreign country, or countries, for at least 330 full days during any period of 12 months in a row. This can span over two calendar years, and the exclusion is prorated between the years.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 18

18

EA Tax Training

Foreign Earned Income- Form 2555

- Foreign housing exclusion/deduction
- If you are provided a housing allowance by your employer, you can exclude up to $37,950 (amount may vary depending on location).
- If you are self-employed, you can deduct up to $37,950 of qualified expenses. Amount may vary depending on location.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 19

19

EA Tax Training

Foreign Earned Income- Form 2555

- The exclusion(s) is an election you make by filing Form 2555 and excluding the income and/or housing.
- Once you make the election, it is effective until you revoke it.
  - If you revoke, cannot take the exclusions again for 5 years.
- Alternative is to take the Foreign Tax Credit.
- If you take the exclusion:
  - Cannot take the additional child tax credit
  - Cannot take the earned income credit
  - Cannot take the foreign tax credit on the amounts excluded
  - IRA deductions/contributions may be limited (excluded income does not count as compensation or as MAGI)

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 20

20

EA Tax Training

Foreign Tax Credit

- If you pay income tax to a foreign country, you get a credit against U.S. taxes, within certain limits.
  - You must actually be liable for the foreign tax. If you could file and get a refund, you cannot take the credit.
- Can be on earned or unearned income.
- Report on Form 1116 Foreign Tax Credit.
- If all "passive" or investment type income (interest, dividends, etc.), usually do not need to file Form 1116.
- Excess credit can be carried back 1 year, or carried forward 10 years.
- Can choose to deduct on Schedule A instead, but almost always better to take the credit.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 21

21

EA Tax Training

Foreign Retirement Income

- Foreign retirement income is generally taxed like any other retirement income.
- Can be affected by tax treaties in certain cases.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 22

22

EA Tax Training

Foreign Financial Assets

- If you have foreign bank, investment or other financial assets or accounts, you are subject to special reporting requirements:
  - Part III of Schedule B
  - Form 8938
  - FBAR

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Foreign Financial Assets

- You must answer Yes and provide required information on Part III of Schedule B if you:
  - Are required to file Schedule B (>$1,500 interest and/or dividends), and either,
  - Had a foreign account; or
  - Received a distribution from, or were a grantor of, or a transferor to, a foreign trust

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

SCHEDULE B (Form 1040)

Department of the Treasury Internal Revenue Service

Interest and Ordinary Dividends

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleB* for instructions and the latest information.

OMB No. 1545-0074
2024
Attachment Sequence No. 08

Name(s) shown on return | **Your social security number**

Part I Interest

(See instructions and the Instructions for Form 1040, line 2b.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see the instructions and list this interest first. Also, show that buyer's social security number and address:	1	
2	Add the amounts on line 1	2	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040 or 1040-SR, line 2b	4	

Note: If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions and the Instructions for Form 1040, line 3b.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer:	5	
6	Add the amounts on line 5. Enter the total here and on Form 1040 or 1040-SR, line 3b	6	

Note: If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

Caution: If required, failure to file FinCEN Form 114 may result in substantial penalties. Additionally, you may be required to file Form 8938, Statement of Specified Foreign Financial Assets. See instructions.

You must complete this part if you (**a**) had over $1,500 of taxable interest or ordinary dividends; (**b**) had a foreign account; or (**c**) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

		Yes	**No**
7a	At any time during 2024, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions		
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
b	If you are required to file FinCEN Form 114, list the name(s) of the foreign country(-ies) where the financial account(s) is (are) located:		
8	During 2024, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040) 2024**

25

25

EA Tax Training

Form 8938- Statement of Specified Foreign Financial Assets

- Report if total value of foreign bank/financial accounts and other foreign financial assets reaches a certain threshold:
- Taxpayers **living in** the United States:
  - Unmarried/MFS: >=$50,000 at end of year, or >=$75,000 at any time during the year
  - MFJ: >=$100,000 at end of year, or >=$150,000 at any time during the year

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 26

26

EA Tax Training

Form 8938- Statement of Specified Foreign Financial Assets

- Report if total value of foreign bank/financial accounts and other foreign financial assets reaches a certain threshold:
- Taxpayers **living outside** the United States:
  - Unmarried/MFS: >=$200,000 at end of year, or >=$300,000 at any time during the year
  - MFJ: >=$400,000 at end of year, or >=$600,000 at any time during the year

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 27

27

EA Tax Training

Report of Foreign Bank and Financial Accounts (FBAR)

- File even if filed Form 8938
- Not an IRS form. Do **not** file with your tax return.
- Financial Crimes Enforcement Network (FinCEN) Form 114

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 28

28

EA Tax Training

Report of Foreign Bank and Financial Accounts (FBAR)

- A U.S. person, including a citizen, resident, corporation, partnership, limited liability company, trust and estate, must file an FBAR to report if they have:

1. A financial interest in or signature or other authority over at least one financial account located outside the United States if
2. the **aggregate** value of those foreign financial accounts exceeded $10,000 at any time during the calendar year reported.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 29

29

EA Tax Training

Report of Foreign Bank and Financial Accounts (FBAR)

- Due 4/15 of following year
- Automatic extension to 10/15 (no extension form required)
- Must file electronically through FinCEN's system
- $16,117 penalty for failure to file (more if willful)

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 30

30

EA Tax Training

Form 3520 Foreign Trusts and Gifts

- IRS give increased scrutiny to foreign trusts, as they have sometimes been used to evade taxes.
- U.S. persons must file Form 3520 when contributing property to, or entering into certain transactions with, a foreign trust.
- See form instructions for details.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Form 5471 U.S. Shareholder of Foreign Corporation

- U.S. officers, directors and/or shareholders of certain foreign corporations must file Form 5471 to report their ownership.
- See form instructions for details.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Household Employees

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 33

33

EA Tax Training

Household Employees

- If you have a household employee, you may need to withhold and pay social security and Medicare taxes, pay FUTA (federal unemployment) tax, or both.
- You don't need to withhold federal income tax from your household employee's wages. But if your employee asks you to withhold it, you can.
- See Publication 926, *Household Employer's Tax Guide*

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 34

34

EA Tax Training

Examples of Household Employees

- Babysitters,
- Butlers,
- Caretakers,
- Cooks,
- Domestic workers,
- Drivers,
- Health aides,
- Housecleaning workers,
- Housekeepers,
- Maids,
- Nannies,
- Private nurses, and
- Yard workers.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 35

35

EA Tax Training

Household Employees

- You have a household employee if you hired someone to do household work and that worker is your employee.
- The worker is your employee if you can control not only what work is done, but how it is done.
- If the worker is your employee, it doesn't matter whether the work is full time or part time or that you hired the worker through an agency or from a list provided by an agency or association. It also doesn't matter whether you pay the worker on an hourly, daily, or weekly basis, or by the job.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 36

36

EA Tax Training

Examples of Non-Employees

- If only the worker can control how the work is done, the worker isn't your employee but is self-employed
- A self-employed worker usually provides their own tools and offers services to the general public in an independent business
- If an agency provides the worker and controls what work is done and how it is done, the worker isn't your employee

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 37

37

EA Tax Training

Household Employees- W-2

- File a W-2 for a household employee if you:
  - Paid an employee $2,700 or more, or
  - Withheld federal income tax
- Due by January 31 of following year
- Employee gets Copies B, C and 2
- Government gets Copy A along with Form W-3
- May also need to report to state taxing authority
- Information only, no taxes paid with this form

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 38

38

EA Tax Training

Household Employees- W-2

- If you file one or more W-2s, you will need an EIN (employer identification number).
- Can obtain for free on the IRS website.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 39

39

EA Tax Training

Household Employees- Schedule H

- Schedule H is attached to your 1040
- Used to compute and pay employment taxes (social security, Medicare, FUTA), and withheld income tax on household employees
- File if you pay:
  - $2,700 or more to a single employee,
  - Withheld federal income tax from an employee, or
  - Paid wages subject to FUTA (>=$1,000 in any quarter to any one employee)
- Can be filed separately if no 1040 required
- May also have state employment tax, and income tax withholding

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 40

40

EA Tax Training

Table 1. **Do You Need To Pay Employment Taxes?**

IF you ...		THEN you need to ...
A	Pay cash wages of $2,700 or more in 2024 to any one household employee. Don't count wages you pay to: • Your spouse, • Your child under the age of 21, • Your parent (see *Wages not counted*, later, for an exception), or • Any employee under the age of 18 at any time in 2024 (see *Wages not counted*, later, for an exception).	Withhold and pay social security and Medicare taxes. • The taxes are 15.3%[1] of cash wages. • Your employee's share is 7.65%.[1] (You can choose to pay it yourself and not withhold it.) • Your share is 7.65%.
B	Pay total cash wages of $1,000 or more in any calendar quarter of 2023 or 2024 to household employees. Don't count wages you pay to: • Your spouse, • Your child under the age of 21, or • Your parent.	Pay FUTA tax. • The tax is 6% of cash wages. • Wages over $7,000 a year per employee aren't taxed. • You may also owe state unemployment tax.

[1] In addition to withholding Medicare tax at 1.45%, you must withhold a 0.9% Additional Medicare Tax from wages you pay to an employee in excess of $200,000 in a calendar year. You're required to begin withholding Additional Medicare Tax in the pay period in which you pay wages in excess of $200,000 to an employee and continue to withhold it each pay period until the end of the calendar year. Additional Medicare Tax is only imposed on the employee. There is no employer share of Additional Medicare Tax. All wages that are subject to Medicare tax are subject to Additional Medicare Tax withholding if paid in excess of the $200,000 withholding threshold.

Note. If neither A nor B above applies, you don't need to pay any federal employment taxes. But you may still need to pay state employment taxes.

41

EA Tax Training

Marriage and Divorce

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 42

42

EA Tax Training

Marriage- Special Circumstances

- Injured spouse
- Innocent spouse

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 43

43

EA Tax Training

Injured Spouse

- Generally, IRS will offset any current refund to pay past due tax debts
- When filing jointly and only one spouse owes the IRS, the other spouse can file as an injured spouse
  - Form 8379
  - Allows them to get their refund for amounts withheld/paid or refundable tax credits
  - Can be filed with the joint return, or after amount has been offset
- Different from an Innocent Spouse

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 44

44

EA Tax Training

Innocent Spouse

- Relief from joint responsibility on MFJ return
- When one spouse is doing something improper/illegal and the other spouse is not involved and not aware
- Must file Form 8857
- Not automatic. IRS will look at the facts and circumstances
- See Publication 971, *Innocent Spouse Relief*

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 45

45

EA Tax Training

Community Property States

- In community property states, earned income is generally considered to be owned 50/50 by the spouses.
  - If filing MFS, each spouse claims one half of all earned income and any withholding.
- IRA distributions are taxable to the spouse named on the account.
- See Publication 555, *Community Property*

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 46

46

EA Tax Training

Community Property States

- Community property states this applies to:
  - Arizona
  - California
  - Idaho
  - Louisiana
  - Nevada
  - New Mexico
  - Texas
  - Washington
  - Wisconsin
- Alaska, Tennessee and South Dakota are special cases.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 47

47

EA Tax Training

Divorce

- Alimony/Spousal support
- Child support
- Property transfers
- Publication 504, *Divorced or Separated Individuals*

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 48

48

EA Tax Training

Divorce- Alimony/Spousal Support

- Divorce agreements executed after 12/31/2018
  - Payments made or received are not deductible by the payer nor taxable to the recipient.
  - Also applies to pre-2019 divorces that are later modified and expressly state the payments will not be deductible nor taxable.
- Divorce agreements before 2019
  - Alimony is deductible by the payer and taxable to the recipient.
  - This continues to be true for amounts paid/received in 2019 and after.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 49

49

EA Tax Training

Divorce- Child Support

- Child support is never deductible for the payer, nor included in the income of the recipient.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 50

50

EA Tax Training

Divorce- Property Transfers

- Property transfers incident to divorce do not result in gain or loss.
- Transfers are "incident to divorce" if they are:
  - Made within one year of the date of divorce, or
  - Made under an original or modified divorce agreement within six years after the divorce.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 51

51

EA Tax Training

Divorce- Property Transfers

- Retirement plans (401(k), 403(b), etc.)- Qualified Domestic Relations Order (QDRO)
- An order by a judge incident to divorce to award part or all of a qualified retirement plan (i.e. employer's plan) to the non-participant spouse.
- Distributions are taxable (traditional plan) to the receiving spouse, but not subject to early withdrawal penalty.
  - Can be rolled over into an IRA or qualified retirement plan, thereby avoiding current taxation.
- For IRAs, no QDRO is required. Transfers of IRAs incident to divorce are not taxable events.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 52

52

EA Tax Training

Estate and Gift Tax

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 53

53

EA Tax Training

Estate and Gift Tax Overview

- Both estate and gift tax deal with the tax effects of giving away (transferring) assets.
  - Gifts- Before death.
  - Estates- After death
- In either case, strictly speaking the recipient does not pay income tax on the transfer itself (though there may be income tax consequences to owning the asset).
- Gifts and transfers on death above certain thresholds may be subject to gift or estate taxes (not income taxes).

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 54

54

Estate and Gift Tax Overview

- Everyone gets a "lifetime" combined gift and estate exemption amount, based on the year of death, that will not be subject to estate/gift tax. In 2024, the exemption is **$13,610,000**.
- If the decedent is married, the assets can transfer to the spouse tax-free, and become part of his/her estate. The surviving spouse gets double the normal exemption amount. In 2024, this equals **$27,220,000**.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

Gift Tax

- In addition to the lifetime exemption, there is an annual "exclusion" amount for gifts.
- The exclusion amount for 2024 is $18,000.
- This means you can give someone $18,000 without reporting it (usually) and without it counting against your lifetime exemption.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Gift Tax

- Gift splitting
- If you are married, you and your spouse can each give $18,000. So, for example, a married couple could give their child $36,000 without affecting the lifetime exemption.
- If the child is also married, each parent could give the child and their spouse $18,000 each, meaning they could transfer $72,000 without gift tax and without affecting the lifetime exemption.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 57

57

EA Tax Training

Gift Tax

- Even if you give more than $18,000 to someone, it is not reportable and does not count against your lifetime exemption if the gift:
  - Was for educational expenses: Tuition paid directly to the school.
  - Was for medical expenses: Payments to care provider (doctor, hospital, etc.) for amounts not covered by insurance.
  - Was to a spouse who is a U.S. citizen.
  - Was a political donation.
  - Was a qualified charitable donation.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 58

58

EA Tax Training

Gift Tax

- If you give more than $18,000 to any one person in 2024, and don't meet an exception, you must file a gift tax return.
- Form 709
  - Due April 15th. Separate from 1040
- Spouses may not file a joint gift tax return
  - May still have to file 709s to show the "split gifts."

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Gift Tax

- For gifts in excess of $18,000, you can either apply the excess toward the lifetime exemption amount, or pay gift tax.
  - The result for most people is they never pay gift or estate tax (due to the $13,610,000 exemption), but still need to file the 709 for gifts over the annual exclusion amount.
- Gifts can be in cash, property, debt forgiveness, below market sales of property, etc.
- Donor is responsible for paying any gift tax.
- Gift tax rates range from 18% to 40%.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Gift Tax

- Gift to noncitizen spouse:
  - Gifts to a spouse who is a U.S. citizen are fully excluded and do not have to be reported
  - If the spouse is a noncitizen, then only the first $185,000 is excluded.
  - Any amounts in excess of $185,000 would be reported on Form 709, and either pay gift tax or reduce lifetime exemption.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Estate Tax

- At death, the decedent's "gross estate" consists of all virtually of his/her assets.
- From the gross estate, deduct funeral expenses, administrative expenses, attorney fees, etc., along with allowed adjustments.
- The result is the taxable estate.
- Compare the taxable estate to the remaining (after reduction for gifts) lifetime exemption.
- Any excess is subject to estate tax.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Estate Tax

- Use Form 706 Estate Tax Return
- File for any taxable estate in excess of the lifetime exemption
- Also file to elect "portability" for surviving spouse
  - This is what allows the surviving spouse to get the benefit of both their own and the decedent's lifetime exemption, effectively doubling it.
- Return is due 9 months after the date of death
  - Can be extended 6 extra months by filing Form 4768
- Estate tax rates range from 18% to 40%.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 63

63

EA Tax Training

Estate Tax- GST

- Generation Skipping Transfer (GST) Tax
- Estate and gift taxes are meant to tax transfers of assets as they pass from one generation to the next. So an asset owned by a grandparent would be taxed when it passed from the grandparent to their child, and then again when it passed from their child to their grandchild.
- Some wealthy people used to "skip" the first of these transfer taxes by gifting or bequeathing assets directly to the grandchild.
- The GST closes that loophole by imposing a 40% tax on such transfers.
- Only applies to people with assets in excess of the lifetime exemption, and it disregards any spousal portability election (no double exemption for purposes of the GST).

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 64

64

EA Tax Training

Estate Planning

- Trusts
- Family partnerships
- Charitable giving
- Long-term care
- Life insurance
- Appreciated assets

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Trusts

- Revocable, or living, trusts are used to avoid probate and leave specific assets to specific beneficiaries.
- Irrevocable trusts can be used to move assets out of your estate, protect them from creditors, and transfer them to specific beneficiaries.
- Many other types of trusts for specific needs.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Family Partnerships

- Family limited partnerships (FLPs) can be set up to own a business, with family members/trusts as partners.
- Once an asset is transferred into the partnership, its value is reduced due to "lack of control" and "lack of marketability" discounts. This helps lower gift and estate taxes.
- Partnership interests can be gifted over time, allowing businesses to be passed from generation to generation.
  - Can gift up to the exclusion amount ($18,000) each year to various family members without gift or estate tax consequences.
- Can be expensive to set up and maintain, and requires attorneys, accountants, etc.
- Must have at least one General Partner, who can be exposed to liability from the business.
- Must have a valid business purpose- not primarily to save taxes.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 67

67

EA Tax Training

Charitable Giving

- Charitable giving during your lifetime moves assets out of your estate, may result in a tax deduction, and can avoid capital gains tax on appreciated assets.
- A donor-advised fund (DAF) is a charitable fund maintained by a public charity.
  - When you contribute to the DAF, you get an immediate tax deduction.
  - You can make continuing deductible contributions.
  - You can advise which charities the fund should support.
  - Other family members can donate, potentially making it a lasting family legacy.
- Qualified Charitable Distribution (QCD) from IRA. Up to $105,000 per year, if over 70½

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 68

68

EA Tax Training

Charitable Giving- Trusts

- In a Charitable Remainder Trust (CRT), you irrevocably donate assets which are used to provide yourself or beneficiaries with income during your lifetime. When you die, the remainder goes to a charity(ies) of your choosing.
  - The trust does not pay income taxes on the earnings
- In a Charitable Lead Trust (CLT), you irrevocably donate assets and use the income to provide funds for the charity(ies) during your lifetime, while leaving the remaining assets for your beneficiaries when you die.
  - The trust must pay income taxes on its earnings.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Life Insurance

- Life insurance proceeds are not subject to income tax, but they are generally part of the gross estate.
- Irrevocable life insurance trusts can be used to set aside funds to pay estate taxes. This keeps the proceeds out of the estate, and saves your heirs/estate from needing to sell assets to get cash to pay taxes.
- Life insurance is also used to equalize the estate between heirs, since some assets are difficult to divide equally.
- If beneficiary is a charity, the estate gets a deduction equal to the amount of the proceeds.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

Appreciated Assets

- Appreciated assets (assets that have increased in value since they were purchased), are treated differently if they are given as a gift vs. left as part of an estate.
- If a gift, the recipient uses the same basis as the giver (carryover basis).
- If part of an estate, the recipient gets a "stepped-up basis" equal to the fair market value of the asset at the date of death (or 6 months after, if elected).
- This means it is usually better to leave appreciated assets as part of the estate, rather than gifting them.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 71

71

EA Tax Training

Appreciated Assets

- **Example:** Matilda owns 1,000 shares of stock in XYZ Corp. that she purchased in 1983 for $10 per share. In 2024, the stock is worth $500 per share. Matilda then either:
  A. Gifts the stock to her son, Matthew, in 2024. Matthew sells the stock for $500,000. Matthew's basis in the stock is $10,000, and he must pay capital gains tax on $490,000. His capital gains rate is 20%, and therefore Matthew owes $98,000 in tax on the sale; or
  B. Matilda dies in 2024, leaving the stock to Matthew. Matthew sells the stock for $500,000. Matthew's basis in the stock is $500,000, and therefore he owes no tax on the sale.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 72

72

EA Tax Training

Tax Planning

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 73

73

EA Tax Training

Tax Planning

- Tax projections and estimated payments
- Income and deduction timing
- Invest to Save

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 74

74

EA Tax Training

Tax Projections and Estimated Payments

- If significant income comes from sources other than wages or retirement payments for which there is withholding, you should, preferably quarterly, project income, deductions, etc. for purposes of making estimated payments.
  - Apr 15
  - Jun 15
  - Sep 15
  - Jan 15
- Can also use the projections for planning purposes.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 75

75

EA Tax Training

Income and Deduction Timing

- Income and deduction timing
  - Look at estimated income and deductions in this year and next, to see which year would be most beneficial to include income or losses/expenses
    - Remember constructive receipt!
- Classic strategy is to accelerate deductions/losses and postpone income.
- Consider items that are affected by AGI thresholds
  - IRA/Roth IRA contributions
  - Child tax credits
  - Student loan interest deduction
  - Passive loss deductions from active participation in rental real estate

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 76

76

Income and Deduction Timing

- Capital gains/losses
  - If you have a lot of capital losses this year, it might be worth selling an appreciated asset now, since the gain on sale will be at least partially offset by the capital losses.
  - On the other hand, with no capital losses, you may be better off waiting to sell until next year.
  - Might donate appreciated items to charity, avoiding taxable gain.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

Income and Deduction Timing

- Take distributions from retirement accounts in the year that benefits you the most (but remember RMDs).
- Qualified Charitable Distribution (QCD) from IRA to avoid tax on the distribution.
- Take salary/bonus from a closely held corporation in the year most beneficial (remembering reasonable compensation).
- Itemized deduction bunching
  - To the extent you can control when you pay itemized deduction items (e.g. medical, charitable), bunch the items into one year to maximize

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

Invest to Save

- Make contributions to the following:
  - Employer sponsored retirement plans
  - IRAs
  - HSAs/FSAs
  - 529 plans
  - Coverdell ESAs
  - ABLE accounts

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

Employer Retirement Plans

- Employer sponsored plans, 401(k), 403(b), 457, thrift savings plan (TSP)
- Contribute up to $23,000 in 2024. If you are age 50 or older, you can make an additional $7,500 contribution, for a total of $30,500
  - If a traditional (pre-tax) plan, catch-up contributions are allowed only if wages were not more than $145,000 (**new in 2024**).
  - Contributions can be of up to 100% of your compensation. For example, if you earn $20,000, your contribution is limited to $20,000.
- Employers often match part of your contribution. That match is also tax free.
- Saver's credit available for lower-income taxpayers.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

SEP/SIMPLE IRA

- Self Employed Plan (SEP)
  - Business can contribute up to $69,000, or 25% of compensation, whichever is lower.
  - No employee contributions or catch-up contributions
- Savings Incentive Match Plan for Employees (SIMPLE)
  - Contribute up to $16,000 in 2024
  - If age 50 or over, additional $3,500.
  - Saver's credit available for lower-income taxpayers.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 81

81

EA Tax Training

IRAs

- Traditional
  - Contribute up to $7,000 ($8,000 if age 50 or older)
  - May be deductible
  - Grows tax deferred, taxed when distributed
- Roth
  - Contribute up to $7,000 ($8,000 if age 50 or older)
  - Not deductible
  - Grows tax free and tax free when distributed
- Saver's credit available for lower-income taxpayers.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 82

82

EA Tax Training

Health Savings Account (HSA)

- Pre-tax (deductible) savings account for healthcare expenses.
- Distributions to pay qualified medical expenses are tax-free.
- Must couple with a high deductible health insurance plan with a deductible of $1,500-$7,500 (Self-only), or $3,000-$15,000 (Family).
- Self-only coverage- Max contribution in 2024 is $4,150 ($5,150 age 55 and older).
- Family coverage- Max contribution in 2024 is $8,300 ($9,300 age 55 and older).
- Effectively makes healthcare expenses tax deductible.
- Can roll over from year to year, and if you have a balance at retirement, acts like a traditional IRA.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 83

83

EA Tax Training

Flexible Spending Account (FSA)

- Employer sponsored, pre-tax (deductible) savings account for healthcare expenses.
- Maximum contribution in 2024 is $3,200.
- "Use it or lose it." Generally must spend it all by the end of the year.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 84

84

EA Tax Training

Dependent Care FSA

- Employer sponsored, pre-tax (deductible) savings account for dependent care expenses.
- Maximum contribution in 2024 is $5,000 ($2,500 MFS).
- "Use it or lose it." Generally must spend it all by the end of the year.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 85

85

EA Tax Training

529 Plans

- Qualified Tuition Program (QTP), or 529 plans, are plans set up to provide for the education of the named beneficiary
- Contributions are not tax deductible, but grow tax free and distributions are tax free when used for qualified education expenses.
- Used to pay for higher education expenses, including tuition, books, fees, equipment and reasonable room and board.
- Can also be used up to $10,000 per year for K-12 tuition only.
- Can be used to pay off up to $10,000 in student loans.
- Subject to tax and 10% penalty if used for other purposes.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 86

86

EA Tax Training

Coverdell Education Savings Account (ESA)

- Also called a Coverdell IRA.
- Contributions are not tax deductible, but grow tax free and distributions are tax free when used for qualified education expenses.
- Used to pay for higher education expenses, including tuition, books, fees, equipment and reasonable room and board.
- Contributions limited to $2,000 per year per beneficiary in total, no matter who makes them, or how many ESAs are set up. Subject to 6% excise tax for excess contributions.
- No contributions once the beneficiary is 18, and balance must be distributed by age 30.
- Contributions are phased out between $95,000 to $110,000 of AGI ($190,000 to $220,000 MFJ).
- Subject to tax and 10% penalty if used for other purposes.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 87

87

EA Tax Training

ABLE Accounts

- Achieving a Better Life Experience (ABLE), or 529A accounts, are set up to provide for qualified disability expenses of the beneficiary.
- Contributions can be made by the beneficiary and by others
- Amounts can also be rolled over from a 529 plan (QTP), as long as total contributions are within the annual limits.
- Annual contributions are limited to the annual gift exclusion ($18,000 in 2024).

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED. 88

88

EA Tax Training

ABLE Accounts

- The beneficiary may be able to contribute additional amounts, up to their total compensation, or the poverty line for a one-person household, whichever is less. Only available if beneficiary does not participate in an employer retirement plan.
- Beneficiary's contributions are eligible for the Savers credit, as long as they otherwise qualify.
- Contributions are not tax deductible, but grow tax free, and distributions are tax free as long as used for qualified expenses related to the beneficiary's disability.

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.

EA Tax Training

End of Video 7 and Part 1: Individuals. See you in Part 2: Businesses!

© COPYRIGHT 2025 TOM NORTON CPA, LLC. ALL RIGHTS RESERVED.