Class 6
Self-Employment Tax and Credits

Today's Agenda:

1. Self-Employment Taxes
2. Excess Payment of Social
3. Tax Filing and Payment Requirements
4. Sorting Tax Credits
5. Education Credits
6. Reflect and preview

Upcoming Deadlines:

- Pre-class quiz 7 (due Mon 2/2)

Exam 1 Preparation

- **Class Handouts/Slides**
- Pre-class quizzes
- Post-class quizzes
- Homework problems
- TA office hours
- Professor exam office hours Tuesday, February 10, 8-10 am TNRB 110

- Remember, you will have a copy of the exam appendix provided to you with your exam.

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

½ Self-Employment Tax

Self-Employment Taxes

Refundable and non-refundable

Form 1040 Page 1

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 29	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	
i	Nontaxable combat pay election (see instructions) — 1i		
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest — 2a	b Taxable interest — 2b	
3a	Qualified dividends — 3a	b Ordinary dividends — 3b	
4a	IRA distributions — 4a	b Taxable amount — 4b	
5a	Pensions and annuities — 5a	b Taxable amount — 5b	
6a	Social security benefits — 6a	b Taxable amount — 6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐	7	
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
12	**Standard deduction or itemized deductions** (from Schedule A)	12	
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

Attach Sch. B if required.

Standard Deduction for—
- Single or Married filing separately, $13,850
- Married filing jointly or Qualifying surviving spouse, $27,700
- Head of household, $20,800
- If you checked any box under *Standard Deduction*, see instructions.

10. Half of SE Tax (Sch 1 line 26)

Form 1040 Page 2

Form 1040 (2023) Page 2

Tax and Credits	16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐		16
	17	Amount from Schedule 2, line 3		17
	18	Add lines 16 and 17		18
	19	Child tax credit or credit for other dependents from Schedule 8812		19
	20	Amount from Schedule 3, line 8		20
	21	Add lines 19 and 20		21
	22	Subtract line 21 from line 18. If zero or less, enter -0-		22
	23	Other taxes, including self-employment tax, from Schedule 2, line 21		23
	24	Add lines 22 and 23. This is your **total tax**		24
Payments	25	Federal income tax withheld from:		
	a	Form(s) W-2	25a	
	b	Form(s) 1099	25b	
	c	Other forms (see instructions)	25c	
	d	Add lines 25a through 25c		25d
	26	2023 estimated tax payments and amount applied from 2022 return		26
If you have a qualifying child, attach Sch. EIC.	27	Earned income credit (EIC)	27	
	28	Additional child tax credit from Schedule 8812	28	
	29	American opportunity credit from Form 8863, line 8	29	
	30	Reserved for future use	30	
	31	Amount from Schedule 3, line 15	31	
	32	Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits**		32
	33	Add lines 25d, 26, and 32. These are your **total payments**		33
Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**		34
	35a	Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐		35a
Direct deposit? See instructions.	b	Routing number	c Type: ☐ Checking ☐ Savings	
	d	Account number		
	36	Amount of line 34 you want **applied to your 2024 estimated tax**	36	
Amount You Owe	37	Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to *www.irs.gov/Payments* or see instructions		37
	38	Estimated tax penalty (see instructions)	38	

19. Child Tax Credit
20. Nonrefundable Credits
23. Self-Employment Tax & Net Investment Tax

28. Refundable Child Credit
29. AOC (education credit)
31. Excess Social Security

FICA Taxes

Social Security Tax: 12.4% up to tax base of $176,100

Medicare Tax: 2.9% (no limit)

Additional Medicare Tax: 0.9% in excess of $250,000 MFJ (calculation given in this class)

FICA Taxes

Employee: Withheld by the employer from paychecks (SS 6.2%, Medicare 1.45%, Additional 0.9%)

Employer: Matches Social Security and Medicare of employees (SS 6.2%, Medicare 1.45%, not subject to additional Medicare.)

Self-Employed: Pay both employee and employer portion. (SS 12.4%, Medicare 2.9%, Additional employee 0.9%). Reported on the 1040. Half of the self employment tax is deductible as for AGI deduction.

Student Exception to FICA Tax

IRC Section 3121(b)(10) exempts social security and Medicare tax for students employed by a school, college or university if the student is enrolled and regularly attending.

Activity 1
Self-Employment Taxes

QBI Deduction
Lesser of 20% qualified business income or 20% ordinary taxable income

Note: Qualified business income for QBI deduction is Sch C income less self-employment deduction

Activity 1
Self-Employment Taxes

Check Figures:

Taxable income: $48,014

Income Tax: $5,422

Self Employment Tax: $12,716

Tax Due (Refund): ($17,262)

Check your work

Sch C Income	$90,000
Adjustments to Income Deductible SE tax	(6,358) see note 1
AGI	83,642
Standard Deduction	(23,625)
QBI	(12,003) see note 2
Taxable Income	48,014
Income Tax	$5,422 see note 3
Self-Employment Tax	$12,716 see note 1
Total Tax	$18,138
Credits	($2,200)
Prepayments	($33,200)
Tax Due (Refund)	($17,262)

(1) $90,000 X .9235 X .153 = $12,716 / 2 = $6,358

(2) Lesser of ($90,000 - $6,358) x .20 = $16,728 or $83,642 - $23,625 = $60,017 X .20 = $12,003

(3) $1,700 + ($48,014 - $17,000) X .12)= $5,422

Activity 1
Self-Employment Taxes

Check Figures:

Taxable income: $146,009

Income Tax: $26,150

Self Employment Tax: $27,728

Tax Due (Refund): $18,828

Check your work

Sch C Income	$220,000
Adjustments to Income Deductible SE tax	(13,864) see note 1
AGI	206,136
Standard Deduction	(23,625)
QBI	(36,502) see note 2
Taxable Income	$146,009
Income Tax	$26,150 see note 3
Self-Employment Tax	$27,728 see note 1
Total Tax	$53,878
Credits	($1,850) see note 4
Prepayments	($33,200)
Tax Due (Refund)	$18,828

(1) $220,000 X .9235 = $203,170 ($176,100 X .124) + ($203,170 X .029) = $27,728 / 2 = $13,864

(2) Lesser of ($220,000 - $13,399) x .20 = $41,320 or ($206,136 - $23,625) X .20 = $36,502

(3) $15,912 + ($146,009 - $103,350) X .24) = $26,150

(4) Phaseout Child tax credit: ($206,136 - $200,000) = $6,136 / 1,000 = 6.1 = Round to 7 X $50 = $350.

Activity 2

What if you have multiple jobs and each employer is withholding the tax?

What happens if you have a job as an employee and you are self-employed?

How do you determine if an individual is an employee or independent contractor (self-employed)?

What if you have multiple jobs and each employer is withholding the tax?

1. Determine the Maximum Social Security Limit
2. Check your W-2 Forms
3. Claim the excess on 1040. Sch 3 line 11

Schedule 3 (Form 1040) 2023 Page 2

Part II Other Payments and Refundable Credits

9	Net premium tax credit. Attach Form 8962			9	
10	Amount paid with request for extension to file (see instructions)			10	
11	Excess social security and tier 1 RRTA tax withheld			11	
12	Credit for federal tax on fuels. Attach Form 4136			12	
13	Other payments or refundable credits:				
a	Form 2439	13a			
b	Credit for repayment of amounts included in income from earlier years	13b			
c	Elective payment election amount from Form 3800, Part III, line 6, column (i)	13c			
d	Deferred amount of net 965 tax liability (see instructions)	13d			
z	Other payments or refundable credits. List type and amount:	13z			
14	Total other payments or refundable credits. Add lines 13a through 13z			14	
15	Add lines 9 through 12 and 14. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31			15	

Schedule 3 (Form 1040) 2023

What happens if you have a job as an employee and you are self-employed?

If you've already paid Social Security as an employee, you don't own any additional social security on your self-employment income. You will still report Medicare on the 1040 as self-employment taxes.

How do you determine if an individual is an employee or independent contractor (self-employed)?

The IRS has published a list of 20 factors to consider when making this determination. Examples include who sets the working hours, oversight, and where the work is performed.

Whether a taxpayer is classified as an employee or independent contractor has both tax and nontax consequences.

Activity 3

Tax Filing and Payment Requirements

Tax Filing and Payment Requirements

- Taxpayers are required to file their return by April 15th if their gross income exceeds certain thresholds (generally the standard deduction)
- May extend the filing up to six months (cannot extend taxes due)
- Pay as you go system
  - Withholdings
  - Estimated Payments (April 15, June 15, Sept 15, January 15)
- Late File Penalty: 5% of the amount of tax owed for each month (or fraction of a month) with a maximum penalty of 25%
- Late Payment Penalty: .5% of the amount of tax owed for each month (or fraction of a month) with a maximum penalty of 25%

Activity 4

Sorting Tax Credits

Check Your Work

	Brief Description	NR	PR	FR
Child Tax Credit	Credit for taxpayers with children under 17. Maximum amount: $2,000 per qualifying child or $500 for qualifying relative. Phase-out applies. Additional Child Tax Credit: a portion is refundable		X	
Child and Dependent Tax Credit	Helps cover the cost of care for dependents so the taxpayer can work or look for work. Maximum amount: $3,000 (1 eligible dependent) or $6,000 (more eligible dependents). Phase-out applies.	X		
American Opportunity Credit	Helps with education expenses for the first four years of post-secondary education. Maximum amount: Up to $2,500 per eligible student (40% refundable up to $1,000) Phase-out applies.		X	
Lifetime Learning Credit	Helps with education expenses including graduate or continuing education. Maximum amount: $2,000 per tax return. (20% of expenses) Phase-out applies.	X		
Earned Income Credit	Provides a credit to low-income workers, particularly those with children			X

Activity 5: Education Credits

American Opportunity Credit
Lifetime Learning Credit

Check Your Work

a. ***$0.***
Connie is not eligible for the AOC or lifetime learning credit because she qualifies as her parents' dependent (her parents may potentially claim the credit).

b. ***$2,500.***
Because the cost of tuition and books are eligible expenses, Connie may claim a maximum AOC of $2,500 [($2,000 × 100%) + ($2,000) × 25%].

c. ***$800.***
Connie does not get to claim any credit for the tuition because it was paid for with the scholarship. She can claim AOC for the $800 cost of books ($800 × 100%).

d. ***$2,500.***
Because Connie elected to include $3,200 of the scholarship in income she can claim the credit for the full expenses ($3,200 scholarship + $800 books = $4,000). AOC of $2,500 [($2,000 × 100%) + ($2,000) × 25%].

e. ***$2,000.***
$500 is phased out. Phaseout percentage: $82,000 - $80,000 = $2,000/$10,000 = 20%. Phaseout Amount: $2,500 X .20 = $500

Reflect and Preview

Next Class Period: Tax Planning

- Tax Rate Review (average, effective, marginal)
- After-Tax Rate of Return
- 3 Basic Tax planning strategies
  - Timing
  - Shifting
  - Conversion
- Tax Avoidance vs Tax Evasion

Class 5
Investments

Today's Agenda:

1. Warm-up Exercise
2. Mini-Case: Netting Capital Gains and Losses
3. Cool-Down Exercise
4. Reflect and Preview

Upcoming Deadlines:

- Pre-class quiz 6 (due Wed 1/28)
- Pre-class quiz 7 (due Mon 2/2)

OBBBA Updates to Appendix

- Qualified Tip Income phase-out:
  - Round down
- Qualified Overtime Compensation phase-out:
  - Round down
- Qualified Car Loan Interest phase-out:
  - Round up

Post-Class Quiz Review

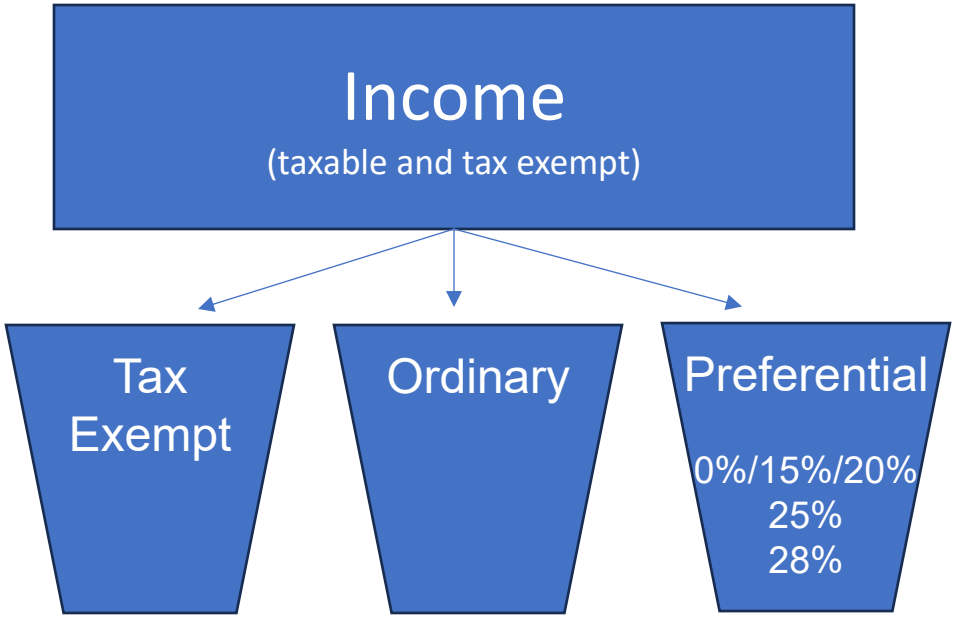
MC - Car Loan Interest Deduction

Jordan is a single taxpayer who purchased a used SUV in 2025. The vehicle's final assembly occurred in the United States, and Jordan financed the purchase with a car loan taken out in 2025. During the year, Jordan paid $4,500 of interest on the loan. Jordan's modified AGI is $112,400. What amount of qualified car loan interest, if any, may Jordan deduct?

- $4,500
- $2,300
- $2,100
- → $1,900
- $0

If SUV were new:
Qualified Car Loan Interest: $4,500
Maximum ded. before phase-out: lesser of $4,500 or $10,000
Excess AGI: $112,400 - $100,000 = $12,400
Reduction: 13 (12,400/1,000 = 12.4 ↑ 13) × $200 = $2,600
Qualified car loan interest deduction: $4,500 - $2,600 = $1,900

Tax Rate Review



Form 1040: Income

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 29	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	

Attach Sch. B if required.

2a	Tax-exempt interest	2a		b Taxable interest	2b	
3a	Qualified dividends	3a		b Ordinary dividends	3b	
4a	IRA distributions	4a		b Taxable amount	4b	
5a	Pensions and annuities	5a		b Taxable amount	5b	
6a	Social security benefits	6a		b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐					
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐				7	
8	Additional income from Schedule 1, line 10				8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**				9	
10	Adjustments to income from Schedule 1, line 26				10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**				11	
12	**Standard deduction or itemized deductions** (from Schedule A)				12	
13	Qualified business income deduction from Form 8995 or Form 8995-A				13	
14	Add lines 12 and 13				14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**				15	

Standard Deduction for—

- Single or Married filing separately, $13,850
- Married filing jointly or Qualifying surviving spouse, $27,700
- Head of household, $20,800
- If you checked any box under *Standard Deduction*, see instructions.

Interest and Dividend Income

Interest Income

- Interest income from municipal bonds is tax exempt
- Other interest income: Taxed at ordinary rate

Dividend Income

- Qualified Dividends: taxed at preferential capital gains rate
- Nonqualified Dividends: taxed as ordinary income

- Qualified: dividends paid by domestic (some foreign) corporations and taxpayer owns stock for more than 60 days.

*We will tell you if dividends are qualified or not

What about capital gains and losses?

- Capital gains and losses are a result of selling a capital asset

- **Capital asset** is any asset OTHER than: Assets used in a trade or business, accounts or notes receivable acquired in business, inventory (essentially investment and personal-use assets).

- Examples: Stocks, Bonds, Artwork, Personal Residence, iPhone

Why do we care about capital assets?

- Capital gains are generally taxed at preferential rates
- Capital losses are netted with capital gains and certain limitations apply to net losses

What are the preferential rates?

0% 15% 20%	25%	28%
Qualified Dividends Net Long-Term Capital Gains Rate based on taxpayer's filing status and amount of income *Net Short-term capital gains are taxed at ordinary rates	Depreciable real estate held long-term (Unrecaptured §1250 gain) *Disregard calculation until Exam 3	1. Collectibles (art, coins, stamps) held longer than a year 2. Qualified small business stock held for more than 5 years *Disregard calculation for this course

Netting Process

Step 1: Determine Net Short-Term Gain/Loss and Net Long-Term Gain/Loss separately (including prior year carryforwards)

Step 2: If Net ST and LT are the same sign (both gains or both losses)--netting process complete.

- Gains: LT preferential rate; ST ordinary rate
- Losses: $3,000 can offset ordinary income (carryforward excess)

Step 3: If Net ST and LT Gain/Loss are opposite sign (one gain, one loss) then net the two together for final Net Gain or Loss.

-Net Gains: LT preferential rate; ST ordinary rate

-Net Losses: $3,000 can offset ordinary income (carryforward excess)

Activity 1

Warm Up Exercise

Netting Capital Gains and Losses

Check your work

Short-term capital gain:	$13,000
Short-term capital loss:	($8,000)
Long-term capital gain:	$3,000
Long-term capital loss:	($12,000)

Short-term capital gain:	$5,000
Long-term capital loss:	($9,000)

LT capital loss:	($4,000)

Net Capital Losses

Individuals can deduct up to $3,000 of net capital loss against ordinary income (and qualified dividend income). Remainder carries over indefinitely to subsequent years

Net capital losses retain their ST/LT character when carried forward

Short-term losses are deducted first (when taxpayer has both short-term and long-term losses)

1099-B

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

CONTINENTAL FINANCIAL SERVICES LLC
844 WASHINGTON WAY
JERSEY CITY, NJ 07310

Applicable checkbox on Form 8949: Box D

OMB No. 1545-0715
2025
Form 1099-B

Proceeds From Broker and Barter Exchange Transactions

1a Description of property (Example: 100 sh. XYZ Co.): 100 SH STOCK A

1b Date acquired: 11/07/22

1c Date sold or disposed: 3/06/25

PAYER'S TIN: 19-****-245

RECIPIENT'S TIN: ***-**-3344

1d Proceeds: $ 40,000

1c Cost or other basis: $ 5,000

1f Accrued market discount: $

1g Wash sale loss disallowed: $

RECIPIENT'S name: JEB LANDERS

2 Short-term gain or loss ☐
Long-term gain or loss ☑
Ordinary ☐

3 If checked, proceeds from:
Collectibles ☐
QOF ☐

Street address (including apt. no.): 1234 MAIN ST

4 Federal income tax withheld: $

5 If checked, noncovered security ☐

City or town, state or province, country, and ZIP or foreign postal code: KANSAS CITY, KS 77379-4939

6 Reported to IRS:
Gross proceeds ☐
Net proceeds ☐

7 If checked, loss is not allowed based on amount in 1d ☐

Account number (see instructions)

8 Profit or (loss) realized in 2025 on closed contracts: $

9 Unrealized profit or (loss) on open contracts—12/31/2025: $

CUSIP number

FATCA filing requirement ☐

10 Unrealized profit or (loss) on open contracts—12/31/2024: $

11 Aggregate profit or (loss) on contracts: $

14 State name

15 State identification no.

16 State tax withheld: $ $

12 If checked, basis reported to IRS ☐

13 Bartering: $

Copy 1
For State Tax Department

Form 1099-B www.irs.gov/Form1099B Department of the Treasury - Internal Revenue Service

Form 8949

Form **8949**

Department of the Treasury
Internal Revenue Service

Sales and Other Dispositions of Capital Assets

File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.
Go to *www.irs.gov/Form8949* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **12A**

Name(s) shown on return: Jeb Landers

Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I **Short-Term.** Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS by your broker and may even tell you which box to check If you enter an amount in column (il) see need.

You *must* check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this on page fit on one more of the boxes, complete as many forms with the same box checked as you need.

- ☑ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis **was reported** to the IRS (see **Note** above)
- ☐ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☐ **(C)** Short-term transactions not reported to you on Form 1099-B

1 (a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or (Mo., day, yr.)	(d) Sales price (see instructions)	(f) Cost or other basis (see Note below and see Column (f) ins-instructions.	Adjustment, if any, to gain or loss If you enter an amount in column (g), enter a code in column (f). See separate instructions. (f) Code(s) from instructions	(g) Amount of adjustment	(g) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
Stock C	3/1/25	11/25/25	20,0000	12,000			8,000
Stock D	2/25/25	6/15/25	17,0000	28,000			(11,000)

Activity 2

Mini Case: Netting Capital Gains and Losses

To get you started……

Net Proceeds - basis = gain or loss
LT if held for 1 year and 1 day

Investment Assets	Net Proceeds	Basis	LT Gain (Loss)	ST Gain (Loss)	Net Capital gain/(Loss)
300 shares of IBM common	13,600	10,450	3,150		
3,000 shares of Apple preferred					
2,100 shares of Cisco common					
451 Shares of Texas Instruments					
ST capital loss carryover					
LT capital loss carryover					
Totals					

Check Your Work

Investment Assets	Net Proceeds	Basis	LT Gain (Loss)	ST Gain (Loss)	Net Capital gain/(Loss)
300 shares of IBM common	13,600	10,450	3,150		
3,000 shares of Apple preferred	219,400	147,400	72,000		
2,100 shares of Cisco common	62,600	53,050	9,550		
451 Shares of Texas Instruments	15,900	15,800		100	
ST capital loss carryover				(8,300)	
LT capital loss carryover			(4,800)		
Totals			**79,900**	**(8,200)**	**71,700 (L/T)**

Activity 3

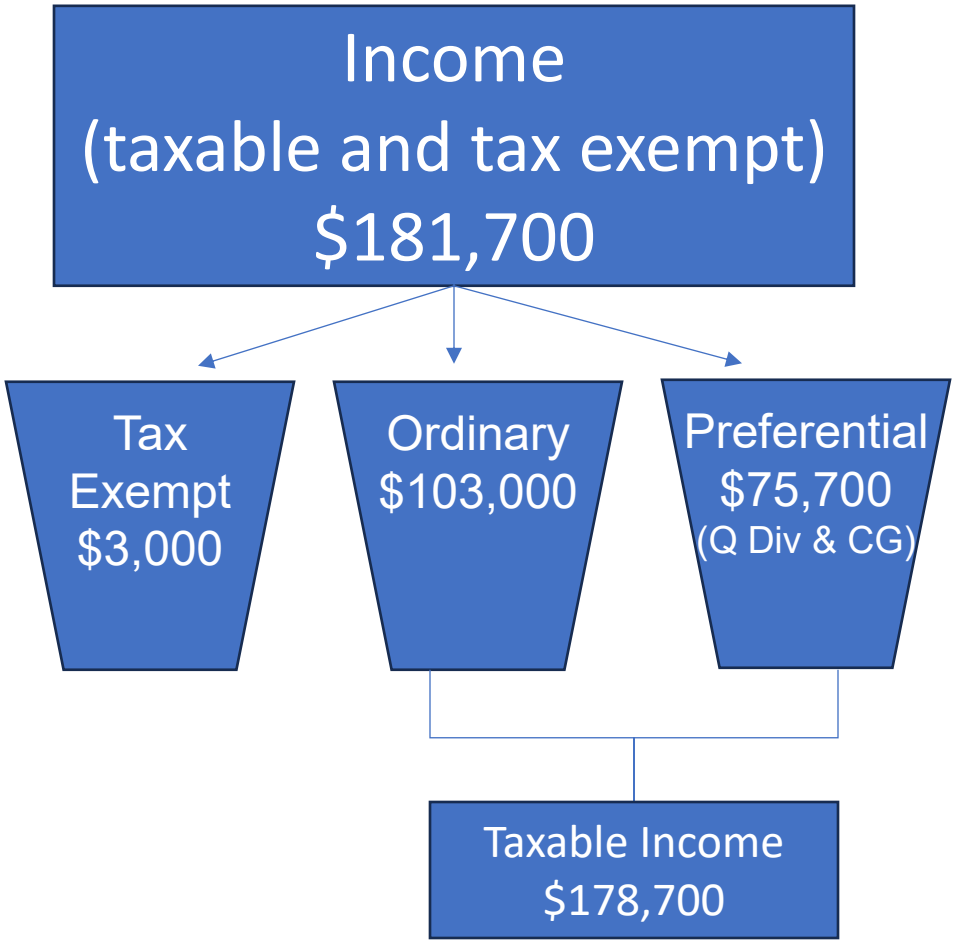
Mini Case: Taxable Income and Tax Liability

Summary of income and deductions

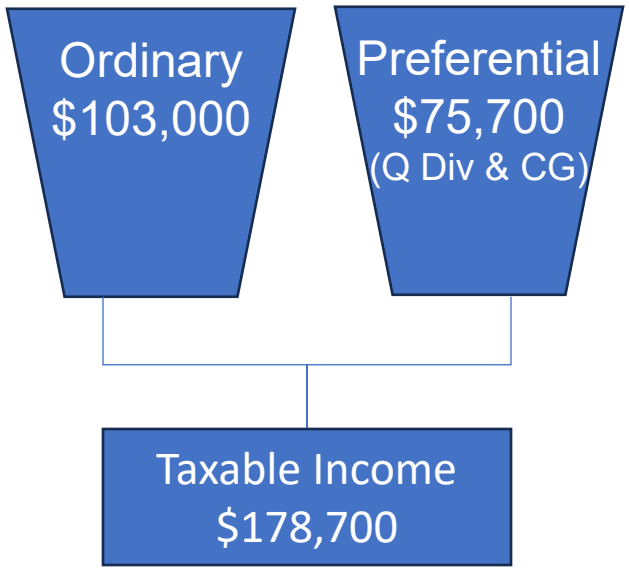
Municipal bond interest	$3,000
Wage income	$132,000
Corporate bond interest	$3,000
Qualified dividends	$4,000
Long-Term capital gain	$71,700
Itemized deductions	($32,000)

Income
$181,700

Check Your Work: Taxable Income



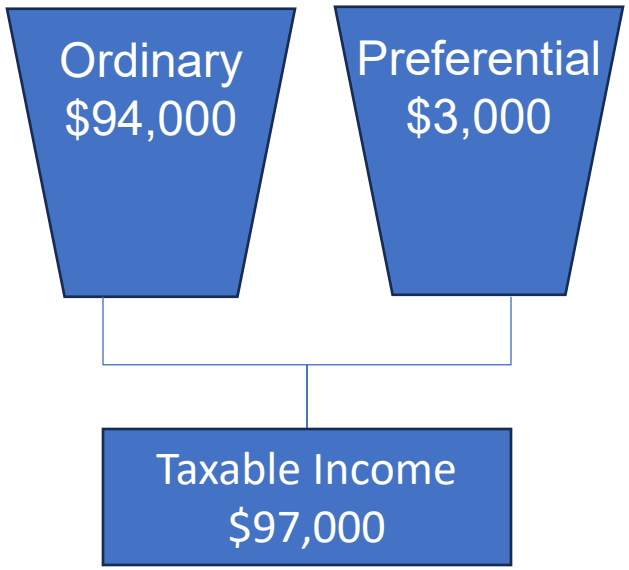
Check Your Work: Tax Liability



Ordinary	$11,157 + [0.22 × ($103,000 - $96,950)]	$12,488
Preferential	$75,700 × 0.15 =	$11,355
Tax Liability		**$23,843**

Rate	Married Filing Jointly
0%	$0 – $96,700
15%	$96,701 – $600,050
20%	$600,051+

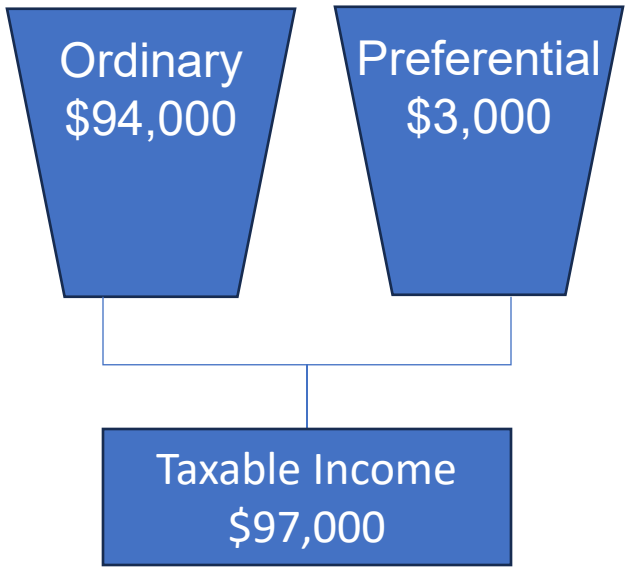
Homework Problem 45b (MFJ)



Ordinary	$2,385 + [0.12 × ($94,000 - $23,850)]	$10,803
Preferential 0%		
Preferential 15%		
Tax Liability		

Rate	Married Filing Jointly
0%	$0 – $96,700
15%	$96,701 – $600,050
20%	$600,051+

Homework Problem 45b (MFJ)



Ordinary	$2,385 + [0.12 × ($94,000 - $23,850)]	$10,803
Preferential 0%	$96,700 – 94,000 = $2,700 × 0	$0
Preferential 15%	$3,000 - $2,700 = $300 × 0.15	$45
Tax Liability		**$10,848**

Rate	Married Filing Jointly
0%	$0 – $96,700
15%	$96,701 – $600,050
20%	$600,051+

Activity 4

Discussion: FIFO or Specific Identification

Does it matter that the Howells did not instruct their broker which IBM shares to sell?

Mr. and Mrs. Howell could have told their broker to sell the 200 shares of IBM acquired on April 3, 2023 first, using the specific identification method (or specified a different cost flow method such as highest basis). Because these shares have a much higher tax basis than the shares acquired on November 22, 2022, the Howells could have reported a capital loss on the sale of the IBM stock, which could have been used to offset the gains from the sale of the Apple and Cisco stock.

However, at this point in time, it's too late to implement this strategy. Mr. and Mrs. Howell should have consulted with their tax advisor prior to the sale.

Activity 5

Capital Loss Carryover

Let's change one number….

Investment Assets	Net Proceeds	Basis	LT Gain (Loss)	ST Gain (Loss)	Net Capital gain/(Loss)
300 shares of IBM common	13,600	10,450	3,150		
3,000 shares of Apple preferred	219,400	147,400	72,000		
2,100 shares of Cisco common	62,600	53,050	9,550		
451 Shares of Texas Instruments	15,900	15,800		100	
ST capital loss carryover				(86,300)	
LT capital loss carryover			(4,800)		
Totals					

Check Your Work

Investment Assets	Net Proceeds	Basis	LT Gain (Loss)	ST Gain (Loss)	Net Capital gain/(Loss)
300 shares of IBM common	13,600	10,450	3,150		
3,000 shares of Apple preferred	219,400	147,400	72,000		
2,100 shares of Cisco common	62,600	53,050	9,550		
451 Shares of Texas Instruments	15,900	15,800		100	
ST capital loss carryover				(86,300)	
LT capital loss carryover			(4,800)		
Totals			79,900	(86,200)	(6,300) (ST)

$3,000 capital loss can offset ordinary income (for AGI deduction)
The remaining $3,300 will be carried forward

Activity 6

Cool Down Exercise

Check Your Work

Sales proceeds – tax basis = gain/(loss)

$300 - $400 = ($100)

a. Wash sale provision applies so the $100 loss is disallowed.

b. $400. The disallowed loss is added to basis of the unsold shares.

Limitations Summarized

- Individuals can deduct up to $3,000 (MFJ) of net capital loss against ordinary income.
- Losses not allowed on wash sales (investor sells or trades securities at a loss within 30 days)
- Losses on the sale of personal-use assets are NOT deductible.
- Cannot deduct losses to related parties.

Good News!
You can deduct interest paid on investments

1040 Sch A

Interest You Paid

Caution: Your mortgage interest deduction may be limited. See instructions.

8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐		
a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	
b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b	
c	Points not reported to you on Form 1098. See instructions for special rules	8c	
d	Reserved for future use	8d	
e	Add lines 8a through 8c	8e	
9	Investment interest. Attach Form 4952 if required. See instructions	9	
10	Add lines 8e and 9		10

Investment Interest Expense Deduction

When taxpayers borrow money to acquire investments, they can deduct the interest as an itemized deduction.

- Deduction is limited to ordinary investment income for the year (long-term capital gains are not included, they are already taxed at preferential rates). Carry the excess forward to future years.
- Cannot deduct if used to purchase tax-exempt income.

Investment Interest Expense Deduction

Maria is a single taxpayer and itemizes deductions. Her income consisted of $90,000 salary, $2,000 interest income and $800 long-term capital gain. She had $2,100 in interest expense related to her investments. Assuming no special election is made, what is the amount of investment interest expense Maria can deduct on Sch A?

Up to the amount of investment income: $2,000

$100 is carried forward to the next year

Bad News….

Individuals with higher incomes have to pay Net Investment Income Tax. This tax is reported in “Other taxes” in the tax formula.

An additional 3.8% is taxed on investment income such as interest, dividends, annuities, royalties, rents.

This calculation is beyond the scope of this course. We will provide the number if it applies.

Reflect and Preview

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

½ Self-Employment Tax

Self-Employment Taxes

Refundable and non-refundable

Form 1040 Page 1

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 29	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	
i	Nontaxable combat pay election (see instructions) — 1i		
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest — 2a	b Taxable interest — 2b	
3a	Qualified dividends — 3a	b Ordinary dividends — 3b	
4a	IRA distributions — 4a	b Taxable amount — 4b	
5a	Pensions and annuities — 5a	b Taxable amount — 5b	
6a	Social security benefits — 6a	b Taxable amount — 6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐	7	
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your **adjusted gross income**	11	
12	**Standard deduction or itemized deductions** (from Schedule A)	12	
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your **taxable income**	15	

Attach Sch. B if required.

Standard Deduction for—
- Single or Married filing separately, $13,850
- Married filing jointly or Qualifying surviving spouse, $27,700
- Head of household, $20,800
- If you checked any box under *Standard Deduction*, see instructions.

10. Half of SE Tax (Sch 1 line 26)

Form 1040 Page 2

Form 1040 (2023) Page 2

Tax and Credits	16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐		16
	17	Amount from Schedule 2, line 3		17
	18	Add lines 16 and 17		18
	19	Child tax credit or credit for other dependents from Schedule 8812		19
	20	Amount from Schedule 3, line 8		20
	21	Add lines 19 and 20		21
	22	Subtract line 21 from line 18. If zero or less, enter -0-		22
	23	Other taxes, including self-employment tax, from Schedule 2, line 21		23
	24	Add lines 22 and 23. This is your **total tax**		24
Payments	25	Federal income tax withheld from:		
	a	Form(s) W-2	25a	
	b	Form(s) 1099	25b	
	c	Other forms (see instructions)	25c	
	d	Add lines 25a through 25c		25d
	26	2023 estimated tax payments and amount applied from 2022 return		26
If you have a qualifying child, attach Sch. EIC.	27	Earned income credit (EIC)	27	
	28	Additional child tax credit from Schedule 8812	28	
	29	American opportunity credit from Form 8863, line 8	29	
	30	Reserved for future use	30	
	31	Amount from Schedule 3, line 15	31	
	32	Add lines 27, 28, 29, and 31. These are your **total other payments and refundable credits**		32
	33	Add lines 25d, 26, and 32. These are your **total payments**		33
Refund	34	If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you **overpaid**		34
	35a	Amount of line 34 you want **refunded to you**. If Form 8888 is attached, check here ☐		35a
Direct deposit? See instructions.	b	Routing number	c Type: ☐ Checking ☐ Savings	
	d	Account number		
	36	Amount of line 34 you want **applied to your 2024 estimated tax**	36	
Amount You Owe	37	Subtract line 33 from line 24. This is the **amount you owe**. For details on how to pay, go to *www.irs.gov/Payments* or see instructions		37
	38	Estimated tax penalty (see instructions)	38	

19. Child Tax Credit
20. Nonrefundable Credits
23. Self-Employment Tax & Net Investment Tax

28. Refundable Child Credit
29. AOC (education credit)
31. Excess Social Security

FICA Taxes

Social Security Tax: 12.4% up to tax base of $176,100

Medicare Tax: 2.9% (no limit)

Additional Medicare Tax: 0.9% in excess of $250,000 MFJ (calculation given in this class)

FICA Taxes

Employee: Withheld by the employer from paychecks (SS 6.2%, Medicare 1.45%, Additional 0.9%)

Employer: Matches Social Security and Medicare of employees (SS 6.2%, Medicare 1.45%, not subject to additional Medicare.)

Self-Employed: Pay both employee and employer portion. (SS 12.4%, Medicare 2.9%, Additional employee 0.9%). Reported on the 1040. Half of the self employment tax is deductible as for AGI deduction.

FICA Tax Considerations

What if you have multiple jobs and each employer is withholding the tax?

What happens if you have a job as an employee and you are self-employed?

How do you determine if an individual is an employee or independent contractor (self-employed)?

Tax Credits

- Child Tax Credit
- Child and Dependent Care Credit
- Education Credits
- Earned Income Credit

Class 4
Individual Deductions

Today's Agenda:

1. Can I deduct this? For/From deduction?
2. Mini-cases (self-employment, student loan interest, QBI)
3. Reflect and preview

Upcoming Deadlines:

- Post-class quiz 2 (due Sat 1/31)
- Pre-class quiz 5 (due Mon 1/26)

Reminder: Post-Class Quiz 2

Due Saturday 1/31 by midnight

Attempt 1: Attempt the quiz on your own

Learn from your mistakes by additional studying and seeking assistance from group members

Attempt 2: Repeat the quiz

Seek assistance from the TAs or your professor

Attempt 3: Repeat the quiz

Can I deduct this and where?

- Form 1040
- Schedule 1, Part 1 (for AGI deductions)
  - Schedule C: Business deductions
  - Schedule E: Rental and royalty deductions
- Schedule 1, Part 2 (for AGI deductions)
- Schedule A: Itemized Deductions (from AGI deductions)

Form 1040

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount: _____	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest 2a; b Taxable interest	2b	
3a	Qualified dividends 3a; b Ordinary dividends	3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a; b Taxable amount	4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐ _____		
5a	Pensions and annuities 5a; b Taxable amount	5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐ _____		
6a	Social security benefits 6a; b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss) _____		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	

Attach Sch. B if required.

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**	15	
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 8814 2 ☐ 4972 3 ☐ _____	16	
17	Amount from Schedule 2, line 3	17	
18	Add lines 16 and 17	18	
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

For AGI: Schedule 1 Part 1

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . . . .

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1
2a	Alimony received			2a
b	Date of original divorce or separation agreement (see instructions):			
3	Business income or (loss). Attach Schedule C			3
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684			4
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5
6	Farm income or (loss). Attach Schedule F			6
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here ☐ and enter amount repaid:			7
8	Other income:			
a	Net operating loss	8a	( )	
b	Gambling	8b		
c	Cancellation of debt	8c		
d	Foreign earned income exclusion from Form 2555	8d	( )	
e	Income from Form 8853	8e		
f	Income from Form 8889	8f		
g	Alaska Permanent Fund dividends	8g		
h	Jury duty pay	8h		
i	Prizes and awards	8i		
j	Activity not engaged in for profit income	8j		
k	Stock options	8k		
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l		
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m		
n	Section 951(a) inclusion (see instructions)	8n		
o	Section 951A(a) inclusion (see instructions)	8o		
p	Section 461(l) excess business loss adjustment	8p		
q	Taxable distributions from an ABLE account (see instructions)	8q		
r	Scholarship and fellowship grants not reported on Form W-2	8r		
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )	
t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t		
u	Wages earned while incarcerated	8u		
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v		
z	Other income. List type and amount:	8z		
9	Total other income. Add lines 8a through 8z			9
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2025** Created 7/25/25

For AGI: Schedule 1 Part 2

Schedule 1 (Form 1040) 2025 Page 2

Part II Adjustments to Income

11	Educator expenses		11
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106		12
13	Health savings account deduction. Attach Form 8889		13
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here ☐		14
15	Deductible part of self-employment tax. Attach Schedule SE		15
16	Self-employed SEP, SIMPLE, and qualified plans		16
17	Self-employed health insurance deduction		17
18	Penalty on early withdrawal of savings		18
19a	Alimony paid		19a
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here ☐		20
21	Student loan interest deduction		21
22	Reserved for future use		22
23	Archer MSA deduction		23
24	Other adjustments:		
a	Jury duty pay (see instructions)	24a	
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b	
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c	
d	Reforestation amortization and expenses	24d	
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e	
f	Contributions to section 501(c)(18)(D) pension plans	24f	
g	Contributions by certain chaplains to section 403(b) plans	24g	
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount:	24z	
25	Total other adjustments. Add lines 24a through 24z		25
26	Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10		26

Schedule 1 (Form 1040) 2025

For AGI : Business Deductions (Sch C)

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)
Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.
Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. **09**

Name of proprietor | **Social security number (SSN)**

A Principal business or profession, including product or service (see instructions) | **B Enter code from instructions**

C Business name. If no separate business name, leave blank. | **D Employer ID number (EIN)** (see instr.)

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: **(1)** ☐ Cash **(2)** ☐ Accrual **(3)** ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2025? If "No," see instructions for limit on losses . ☐ **Yes** ☐ **No**

H If you started or acquired this business during 2025, check here . . . . . ☐

I Did you make any payments in 2025 that would require you to file Form(s) 1099? See instructions . . . . . ☐ **Yes** ☐ **No**

J If "Yes," did you or will you file required Form(s) 1099? . . . . . ☐ **Yes** ☐ **No**

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . . . ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions) .	18	
9	Car and truck expenses (see instructions) . . .	9		19	Pension and profit-sharing plans .	19	
10	Commissions and fees .	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property . . .	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance . . .	21	
				22	Supplies (not included in Part III) .	22	
				23	Taxes and licenses	23	
				24	Travel and meals:		
14	Employee benefit programs (other than on line 19) .	14		a	Travel	24a	
				b	Deductible meals (see instructions)	24b	
15	Insurance (other than health)	15		25	Utilities	25	
16	Interest (see instructions):			26	Wages (less employment credits)	26	
a	Mortgage (paid to banks, etc.)	16a		27a	Energy efficient commercial bldgs deduction (attach Form 7205) . .	27a	
b	Other	16b					
17	Legal and professional services	17		b	Other expenses (from line 48) . .	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27b	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. **Simplified method filers only:** Enter the total square footage of (a) your home: and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.	**32a** ☐ All investment is at risk. **32b** ☐ Some investment is not at risk.	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P **Schedule C (Form 1040) 2025** Created 4/3/25

For AGI: Rental and Royalty (Sch E)

SCHEDULE E (Form 1040)

Department of the Treasury
Internal Revenue Service

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
Go to *www.irs.gov/ScheduleE* for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. **13**

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

Part I **Income or Loss From Rental Real Estate and Royalties**

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2025 that would require you to file Form(s) 1099? See instructions . . . . . ☐ **Yes** ☐ **No**

B If "Yes," did you or will you file required Form(s) 1099? . . . . . ☐ **Yes** ☐ **No**

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b	Type of Property (from list below)	**2** For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.		**Fair Rental Days**	**Personal Use Days**	**QJV**
A			**A**			☐
B			**B**			☐
C			**C**			☐

Type of Property:

1 Single Family Residence
2 Multi-Family Residence
3 Vacation/Short-Term Rental
4 Commercial
5 Land
6 Royalties
7 Self-Rental
8 Other (describe) _____

			Properties: A	B	C
Income:					
3	Rents received	**3**			
4	Royalties received	**4**			
Expenses:					
5	Advertising	**5**			
6	Auto and travel (see instructions)	**6**			
7	Cleaning and maintenance	**7**			
8	Commissions	**8**			
9	Insurance	**9**			
10	Legal and other professional fees	**10**			
11	Management fees	**11**			
12	Mortgage interest paid to banks, etc. (see instructions)	**12**			
13	Other interest	**13**			
14	Repairs	**14**			
15	Supplies	**15**			
16	Taxes	**16**			
17	Utilities	**17**			
18	Depreciation expense or depletion	**18**			
19	Other (list) _____	**19**			
20	Total expenses. Add lines 5 through 19	**20**			
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198**	**21**			
22	Deductible rental real estate loss after limitation, if any, on **Form 8582** (see instructions)	**22**	( )	( )	( )

23a	Total of all amounts reported on line 3 for all rental properties	**23a**	
b	Total of all amounts reported on line 4 for all royalty properties	**23b**	
c	Total of all amounts reported on line 12 for all properties	**23c**	
d	Total of all amounts reported on line 18 for all properties	**23d**	
e	Total of all amounts reported on line 20 for all properties	**23e**	

24	**Income.** Add positive amounts shown on line 21. **Do not** include any losses	**24**	
25	**Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	**25**	( )
26	**Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, and IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2 .	**26**	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L **Schedule E (Form 1040) 2025** Created 5/6/25

From AGI

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is y	15	
16	Tax (see instructions). Check if any from Form(s):	16	
		17	
		18	
		19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	
22	Subtract line 18 from line 17. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

From AGI: Greater of Standard and Itemized (SCH A)

From AGI: Itemized Deductions (Sch A)

SCHEDULE A (Form 1040)
Department of the Treasury
Internal Revenue Service

Itemized Deductions
Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074
2025
Attachment Sequence No. 07

Name(s) shown on Form 1040 or 1040-SR | Your social security number

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see instructions)	1	
	2	Enter amount from Form 1040 or 1040-SR, line 11b . . . 2		
	3	Multiply line 2 by 7.5% (0.075)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local taxes (SALT).		
	a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐	5a	
	b	State and local real estate taxes (see instructions)	5b	
	c	State and local personal property taxes	5c	
	d	Add lines 5a through 5c	5d	
	e	Enter the smaller of line 5d or $40,000 ($20,000 if married filing separately). If Form 1040 or 1040-SR, line 11b is more than $500,000 ($250,000 if married filing separately), or if you completed Form 2555, Form 4563, or excluded income from Puerto Rico, see instructions	5e	
	6	Other taxes. List type and amount:	6	
	7	Add lines 5e and 6		7
Interest You Paid	8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐		
Caution: Your mortgage interest deduction may be limited. See instructions.	a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	
	b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b	
	c	Points not reported to you on Form 1098. See instructions for special rules	8c	
	d	Reserved for future use	8d	
	e	Add lines 8a through 8c	8e	
	9	Investment interest. Attach Form 4952 if required. See instructions	9	
	10	Add lines 8e and 9		10
Gifts to Charity	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	
Caution: If you made a gift and got a benefit for it, see instructions.	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12	
	13	Carryover from prior year	13	
	14	Add lines 11 through 13		14
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		15
Other Itemized Deductions	16	Other—from list in instructions. List type and amount:		16
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12e		17
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2025** Created 11/20/25

From AGI

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	
13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Schedule 1-A, line 38	13b	
14	Add lines 12e, 13a, and 13b	14	
15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your ta	15	
16	**Tax** (see instructions). Check if any from Form(s): 1 ☐ 2 3 ☐	16	
		17	
		18	
		19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

From AGI: QBI Deduction

From AGI: New OBBBA Deductions

- **Deduction for Qualified Tip Income.**
- Defined as cash tips received by an individual in an occupation where tipping was customary before Jan 1, 2025. Must be voluntary.
- Taxpayers can deduct up to $25,000 of qualified tips.
- Reduced by $100 for every $1,000 of modified AGI above $150,000 ($300,000 married filing joint).
- **Deduction for Qualified Overtime Compensation.**
- Defined as overtime compensation paid to an individual required under the Fair Labor Standards Act for hours worked beyond 40 hours in a work week.
- Taxpayers can deduct up to $12,500 ($25,000 for married filing joint) of qualified overtime compensation.
- Reduced by $100 for every $1,000 of modified AGI above $150,000 ($300,000 married filing joint).

From AGI: New OBBBA Deductions

- **Deduction for Qualified Car Loan Interest.**
- Car debt must have been incurred after Dec 31, 2024 for the purchase of a new personal use vehicle (under 14,000 pounds). The final assembly of the vehicle must have occurred in the U.S.
- Taxpayers can deduct up to $10,000 of qualified car loan interest.
- Reduced by $200 for every $1,000 of modified AGI above $100,000 ($200,000 married filing joint).
- **Deduction for Seniors.**
- Taxpayers age 65 or older can claim a $6,000 deduction (and a $6,000 deduction for their spouse age 65 or older).
- Deduction is reduced by 6% of the amount of modified AGI above $75,000 ($150,000 married filing joint).

Schedule 1 - A

SCHEDULE 1-A (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Deductions

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **1A**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

Part I Modified Adjusted Gross Income (MAGI) Amount

1	Enter the amount from Form 1040, 1040-SR, or 1040-NR, line 11b			1	
2a	Enter any income from Puerto Rico that you excluded	2a			
b	Enter the amount from Form 2555, line 45	2b			
c	Enter the amount from Form 2555, line 50	2c			
d	Enter the amount from Form 4563, line 15	2d			
e	Add lines 2a, 2b, 2c, and 2d			2e	
3	Add lines 1 and 2e			3	

Part II No Tax on Tips

Caution: Fill out Part II only if you received qualified tips. These tips must have been received in an occupation listed at *IRS.gov/TippedOccupations*. You and/or your spouse who received qualified tips must have a valid social security number to claim the deduction. If married, you must file jointly to claim this deduction. See instructions.

4	Qualified tips received as an employee. If you received tips as an employee with respect to employment with more than one employer, enter -0- on lines 4a and 4b and see the instructions to determine the amount to enter on line 4c. If you received tips as an employee in more than one occupation, see the instructions.				
a	Enter qualified tips included on Form W-2, box 7, but see the instructions if Form W-2, box 5 is more than $176,100 or you received tips that are not subject to social security and Medicare taxes	4a			
b	Qualified tips included on Form 4137, line 1, row A, column (c). If Form 4137 is not filed, enter -0-	4b			
c	If you only received qualified tips as an employee with respect to employment with one employer, enter the larger of line 4a or line 4b. Otherwise, see the instructions to determine the amount to enter on line 4c. If you received tips as an employee in more than one occupation, see the instructions			4c	
5	Qualified tips received in the course of a trade or business. Qualified tip amount included in Form 1099-NEC, box 1; Form 1099-MISC, box 3; or Form 1099-K, box 1a. Do not enter more than the net profit from the trade or business. If you received qualified tips in the course of more than one trade or business or in more than one occupation, see instructions			5	
6	Add lines 4c and 5			6	
7	Enter the smaller of the amount on line 6 or $25,000			7	
8	Enter the amount from line 3			8	
9	Enter $150,000 ($300,000 if married filing jointly)			9	
10	Subtract line 9 from line 8. If zero or less, enter the amount from line 7 on line 13			10	
11	Divide line 10 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)			11	
12	Multiply line 11 by $100			12	
13	**Qualified tips deduction.** Subtract line 12 from line 7. If zero or less, enter -0-			13	

Part III No Tax on Overtime

Caution: Fill out Part III only if you received qualified overtime compensation. You and/or your spouse who received the qualified overtime compensation must have a valid social security number to claim this deduction. If married, you must file jointly to claim this deduction. See instructions.

14a	Qualified overtime compensation included in Form W-2, box 1. If you received qualified overtime compensation not reported on Form W-2, box 1, see instructions	14a			
b	Qualified overtime compensation included in Form 1099-NEC, box 1, or Form 1099-MISC, box 3 (see instructions)	14b			
c	Add lines 14a and 14b			14c	
15	Enter the smaller of the amount on line 14c or $12,500 ($25,000 if married filing jointly)			15	
16	Enter the amount from line 3			16	
17	Enter $150,000 ($300,000 if married filing jointly)			17	
18	Subtract line 17 from line 16. If zero or less, enter the amount from line 15 on line 21			18	
19	Divide line 18 by $1,000. If the resulting number isn't a whole number, decrease the result to the next lower whole number. (For example, decrease 1.5 to 1, and decrease 0.05 to 0.)			19	
20	Multiply line 19 by $100			20	
21	**Qualified overtime compensation deduction.** Subtract line 20 from line 15. If zero or less, enter -0-			21	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 95872Q **Schedule 1-A (Form 1040) 2025** Created 11/4/25

Part IV No Tax on Car Loan Interest

Caution: Fill out Part IV only if you, or your spouse if married filing jointly, paid or accrued qualified passenger vehicle loan interest (QPVLI). Column (iii) is the total QPVLI paid in 2025 less the amounts reported in column (ii). See instructions.

22 Applicable passenger vehicle (see instructions). If more than two VINs, see instructions.

	(i) Vehicle identification number (VIN)	Interest for this loan: (ii) Deducted on Schedule C, Schedule E, or Schedule F	Interest for this loan: (iii) Schedule 1-A
a			
b			

23	Add lines 22a and 22b, column (iii)	23	
24	Enter the smaller of the amount on line 23 or $10,000	24	
25	Enter the amount from line 3	25	
26	Enter $100,000 ($200,000 if married filing jointly)	26	
27	Subtract line 26 from line 25. If zero or less, enter the amount from line 24 on line 30	27	
28	Divide line 27 by $1,000. If the resulting number isn't a whole number, increase the result to the next higher whole number. (For example, increase 1.5 to 2, and increase 0.05 to 1.)	28	
29	Multiply line 28 by $200	29	
30	**Qualified passenger vehicle loan interest deduction.** Subtract line 29 from line 24. If zero or less, enter -0-	30	

Part V Enhanced Deduction for Seniors

Caution: You and/or your spouse must have a valid social security number. If married, you must file jointly to claim this deduction. See instructions.

31	Enter the amount from line 3	31	
32	Enter $75,000 ($150,000 if married filing jointly)	32	
33	Subtract line 32 from line 31. If zero or less, enter $6,000 on line 35	33	
34	Multiply line 33 by 6% (0.06)	34	
35	Subtract line 34 from $6,000. If zero or less, enter -0-	35	
36a	If you have a valid social security number (see instructions) and were born before January 2, 1961, enter the amount from line 35	36a	
b	If you are married filing jointly, your spouse has a valid social security number (see instructions), and your spouse was born before January 2, 1961, enter the amount from line 35	36b	
37	**Enhanced deduction for seniors.** Add lines 36a and 36b	37	

Part VI Total Additional Deductions

38	Add lines 13, 21, 30, and 37. Enter here and on Form 1040 or 1040-SR, line 13b, or on Form 1040-NR, line 13c	38	

From AGI: QBI Deduction

- Part of the Tax Cuts and Jobs Act (TCJA) of 2017
- Allows taxpayers to deduct the lesser of 20% qualified business income or 20% of taxable income from federal taxable income.
- Qualified business: Any business other than specified service trade or business (e.g., health, law, consulting, financial services, performing arts). Does not include the business of being an employee.
- Additional limitations apply but are beyond the scope of this course

Activity 1

Can I deduct this and where?

Exhibit 6-2: Schedule C
Exhibit 6-3 Schedule E
Exhibit 4-11: 1040
Exhibit 6-8: Schedule 1 Part II
Exhibit 6-10: Schedule A

Check Your Work

	For Deduction	From Deduction	Tax Form
Standard Deduction		X	1040 Line 12
Home mortgage interest		X	Sch A, Line 8
Ordinary business expense	X		Sch C, Lines 8 - 27
Charitable Mileage		X	Sch A, Line 12 Amount per mile set by IRS each year
Qualified business income deduction		X	1040 Line 13
Self-employment taxes	X		Sch 1, Line 15 ½ of $ amount is deductible
Medical Payments		X	Sch A Line 1
Advertising expenses for rental property	X		Sch E, Line 5
Medical Mileage		X	Sch A, Line 1 Amount per mile set by IRS each year
Retirement contribution to traditional IRA	X		Sch 1, Line 20
Property tax on personal residence		X	Sch A, Line 5c
Interest payments on qualified student loans	X		Sch 1, Line 21
Charitable contributions		X	Sch A, Line 11
Moving expenses	X		Sch 1, Line 14 Only for military order
State income tax withholdings		X	Sch A, Line 5a
Net capital loss on property	X		1040, Line 7 or 15 (from Sch D)
Self-employed health insurance payments	X		Sch 1, Line 17

Pre-Class Quiz Review

Which of the following taxes will not qualify as an itemized deduction?

a. Personal property taxes assessed on the value of specific property
b. State, local, and foreign income taxes
c. Real estate taxes on a residence
d. Gasoline excise taxes on personal travel
e. None of the choices qualify as itemized deductions

Pre-Class Quiz Review

Which of the following taxes will not qualify as an itemized deduction?

a. Personal property taxes assessed on the value of specific property (Sch A line 5c)
b. State, local, and foreign income taxes (Sch A line 5a)
c. Real estate taxes on a residence (Sch A line 5b)
d. Gasoline excise taxes on personal travel
e. None of the choices qualify as itemized deductions

Note:

- Taxpayer can elect general sales tax instead of state income tax
- Taxes paid are capped at $40,000

Limitations
(some examples)

Tip: Always look up the tax rules (this is not an inclusive list)

Deduction	Limitation
Home mortgage interest	Cap on acq. debt: $375,000 (MFS)/$750,000
Ordinary business expense	Excess business loss: Loss over $313,000 or $626,000 MFJ carried forward (NOL)
Qualified business income deduction: Lesser of 20% business income or 20% taxable income	Cannot exceed greater of (1) 50% of wages of business (2) 25% of wages + 2.5% unadjusted basis of qualified property
Medical Payments	Floor limitation: 7.5% of AGI
Retirement contribution to IRA	Limits based on many factors
SALT Tax Deduction	Tax deduction limited to $20,000 (MFS)/$40,000 Phaseout: $40,000 – (30% × [MAGI – $500,000 threshold]). The phaseout is not reduced below $10,000.
Interest payments on qualified student loans	Limited to $2,500 Phase-Out Percentage: Single/HOH: (MAGI - $85,000)/$15,000 MFJ (MAGI - $170,000)/$30,000
Net capital loss on property	Limited to $3,000 (excess carried forward)

Activity 2

Self-employment Deductions

Check Your Work

Activity 2: Self-employment Deductions

Heather is a self-employed individual who she sells jewelry for her business. Determine the effect of the following transactions on Heather's AGI:

	Increase AGI	Decrease AGI	No effect on AGI
1. Heather paid $3,000 in annual health insurance premiums (she is not eligible for an employer-sponsored plan).		$3,000	
2. Heather broke her arm this year and paid $7,500 in medical expenses that were not reimbursed by her health insurance.			From AGI deduction
3. Heather sold jewelry for $64,000. The cost of the jewelry was $20,000, and the operating expenses of the business were $24,000.	$20,000		
4. Heather calculated self-employment tax of $3,600 for the current tax year.		$1,800	
5. Heather had $4,500 in capital losses this year from the sale of stock she has held for 4 years. Heather had no other capital gains or losses during the year.		$3,000	

Student Loan Interest Deduction

Pre-Class Quiz Review

Mike paid $4,000 of interest on a qualified education loan that he used to pay for his dependent son's college education. How much of this payment can Mike deduct if he files married-joint and reports modified AGI of $185,000?

MAGI	$185,000
Phaseout Percentage	[($185,000 - 170,000)/$30,000] = .50 = 50%
Phaseout Amount	$2,500 (max) × .50 = $1,250
Amount Deductible	$2,500 - $1,250 = $1,250

Activity 3

Student Loan Interest Deduction

Activity 3a Solution

AGI before student loan interest (MAGI)	$182,000
Phaseout Percentage	[($182,000 - 170,000)/$30,000] = .40 = 40%
Phaseout Amount	$2,500 X .40 = $1,000
Amount Deductible	$2,500 - $1,000 = $1,500

Activity 3b Solution

MAGI	$255,000
Phaseout Percentage	[($255,000 - 170,000)/$30,000] = >1 = 100%
Phaseout Amount	$2,500 × 1 = $2,500
Amount Deductible	$2,500 - $2,500 = $0

Activity 3c Solution

MAGI	$182,000
Phaseout Percentage	[($182,000 - 170,000)/$30,000] = .40 = 40%
Phaseout Amount	$1,500 × .40 = $600
Amount Deductible	$1,500 - $600 = $900

Activity 3d Solution

$0

Married taxpayers filing separately are ineligible for the deduction

Activity 4

Qualified Business Income (QBI) Deduction

Activity 4 Solution

QBI Deduction Lesser of	
1. 20% of business income	$100,000 × .20 = $20,000
2. 20% taxable income	$200,000 × .20 = $40,000
QBI Deduction	$20,000

Activity 5

OBBBA Deductions

Activity 5 Solution

Qualified Tip Income Deduction	
Tip income	$18,000
Maximum Deduction (before phase out)	Lesser of $25,000 or $18,000
Excess MAGI	$155,000 - 150,000 = $5,000
Reduction	5 ($100) = $500
Allowed maximum	$18,000 – 500 = $17,500
Deduction	$17,500

Qualified Car Interest Loan Deduction	
Car Loan Interest	$2,000
Maximum Deduction (before phase out)	Lesser of $10,000 or $2,000
Excess MAGI	$155,000 - 100,000 = $55,000
Reduction	55 ($200) = $11,000
Allowed maximum	$2,000 – 11,000 = < $0
Deduction	$0

Qualified Overtime Compensation Deduction	
Overtime comp	$8,000
Maximum Deduction (before phase out)	Lesser of $12,500 or $8,000
Excess MAGI	$155,000 - 150,000 = $5,000
Reduction	5 ($100) = $500
Allowed maximum	$8,000 – 500 = $7,500
Deduction	$7,500

Senior Deduction	
Maximum Deduction (before phase out)	$6,000
Excess MAGI	$155,000 - 75,000 = $80,000
Reduction	6% ($80,000) = $4,800
Allowed maximum	$6,000 – 4,800 = $1,200
Deduction	$1,200

Reflect and Preview

Individual Income Tax Formula

Gross Income ← Investments

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

Form 1040: Income

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount:	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest 2a	b Taxable interest 2b	
3a	Qualified dividends 3a	b Ordinary dividends 3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a	b Taxable amount 4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
5a	Pensions and annuities 5a	b Taxable amount 5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
6a	Social security benefits 6a	b Taxable amount 6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	

Attach Sch. B if required.

Sch A Itemized Deduction: Investment Interest Deduction

Interest You Paid

Caution: Your mortgage interest deduction may be limited. See instructions.

8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box . . . . . ☐

a Home mortgage interest and points reported to you on Form 1098. See instructions if limited 8a

b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address 8b

c Points not reported to you on Form 1098. See instructions for special rules 8c

d Reserved for future use 8d

e Add lines 8a through 8c 8e

9 Investment interest. Attach Form 4952 if required. See instructions 9

10 Add lines 8e and 9 10

Other Taxes: Net Investment Income Tax

Individuals with higher incomes have to pay Net Investment Income Tax. This tax is reported in “Other taxes” in the tax formula.

This is an additional 3.8% tax on investments.

This calculation is beyond the scope of this course. We will provide the number if it ever applies

What are the preferential rates?

0% 15% 20%	25%	28%
Qualified Dividends Net Long-Term Capital Gains Rate based on taxpayer's filing status and amount of income *Short-term capital gains are taxed as ordinary income	Depreciable real estate held long-term (Unrecaptured §1250 gain) *Disregard calculation for this course	1. Collectibles (art, coins, stamps) held longer than a year 2. Qualified small business stock held for more than 5 years (OBBBA changes) *Disregard calculation for this course

Tax Liability on Capital Gains/Qualified Dividends

Max, single taxpayer, reports taxable income of $48,500 which includes $46,000 ordinary income and $2,500 of long-term capital gain income. Calculate tax liability.

Ordinary income: ($46,000 - $11,925) × 0.12 + $1,192.50 = $5,281.5
Capital gain: $48,350 - $46,000 = $2,350 × 0% = $0
$48,500 - $48,350 = $150 × 15% = $22.5

Tax liability: $5,281.5 + $22.5 = $5,304

Tax Rates for Net Capital Gains and Qualified Dividends

	Taxable Income				
Rate*	Married Filing Jointly	Married Filing Separately	Single	Head of Household	Trusts and Estates
0%	$0–$96,700	$0–$48,350	$0–$48,350	$0–$64,750	$0–$3,250
15%	$96,701–$600,050	$48,351–$300,000	$48,351–$533,400	$64,751–$566,700	$3,251–$15,900
20%	$600,051+	$300,001+	$533,401+	$566,701+	$15,901+

*This rate applies to the net capital gains and qualified dividends that fall within the range of taxable income specified in the table (net capital gains and qualified dividends are included in taxable income last for this purpose).

Class 3
Gross Income

Today's Agenda:

1. What income is reported on my tax return? And where?
2. Sickness and Injury
3. Mini-cases (state tax refund, sale of stock, annuity)
4. Comprehensive Case
5. Reflect and preview

Upcoming Deadlines:

- Post-class quiz 1 (due Sat 1/17)
- Pre-class quiz 4 (due Wed 1/21)

Reminder: Post-Class Quiz 1

Due Saturday 1/17 by midnight

Attempt 1: Attempt the quiz on your own

Learn from your mistakes by additional studying and seeking assistance from group members

Attempt 2: Repeat the quiz

Seek assistance from the TAs or your professor

Attempt 3: Repeat the quiz

What is Included in Gross Income?

Taxpayers recognize gross income when

1. They receive an economic benefit
2. They realize the income (measurable transaction with another party), and
3. The tax law does not provide for exclusion or deferral

Form 1040

Income					
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a	
	b	Household employee wages not reported on Form(s) W-2		1b	
	c	Tip income not reported on line 1a (see instructions)		1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d	
	e	Taxable dependent care benefits from Form 2441, line 26		1e	
	f	Employer-provided adoption benefits from Form 8839, line 31		1f	
	g	Wages from Form 8919, line 6		1g	
	h	Other earned income (see instructions). Enter type and amount:		1h	
	i	Nontaxable combat pay election (see instructions)	1i		
	z	Add lines 1a through 1h		1z	
Attach Sch. B if required.	2a	Tax-exempt interest 2a	b Taxable interest	2b	
	3a	Qualified dividends 3a	b Ordinary dividends	3b	
	c	Check if your child's dividends are included in 1 ☐ Line 3a	2 ☐ Line 3b		
	4a	IRA distributions 4a	b Taxable amount	4b	
	c	Check if (see instructions) 1 ☐ Rollover	2 ☐ QCD 3 ☐		
	5a	Pensions and annuities 5a	b Taxable amount	5b	
	c	Check if (see instructions) 1 ☐ Rollover	2 ☐ PSO 3 ☐		
	6a	Social security benefits 6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐			
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐			
	7a	Capital gain or (loss). Attach Schedule D if required		7a	
	b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)			
	8	Additional income from Schedule 1, line 10		8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**		9	

Additional Income

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . . . .

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	
2a	Alimony received			2a	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			3	
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	
6	Farm income or (loss). Attach Schedule F			6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here ☐ and enter amount repaid:			7	
8	Other income:				
a	Net operating loss	8a	( )		
b	Gambling	8b			
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	( )		
e	Income from Form 8853	8e			
f	Income from Form 8889	8f			
g	Alaska Permanent Fund dividends	8g			
h	Jury duty pay	8h			
i	Prizes and awards	8i			
j	Activity not engaged in for profit income	8j			
k	Stock options	8k			
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l			
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m			
n	Section 951(a) inclusion (see instructions)	8n			
o	Section 951A(a) inclusion (see instructions)	8o			
p	Section 461(l) excess business loss adjustment	8p			
q	Taxable distributions from an ABLE account (see instructions)	8q			
r	Scholarship and fellowship grants not reported on Form W-2	8r			
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )		
t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t			
u	Wages earned while incarcerated	8u			
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v			
z	Other income. List type and amount:	8z			
9	Total other income. Add lines 8a through 8z			9	
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2025** Created 7/25/25

Activity 1

What income is reported on my tax return? And where?

Activity 1 Solution

	Y/N	Line Item	Notes
1. Prize/Award Money	Y	8: Other income (Sch 1 line 8i)	
2. Stock that has appreciated in value	N		Taxable gain when sold. Long-term qualifies for preferential rates
3. Interest income from corporate bonds	Y	2b: Taxable interest	Tax-exempt interest reported on line 2a
4. Salary	Y	1a: W-2	
5. Dividend income	Y	3a &b: Dividends	Qualified dividends receive preferential rates
6. Gain on sale of personal residence	Y/N	7a: Capital gain	Exclusion on gain (limit) available every 2 years if home is taxpayer's principal residence 2 years out of the last 5
7. Alimony received	Y/N	8: Other income (Sch 1 line 2a)	Y: divorced before Jan 1, 2019
8. Child Support received	N		Child support and property divisions are excluded from income
9. Scholarship money received	Y/N	8: Other income (Sch 1 line 8r)	Y: Used for something other than qualified educational expenses (excess is taxable) or in exchange for services
10. Interest income from municipal bonds	N	2a: Tax-exempt interest	Still reported even though it is not taxed

Activity 1 Solution

11. Disability benefits received	Y/N	1a: W-2	Y: If employer pays policy N: If employee pays policy directly (or W-2)
12. State Tax Refund	Y/N	8: Other income (Sch 1 line 1)	Y: If itemized and benefit of deduction
13. Substantial cash gift from grandma	N		Gifts and inheritances are not taxable to the recipient
14. Personal injury award for physical injury	N		Physical injuries are an exclusion
15. Self-employment business income	Y	8: Other income (Sch 1 line 3)	Income is reported on Schedule C and flows through to Schedule 1
16. Rental income from flow-through entity	Y	8: Other income (Sch 1 line 5)	Income is reported on Schedule E and flows through to Schedule 1
17. Services exchanged	Y	8: Depends on nature of services. 8: Other income (Sch 1 line 3 or 8z)	
18. Punitive damages awarded	Y	8: Other income (Sch 1 line 8z)	
19. Qualified fringe benefits	N		Generally excluded (benefits include medical and dental insurance and group term life insurance)
20. Life insurance proceeds	N		Life insurance proceeds are excluded from income

Activity 2: Sickness and Injury

14.	Personal Injury - Physical (including lost wages, emotional distress)	
	Personal Injury – Not physical (emotional distress)	
18.	Punitive Damages	

Activity 2: Sickness and Injury

14.	Personal Injury - Physical (including lost wages, emotional distress)	N
	Personal Injury – Not physical (emotional distress)	Y
18.	Punitive Damages	Y
	Workers Compensation	
	Unemployment Income	

Activity 2: Sickness and Injury

14.	Personal Injury - Physical (including lost wages, emotional distress)	N
	Personal Injury – Not physical (emotional distress)	Y
18.	Punitive Damages	Y
	Workers Compensation	N
	Unemployment Income	Y
11.	Disability Payments (employer pays policy)	
11.	Disability Payments (employee pays policy)	
11.	Disability Payments (employer pays---included in W2)	

Activity 2: Sickness and Injury

14.	Personal Injury - Physical (including lost wages, emotional distress)	N
	Personal Injury – Not physical (emotional distress)	Y
18.	Punitive Damages	Y
	Workers Compensation	N
	Unemployment Income	Y
11.	Disability Payments (employer pays policy)	Y
11.	Disability Payments (employee pays policy)	N
11.	Disability Payments (employer pays---included in W2)	N

Activity 3A

Mini Case: State Tax Refund

Recovery of Amounts Previously Deducted

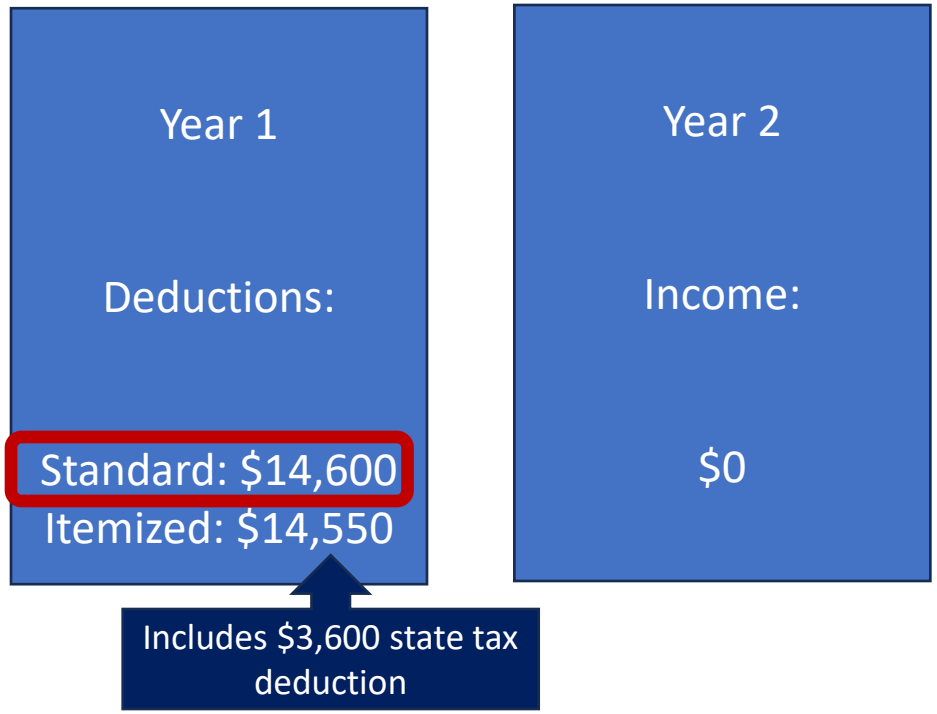
- Individuals typically claim deductions in the year paid
- Deductions may sometimes be reimbursed or refunded in a subsequent year
- Tax benefit rule: Refunds of expenditures deducted in a prior year are included in gross income to the extent that the refund reduced taxes in the year of the deduction.

Mini Case 3A (1): State Tax Refund

Zuri, a single taxpayer, received a $610 refund of the $3,600 in state income taxes her employer withheld from her pay last year. Assuming the standard deduction for a single filer last year was $14,600 and Zuri's itemized deductions were $14,550. How much of the $610 refund should be reported as "Other income" on her individual federal tax return in the current year?

Mini Case 3A (1): State Tax Refund

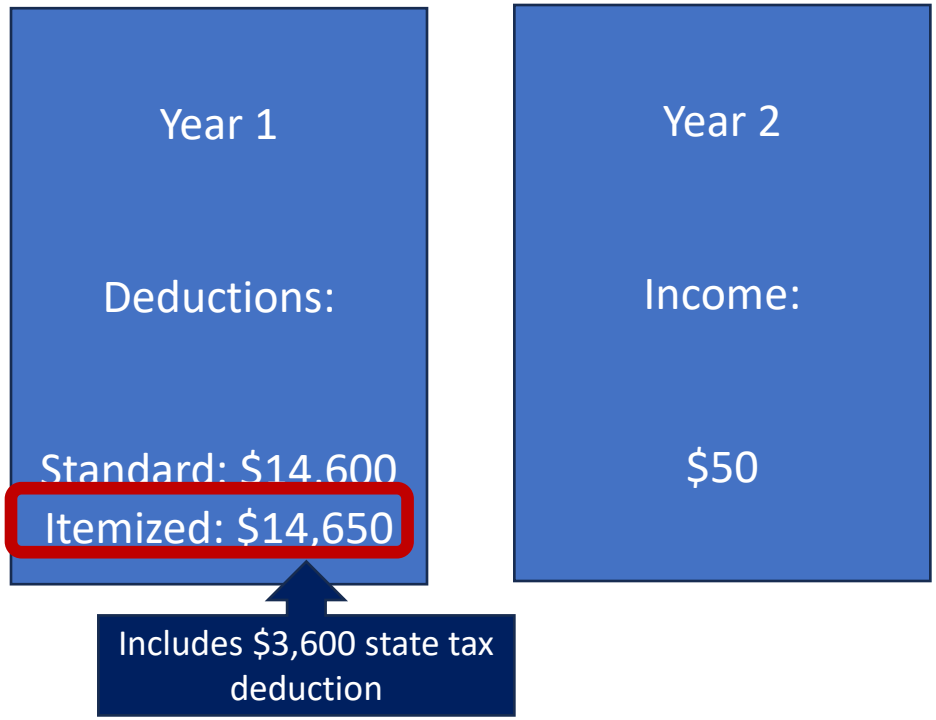
Zuri, a single taxpayer, received a $610 refund of the $3,600 in state income taxes her employer withheld from her pay last year. Assuming the standard deduction for a single filer last year was $14,600 and Zuri's itemized deductions were $14,550. How much of the $610 refund should be reported as "Other income" on her individual federal tax return in the current year?



Zuri did not itemize in Year 1 so there was no benefit (deduction) in Year 1 related to the state income tax withholdings

Mini Case 3A (2): State Tax Refund

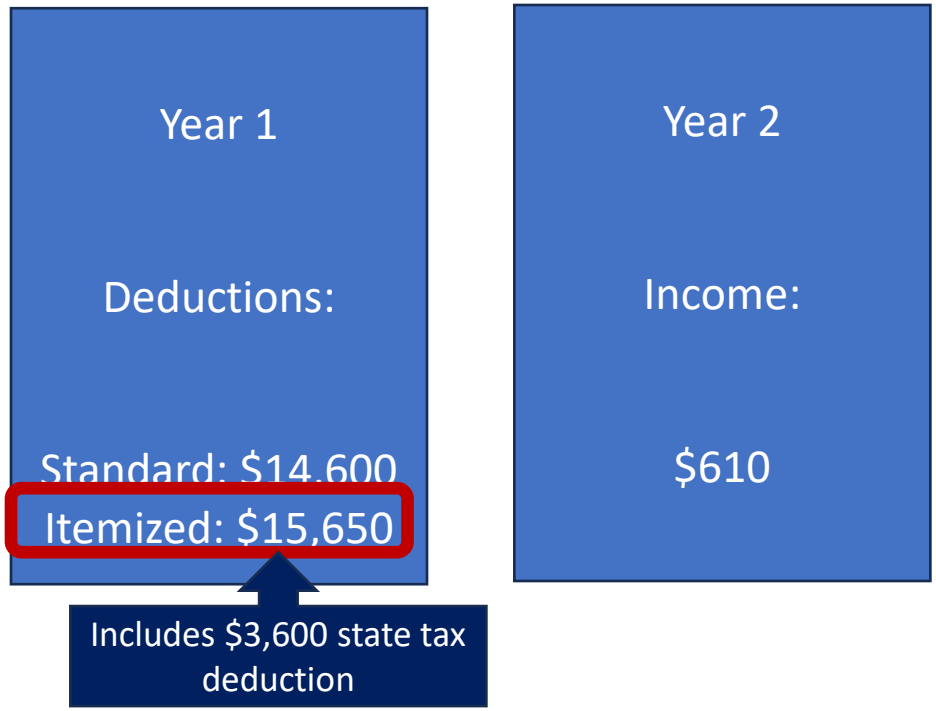
Assume the itemized deductions in Year 1 were $14,650



Benefit is the lesser of the refund ($610) or the excess itemized over the standard deduction ($50)

Mini Case 3A (3): State Tax Refund

Assume the itemized deductions in Year 1 were $15,650



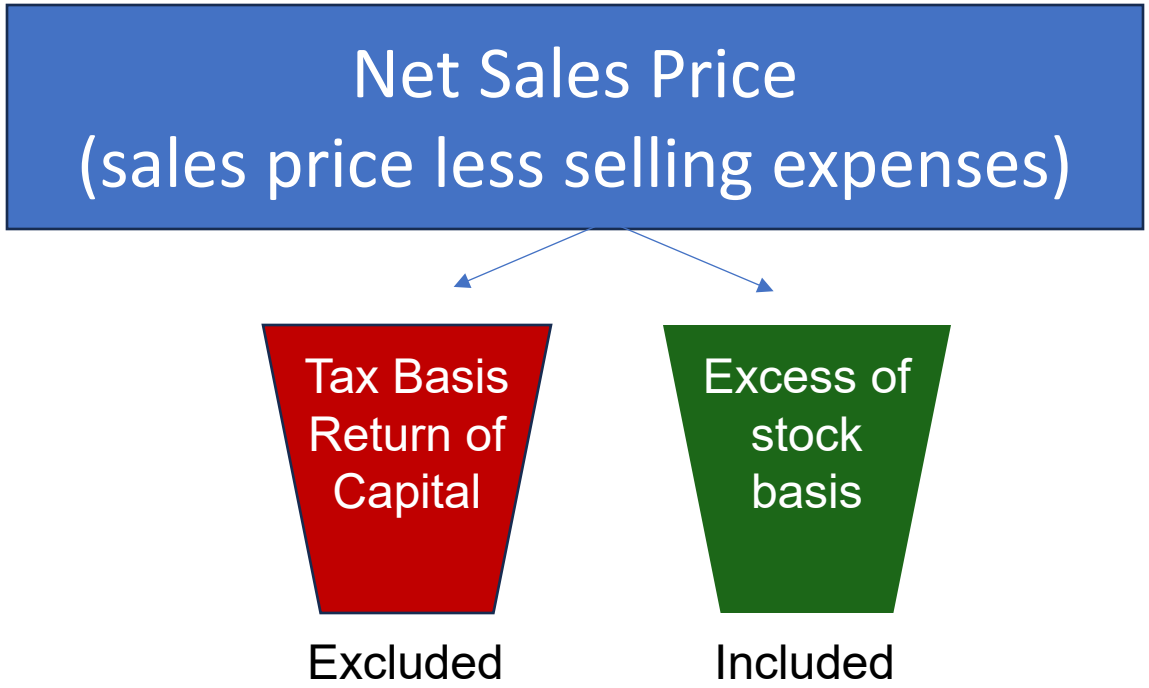
Benefit is the lesser of the refund ($610) or the excess itemized deductions over the standard deduction ($1,050)

Activity 3B

Mini Case: Sale of Stock

Return of Capital Principle

- The cost of an asset is called **tax basis**
- When selling an asset, the portion of the proceeds that is the tax basis does not represent an economic benefit and therefore, is excluded from gross income.



Mini Case 3B: Sale of Stock

Jin sold 1,000 shares of stock for $32 a share. She inherited the stock two years ago from her father when the stock was trading at $31 per share. Jin's father originally purchased the stock for $19 dollars a share. How much is included in gross income?

$1,000

Excess of stock basis is included in gross income

($32 - $31) X 1,000 shares

This income will be taxed at a preferential rate.
(more on this later in the semester)

Activity 4

Comprehensive Case

Workman's Gross Income		
Description	**Amount**	**Explanation**
a) Diana's salary and other employee compensation	$96,000	1040 Line 1 $94,000 salary plus $2,000 disability premiums paid by employer as taxable compensation
b) Alimony/child support	$2,000	1040 Line 8, from Schedule 1, line 2a Alimony is included in gross income; child support is not included in gross income
c) Cash prize from Bingo game	$900	1040 Line 8 from Schedule 1, line 8i Included in gross income even if received from charitable organization
d) Interest income	$500	1040 Line 2b $500 interest from corporate bond is included in gross income and the $250 (line 2b) interest on municipal bond is excluded from gross income (line 2a)
e) Dividend income	$50	1040 Line 3a and 3b $1.00 per share × 50 shares (ABC stock); the stock appreciation is not realized so it is not included in gross income
f) Inheritance and life insurance proceeds	0	Inheritance and life insurance proceeds are excluded from gross income
g) Gambling income	$1,200	1040 Line 8, from Schedule 1, line 8b Gambling winnings are included in gross income

h) 10-year service award	$400	1040 Line 1 May only be excluded if award is tangible property other than cash. This is a cash award, so it is taxable as compensation.
i) Disability insurance proceeds	$0	Because the premiums paid by DI represent taxable compensation to Diana, she may exclude the entire benefit from gross income.
j) Payments associated with accident	$5,000	1040 Line 8, Schedule 1, line 8z Punitive damages are included in gross income. Payments for medical expenses and emotional trauma associated with the accident are excluded.
k) Year-end bonus	0	Constructive receipt does not apply because Diana received the bonus on January 2 of next year. Note that if DI includes the bonus in Diana's W2 in the previous year, then Diana would need to make an adjustment to her income on her W-2 to avoid taxation in that year. Also note that if the check was made available to Diana in the previous year, constructive receipt would apply and Diana would include the bonus in her income for the previous year.
l) Flow-through income	$9,200	1040 Line 8 from Schedule 1, line 5 10 percent ownership × 92,000 income
m) Daycare gross income less expenses	$15,000	1040 Line 8 from Schedule 1 line 3 35,000 from revenues plus 2,500 from services received less deductible expenses of $22,500 ($5,500 supplies; $1,500 utilities; $15,000 rent; and $500 miscellaneous expenses).
n) Health insurance premiums	$0	Health insurance premiums paid by an employer and included in W-2 are excluded
Total Income	**$130,250**	

Activity 4 Solution

Income						
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a	96,400
	b	Household employee wages not reported on Form(s) W-2			1b	
	c	Tip income not reported on line 1a (see instructions)			1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d	
	e	Taxable dependent care benefits from Form 2441, line 26			1e	
	f	Employer-provided adoption benefits from Form 8839, line 31			1f	
	g	Wages from Form 8919, line 6			1g	
	h	Other earned income (see instructions). Enter type and amount:			1h	
	i	Nontaxable combat pay election (see instructions)	1i			
	z	Add lines 1a through 1h			1z	96,400
Attach Sch. B if required.	2a	Tax-exempt interest	2a	250		
				b Taxable interest	2b	500
	3a	Qualified dividends	3a	50		
				b Ordinary dividends	3b	50
	c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b				
	4a	IRA distributions	4a			
				b Taxable amount	4b	
	c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐				
	5a	Pensions and annuities	5a			
				b Taxable amount	5b	
	c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐				
	6a	Social security benefits	6a			
				b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐				
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐				
	7a	Capital gain or (loss). Attach Schedule D if required			7a	
	b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)				
	8	Additional income from Schedule 1, line 10			8	33,300
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**			9	130,250
	10	Adjustments to income from Schedule 1, line 26			10	
	11a	Subtract line 10 from line 9. This is your **adjusted gross income**			11a	

Activity 4 Solution

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	
2a	Alimony received			2a	2,000
b	Date of original divorce or separation agreement (see instructions): 12/31/2016				
3	Business income or (loss). Attach Schedule C			3	15,000
4	Other gains or (losses). Attach Form 4797			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	9,200
6	Farm income or (loss). Attach Schedule F			6	
7	Unemployment compensation			7	
8	Other income:				
a	Net operating loss	8a	( )		
b	Gambling	8b	1,200		
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	( )		
e	Income from Form 8853	8e			
f	Income from Form 8889	8f			
g	Alaska Permanent Fund dividends	8g			
h	Jury duty pay	8h			
i	Prizes and awards	8i	900		

Activity 4 Solution Continued

j	Activity not engaged in for profit income	8j			
k	Stock options	8k			
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l			
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m			
n	Section 951(a) inclusion (see instructions)	8n			
o	Section 951A(a) inclusion (see instructions)	8o			
p	Section 461(l) excess business loss adjustment	8p			
q	Taxable distributions from an ABLE account (see instructions)	8q			
r	Scholarship and fellowship grants not reported on Form W-2	8r			
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )		
t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t			
u	Wages earned while incarcerated	8u			
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v			
z	Other income. List type and amount: punitive damages $5,000	8z	5000		
9	Total other income. Add lines 8a through 8z			9	7100
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10	33300

Reflect and Preview

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less new OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

For and From deductions

Itemized or standard deduction

For AGI

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 31	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions). Enter type and amount:	1h	
i	Nontaxable combat pay election (see instructions) 1i		
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest 2a; b Taxable interest	2b	
3a	Qualified dividends 3a; b Ordinary dividends	3b	
c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
4a	IRA distributions 4a; b Taxable amount	4b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
5a	Pensions and annuities 5a; b Taxable amount	5b	
c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
6a	Social security benefits 6a; b Taxable amount	6b	
c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
7a	Capital gain or (loss). Attach Schedule D if required	7a	
b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	
10	Adjustments to income from Schedule 1, line 26	10	
11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	

Attach Sch. B if required.

From Sch 1

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. 01

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	

From Sch C

From Sch E

For AGI: Business Deductions (Sch C)

Business Income and Expenses flow through to Sch 1 to Page 1 of 1040

EXHIBIT 6-2 Parts I and II from Schedule C Profit or Loss from Business

SCHEDULE C (Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or Loss From Business
(Sole Proprietorship)
Attach to Form 1040, 1040-SR, 1040-SS, 1040-NR, or 1041; partnerships must generally file Form 1065.
Go to *www.irs.gov/ScheduleC* for instructions and the latest information.

OMB No. 1545-0074
2024
Attachment Sequence No. 09

Name of proprietor | Social security number (SSN)

A Principal business or profession, including product or service (see instructions) | B Enter code from instructions

C Business name. If no separate business name, leave blank. | D Employer ID number (EIN) (see instr.)

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 2024? If "No," see instructions for limit on losses . ☐ Yes ☐ No

H If you started or acquired this business during 2024, check here ☐

I Did you make any payments in 2024 that would require you to file Form(s) 1099? See instructions . ☐ Yes ☐ No

J If "Yes," did you or will you file required Form(s) 1099? . ☐ Yes ☐ No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
				22	Supplies (not included in Part III)	22	
14	Employee benefit programs (other than on line 19)	14		23	Taxes and licenses	23	
15	Insurance (other than health)	15		24	Travel and meals:		
16	Interest (see instructions):			a	Travel	24a	
a	Mortgage (paid to banks, etc.)	16a		b	Deductible meals (see instructions)	24b	
b	Other	16b		25	Utilities	25	
17	Legal and professional services	17		26	Wages (less employment credits)	26	
				27a	Other expenses (from line 48)	27a	
				b	Energy efficient commercial bldgs deduction (attach Form 7205)	27b	

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27b	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. **Simplified method filers only:** Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	
32	If you have a loss, check the box that describes your investment in this activity. See instructions. • If you checked 32a, enter the loss on both **Schedule 1 (Form 1040), line 3,** and on **Schedule SE, line 2.** (If you checked the box on line 1, see the line 31 instructions.) Estates and trusts, enter on **Form 1041, line 3.** • If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.	32a ☐ All investment is at risk. 32b ☐ Some investment is not at risk.	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11334P Schedule C (Form 1040) 2024

For AGI: Rent and Royalty (Sch E)

Rental and Royalty Expenses flow through to Sch 1 to Page 1 of 1040

SCHEDULE E (Form 1040)

Department of the Treasury
Internal Revenue Service

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
Go to *www.irs.gov/ScheduleE* for instructions and the latest information.

OMB No. 1545-0074
2025
Attachment Sequence No. 13

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

Part I **Income or Loss From Rental Real Estate and Royalties**

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2025 that would require you to file Form(s) 1099? See instructions . . . . . ☐ **Yes** ☐ **No**

B If "Yes," did you or will you file required Form(s) 1099? . . . . . ☐ **Yes** ☐ **No**

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b	Type of Property (from list below)
A	
B	
C	

2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.

	Fair Rental Days	Personal Use Days	QJV
A			☐
B			☐
C			☐

Type of Property:

1 Single Family Residence
2 Multi-Family Residence
3 Vacation/Short-Term Rental
4 Commercial
5 Land
6 Royalties
7 Self-Rental
8 Other (describe) _____

			Properties: A	Properties: B	Properties: C
Income:					
3	Rents received	3			
4	Royalties received	4			
Expenses:					
5	Advertising	5			
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7			
8	Commissions	8			
9	Insurance	9			
10	Legal and other professional fees	10			
11	Management fees	11			
12	Mortgage interest paid to banks, etc. (see instructions)	12			
13	Other interest	13			
14	Repairs	14			
15	Supplies	15			
16	Taxes	16			
17	Utilities	17			
18	Depreciation expense or depletion	18			
19	Other (list) _____	19			
20	Total expenses. Add lines 5 through 19	20			
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file **Form 6198**	21			
22	Deductible rental real estate loss after limitation, if any, on **Form 8582** (see instructions)	22	( )	( )	( )

23a	Total of all amounts reported on line 3 for all rental properties	23a	
b	Total of all amounts reported on line 4 for all royalty properties	23b	
c	Total of all amounts reported on line 12 for all properties	23c	
d	Total of all amounts reported on line 18 for all properties	23d	
e	Total of all amounts reported on line 20 for all properties	23e	
24	**Income.** Add positive amounts shown on line 21. **Do not** include any losses	24	
25	**Losses.** Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25	( )
26	**Total rental real estate and royalty income or (loss).** Combine lines 24 and 25. Enter the result here. If Parts II, III, and IV, and line 40 on page 2 do not apply to you, also enter this amount on Schedule 1 (Form 1040), line 5. Otherwise, include this amount in the total on line 41 on page 2	26	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11344L **Schedule E (Form 1040) 2025** Created 5/6/25

For AGI: Schedule 1 Part II

Part II Adjustments to Income

11	Educator expenses			11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106			12	
13	Health savings account deduction. Attach Form 8889			13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here ☐			14	
15	Deductible part of self-employment tax. Attach Schedule SE			15	
16	Self-employed SEP, SIMPLE, and qualified plans			16	
17	Self-employed health insurance deduction			17	
18	Penalty on early withdrawal of savings			18	
19a	Alimony paid			19a	
b	Recipient's SSN				
c	Date of original divorce or separation agreement (see instructions):				
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here ☐			20	
21	Student loan interest deduction			21	
22	Reserved for future use			22	
23	Archer MSA deduction			23	
24	Other adjustments:				
a	Jury duty pay (see instructions)	24a			
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b			
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c			
d	Reforestation amortization and expenses	24d			
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e			
f	Contributions to section 501(c)(18)(D) pension plans	24f			
g	Contributions by certain chaplains to section 403(b) plans	24g			
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h			
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i			
j	Housing deduction from Form 2555	24j			
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k			
z	Other adjustments. List type and amount:	24z			
25	Total other adjustments. Add lines 24a through 24z			25	
26	Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10			26	

From AGI

Tax and Credits

11b	Amount from line 11a (adjusted gross income)	11b	
12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
b	☐ Spouse itemizes on a separate return c ☐ You were a dual-status alien		
d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
	Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
e	**Standard deduction or itemized deductions** (from Schedule A)	12e	
13a	Qualified business income de[illegible] from Form 8995 or Form 8995-A	13a	
b	Additional deductions from Sched[illegible]	13b	
14	Add lines 12e, 13a, and 13b	14	
15	Subtract line 14 from li[illegible]		
16	**Tax** (see instructions).		
17	Amount from Schedule[illegible]		
18	Add lines 16 and 17	18	
19	Child tax credit or credit for other dependents from Schedule 8812	19	
20	Amount from Schedule 3, line 8	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 21	23	
24	Add lines 22 and 23. This is your **total tax**	24	

Standard deduction for—
- Single or Married filing separately, $15,750
- Married filing jointly or Qualifying surviving spouse, $31,500
- Head of household, $23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

From AGI: 1. Greater of Standard and Itemized (SCH A) 2. QBI

From AGI: Itemized Deductions (Sch A)

SCHEDULE A (Form 1040)
Department of the Treasury
Internal Revenue Service

Itemized Deductions

Attach to Form 1040 or 1040-SR.
Go to *www.irs.gov/ScheduleA* for instructions and the latest information.
Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 16.

OMB No. 1545-0074
2025
Attachment Sequence No. **07**

Name(s) shown on Form 1040 or 1040-SR | **Your social security number**

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see instructions)	1	
	2	Enter amount from Form 1040 or 1040-SR, line 11b . . . 2		
	3	Multiply line 2 by 7.5% (0.075)	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local taxes (SALT).		
	a	State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box ☐	5a	
	b	State and local real estate taxes (see instructions)	5b	
	c	State and local personal property taxes	5c	
	d	Add lines 5a through 5c	5d	
	e	Enter the smaller of line 5d or $40,000 ($20,000 if married filing separately). If Form 1040 or 1040-SR, line 11b is more than $500,000 ($250,000 if married filing separately), or if you completed Form 2555, Form 4563, or excluded income from Puerto Rico, see instructions	5e	
	6	Other taxes. List type and amount:	6	
	7	Add lines 5e and 6		7
Interest You Paid **Caution:** Your mortgage interest deduction may be limited. See instructions.	8	Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box ☐		
	a	Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a	
	b	Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b	
	c	Points not reported to you on Form 1098. See instructions for special rules	8c	
	d	Reserved for future use	8d	
	e	Add lines 8a through 8c	8e	
	9	Investment interest. Attach Form 4952 if required. See instructions	9	
	10	Add lines 8e and 9		10
Gifts to Charity **Caution:** If you made a gift and got a benefit for it, see instructions.	11	Gifts by cash or check. If you made any gift of $250 or more, see instructions	11	
	12	Other than by cash or check. If you made any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	12	
	13	Carryover from prior year	13	
	14	Add lines 11 through 13		14
Casualty and Theft Losses	15	Casualty and theft loss(es) from a federally declared disaster (other than net qualified disaster losses). Attach Form 4684 and enter the amount from line 18 of that form. See instructions		15
Other Itemized Deductions	16	Other—from list in instructions. List type and amount:		16
Total Itemized Deductions	17	Add the amounts in the far right column for lines 4 through 16. Also, enter this amount on Form 1040 or 1040-SR, line 12e		17
	18	If you elect to itemize deductions even though they are less than your standard deduction, check this box ☐		

For Paperwork Reduction Act Notice, see the Instructions for Form 1040. Cat. No. 17145C **Schedule A (Form 1040) 2025** Created 11/20/25

From AGI: New OBBBA Deductions

- **Deduction for seniors:** Deduction of $6,000 for taxpayers at least age 65 at year-end. The deduction is subject to an AGI-based phase-out and is not available for married taxpayers filing separately.
- **Deduction for qualified car loan interest:** Deduction for up to $10,000 of qualified car loan interest. Loan must have been for a vehicle purchase after December 31, 2024, and final assembly of the vehicle must have been in the in the U.S. Deduction is subject to an AGI-based phase-out.
- **Deduction for qualified tip income:** Deduction for up to $25,000 of qualified tips received. Deduction is subject to an AGI-based phase-out and is not available to married taxpayers filing separately.
- **Deduction for qualified overtime compensation:** Deduction for up to $12,500 ($25,000 if MFJ) of qualified overtime compensation. Deduction is subject to an AGI-based phase-out and is not available to taxpayers to are married filing separately.

From AGI: QBI Deduction

- Part of the Tax Cuts and Jobs Act (TCJA) of 2017
- Allows taxpayers to deduct the lessor of 20% qualified business income or 20% of taxable income from federal taxable income.
- Qualified business: Any business other than specified service trade or business (e.g. health, law, consulting, financial services, performing arts)
- Additional limitations apply but are beyond the scope of this course

Reminder

Many deductions have limits/restrictions, use your exam appendix to help you when working through these calculations.

Class 2
Dependents, Filing Status & Tax Formula

Today's Agenda:

1. Who qualifies as a dependent?
2. Which filing status?
3. Deduction or credit?
4. Tax formula—putting it all together
5. Reflect and preview

Upcoming deadlines:

- Pre-class quiz 3 (due Wed 1/14)
- Post-class quiz 1 (due Sat 1/17)

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

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.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☐

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

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ **You** ☐ **Spouse**

Filing Status Check only one box.

☐ Single
☐ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:
☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

2

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) . . ☐ **Yes** ☐ **No**

Dependents (see instructions)

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

1

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.

5 Messages That All of God's Children Need to Hear

1. Move toward the light
2. You are better than you think you are
3. Learn to love God and your neighbor
4. Conflict is inevitable and contention is a choice
5. Our Heavenly Father is a God of new beginnings

Dieter F. Uchtdorf

August 17, 2021

BYU Devotional

Who qualifies as a dependent and why does it matter?

- Relevant for filing status (we will do this next)
- Eligibility for some tax credits (such as child tax credit and education credits)
- Other tax-related calculations

3 requirements to claim a dependent

1. Citizen of United States or resident of United States, Canada, or Mexico*

2. Dependent must *not* file joint return with spouse*
   - Exception—if no tax liability filing jointly or separately

3. Must be **qualifying child** or **qualifying relative** of taxpayer

*For this class, assume these conditions are met unless otherwise stated

Third Dependency Requirement

Qualifying Child

- Relationship Test
- Age Test
- Residence Test
- Support Test

OR

Qualifying Relative

- Relationship Test
- Support Test
- Gross Income Test

Activity 1

Qualifying Child and Relative Tests

Provided on the Exam

EXHIBIT 4-9 Summary of Dependency Requirements

Test	Qualifying Child	Qualifying Relative
Relationship	Taxpayer's child, stepchild, foster child, sibling, half-brother or half-sister, stepbrother or stepsister, 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 their own support.	Taxpayer must have provided more than half of the support for the qualifying relative.
Gross income	Not applicable.	Gross income less than $5,200 in 2025.
Other	Not applicable.	Not a qualifying child.

Check Your Work

		Test					Qualifying child or relative?
		Relationship	Age	Residence	Support	Gross income	
a. 22-year-old daughter (Ava), full-time student lived in the dorms for 8-months, the rest at taxpayer's home. Earned $6,000 full-tuition scholarship and worked to support herself earning $7,000. Taxpayer helped support by paying $8,000 for food, clothing and housing.	Qualifying Child:	Yes, child	Yes, under 24 FT student	Yes, temporary absence	Yes, child less than ½	N/A	Yes
	Qualifying Relative:	Yes, child	N/A	N/A	Yes, taxpayer more than ½	No, gross income $7,000	No
b. 19-year-old son (Andy), full-time student, supported by parents until April 30th when he began his full-time mission. From April to December, parents made monthly donations of $400 to their local ward each month and deducted as charitable contributions. Before mission: Taxpayer (parents) provided Andy $600 room and board each month. Andy earned $1,200.	Qualifying Child:	Yes, child	No, not a full-time student (less than 5 months)	No, on mission 8 months of the year	Yes, child less than ½	N/A	No
	Qualifying Relative:	Yes, child	N/A	N/A	No, church provides more than ½	Yes, income less than threshold	No

Filing Status

1. Married filing jointly
2. Married filing separately
3. Qualifying surviving spouse
4. Single
5. Head of Household

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's end
- Joint and several liability for tax

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

Qualifying Surviving Spouse

- 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.

Single

- Unmarried unless qualifying for head of household

Head of Household

- Unmarried or considered unmarried (abandoned) at end of year
- Not a qualifying surviving spouse
- 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
  - Exception for parents

Provided on the Exam

EXHIBIT 4-10 Who Is a Qualifying Person for Determining Head of Household Filing Status?

IF the person is the taxpayer's ...	And ...	THEN, the person is ...
Qualifying child	the person is single,	a qualifying person, whether or not the taxpayer can claim the person as a dependent (the child is not a citizen of the United States or is not a resident of the United States, Canada, or Mexico).*
	the person is married and the taxpayer may claim the person as a dependent,	a qualifying person.*
	the person is married and the taxpayer may not claim the person as a dependent,	not a qualifying person (unless the only reason the taxpayer cannot claim the person as a dependent is because the taxpayer can be claimed as a dependent on someone else's tax return).
Qualifying relative who is the taxpayer's mother or father	the taxpayer may not claim the taxpayer's mother or father as a dependent,	not a qualifying person.
	the taxpayer may claim the taxpayer's mother or father as a dependent,	a qualifying person even if the taxpayer's mother or father did not live with the taxpayer. However, the taxpayer must have paid more than half the costs to maintain the household of the mother or father.
Qualifying relative other than the taxpayer's mother or father	the person did not live with the taxpayer for more than half the year,	not a qualifying person.
	the taxpayer can claim the person as a dependent, the person lived with the taxpayer for more than half the year, and the person is related to the taxpayer through a qualifying family relationship,	a qualifying person.
	the person is the taxpayer's qualifying relative only because the person lived with the taxpayer as a member of the taxpayer's household for the entire year (the person does not have a qualifying family relationship with the taxpayer),	not a qualifying person.
	the taxpayer cannot claim the person as a dependent or the taxpayer can claim the person as a dependent only because of a multiple support agreement,	not a qualifying person.

Note: Appendix B at the end of this chapter includes a flowchart for determining whether a person is a qualifying person for head of household filing status.

*If a custodial parent allows the noncustodial parent to claim the child as a dependent under a divorce decree, the agreement is ignored for purposes of this test.

Source: Internal Revenue Service, Publication 501, "Dependents, Standard Deduction and Filing Information," https://www.irs.gov/pub/irs-pdf/p501.pdf.

Activity 2

Filing Status

Activity 2 Solution

	Filing Status	Notes
a	3 Qualifying Spouse	Unmarried, death of spouse within 2 years, dependent child
b	5 Head of Household	Not married, Qualifying Person: Child
c	4 Single	Abrielle fails the relationship test for qualifying person
d	5 Head of Household	Qualifying Person: Mother

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

For and From deductions

Credit

Adjusted Gross Income (AGI)

- Eligibility for tax deductions and credits have limits based on AGI or Modified Adjusted Gross Income (MAGI)
- Many state taxes use AGI as their starting point for calculating state income taxes
- Eligibility for other benefits such as Medicare premiums and economic stimulus payments are based on AGI or MAGI

Activity 3
Deduction (for or from) or Credit

Activity 3 Solution

	For Deduction	From Deduction	Credit	N/A
Retirement contribution to 401(k)	X			
State income tax withholding		X (itemized)		
Qualified business income deduction		X		
Rental expenses for landlord's rental property	X (Sch E)			
Self-employment taxes	X (1/2 of $)			
Payment for child support				X
Self-employed business expenses	X (Sch C)			
Dental and medical payments		X (itemized)		
Taxpayer has a qualifying child under 17			X (child)	
Royalty expenses	X (Sch E)			
Interest payments on student loans	X			
Qualified charitable contributions		X (itemized)		
Payment for alimony (divorced in 2021)				X
Net capital loss	X (limited)			
Standard deduction		X		
Qualifying educational expenses			X (education)	
Real estate taxes		X (itemized)		
Self-employed health insurance payments	X			

Activity 4
Practice with the Tax Formula

2025 Tax Rate Schedules
Individuals

Schedule X–Single			Schedule Z–Head of Household		
If taxable income is over:	But not over:	The tax is:	If taxable income is over:	But not over:	The tax is:
$ 0	$ 11,925	10% of taxable income	$ 0	$ 17,000	10% of taxable income
$ 11,925	$ 48,475	$1,192.50 plus 12% of the excess over $11,925	$ 17,000	$ 64,850	$1,700 plus 12% of the excess over $17,000
$ 48,475	$103,350	$5,578.50 plus 22% of the excess over $48,475	$ 64,850	$103,350	$7,442 plus 22% of the excess over $64,850
$103,350	$197,300	$17,651 plus 24% of the excess over $103,350	$103,350	$197,300	$15,912 plus 24% of the excess over $103,350
$197,300	$250,525	$40,199 plus 32% of the excess over $197,300	$197,300	$250,500	$38,460 plus 32% of the excess over $197,300
$250,525	$626,350	$57,231 plus 35% of the excess over $250,525	$250,500	$626,350	$55,484 plus 35% of the excess over $250,500
$626,350	–	$188,769.75 plus 37% of the excess over $626,350	$626,350	–	$187,031.50 plus 37% of the excess over $626,350

Schedule Y-1–Married Filing Jointly or Qualifying Surviving Spouse			Schedule Y-2–Married Filing Separately		
If taxable income is over:	But not over:	The tax is:	If taxable income is over:	But not over:	The tax is:
$ 0	$ 23,850	10% of taxable income	$ 0	$ 11,925	10% of taxable income
$ 23,850	$ 96,950	$2,385 plus 12% of the excess over 23,850	$ 11,925	$ 48,475	$1,192.50 plus 12% of the excess over $11,925
$ 96,950	$206,700	$11,157 plus 22% of the excess over $96,950	$ 48,475	$103,350	$5,578.50 plus 22% of the excess over $48,475
$206,700	$394,600	$35,302 plus 24% of the excess over $206,700	$103,350	$197,300	$17,651 plus 24% of the excess over $103,350
$394,600	$501,050	$80,398 plus 32% of the excess over $394,600	$197,300	$250,525	$40,199 plus 32% of the excess over $197,300
$501,050	$751,600	$114,462 plus 35% of the excess over $501,050	$250,525	$375,800	$57,231 plus 35% of the excess over $250,525
$751,600	–	$202,154.50 plus 37% of the excess over $751,600	$375,800	–	$101,077.25 plus 37% of the excess over $375,800

Provided on the exam

Provided on the exam

Basic Standard Deduction Amounts*

Filing Status	2024 Amount	2025 Amount
Married Filing Jointly	$29,200	$31,500
Qualifying Surviving Spouse	$29,200	$31,500
Married Filing Separately	$14,600	$15,750
Head of Household	$21,900	$23,625
Single	$14,600	$15,750

*For individuals claimed as a dependent on another return, the 2025 standard deduction is the greater of (1) $1,350 or (2) $450 plus earned income not to exceed the standard deduction amount of those who are not dependents.

Tax Rates for Net Capital Gains and Qualified Dividends

	Taxable Income				
Rate*	Married Filing Jointly	Married Filing Separately	Single	Head of Household	Trusts and Estates
0%	$0–$96,700	$0–$48,350	$0–$48,350	$0–$64,750	$0–$3,250
15%	$96,701–$600,050	$48,351–$300,000	$48,351–$533,400	$64,751–$566,700	$3,251–$15,900
20%	$600,051+	$300,001+	$533,401+	$566,701+	$15,901+

*This rate applies to the net capital gains and qualified dividends that fall within the range of taxable income specified in the table (net capital gains and qualified dividends are included in taxable income last for this purpose).

Provided on the exam: Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

Activity 4a Solution

	Gross Income	AGI	Taxable Income	Tax Liability	Refund or taxes payable?
A. Calculate for Damascus	$121,000	$118,000	$88,000	$12,535	Refund $7,665

	Amount	Notes
Gross Income	$121,000	Wages and Corporate Bond Interest
Less For AGI	$3,000	NCL
AGI	$118,000	
Less Itemized Deductions	$30,000	
Taxable Income	$88,000	
Tax Liability	$12,535	$7,442 + 22% (88,000 - 64,850)
Less Child Tax Credit	$2,200	
Less Withholdings	$18,000	
Refund	$7,665	

Activity 4 Solution

	Gross Income	AGI	Taxable Income	Tax Liability	Refund or taxes payable?
A. Calculate for Damascus	$121,000	$118,000	$88,000	$12,535	Refund $7,665
B. $12,000 of Itemized deductions	=	=	+	+	N/A
C. Additional $10,000 of long-term capital gain	+	+	+	+	N/A

Notes:

A. Itemized deductions, head of household filing, child tax credit
B. Standard deduction, head of household filing, child tax credit
C. Itemized deduction, head of household filing, child tax credit. Additional income is taxed at a preferential rate.

Activity 4b Solution

	Gross Income	AGI	Taxable Income	Tax Liability	Refund or taxes payable?
A. Calculate for Damascus	$121,000	$118,000	$96,100	$13,938	Refund $6,263

	Amount	Notes
Gross Income	$121,000	Wages and Corporate Bond Interest
Less For AGI	$3,000	NCL
AGI	$118,000	
Less Standard Deduction	$23,625	
Taxable Income	$94,375	
Tax Liability	$13,938	$7,442 + 22% (94,375 - 64,850)
Less Child Tax Credit	$2,200	
Less Withholdings	$18,000	
Refund	$6,263	

Activity 4c Solution

	Gross Income	AGI	Taxable Income	Tax Liability	Refund or taxes payable?
C. Calculate for Damascus	$131,000	$128,000	$98,000	$14,035	Refund $6,165

	Amount	Notes
Gross Income	131,000	Wages, Corporate Bond Interest and Capital Gain
Less For AGI	3,000	NCL
AGI	128,000	
Less Itemized Deductions	30,000	
Taxable Income	98,000	
Tax Liability	14,035	Ordinary Income: $7,442 + 22% ($88,000 - $64,850) Preferential income: ($10,000 x 15%) = $1,500
Less Child Tax Credit	2,200	
Less Withholdings	18,000	
Refund	6,165	

Reflect and Preview

Preview: Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less new OBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

What income is reported on my tax return?

Exclusions and Gross Income

- What income is reported on my tax return?
  - Wages?
  - Investments? (Interest, dividends)
  - Gain on sale of property? (land or house)
  - Income from businesses? (rental income)
  - Prizes, awards, gambling?
  - Employee benefits?
  - Scholarships?

- Where is it reported on my tax return?

Tip: Use AI to help you understand terms

Form 1040

Income					
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a	
	b	Household employee wages not reported on Form(s) W-2		1b	
	c	Tip income not reported on line 1a (see instructions)		1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d	
	e	Taxable dependent care benefits from Form 2441, line 26		1e	
	f	Employer-provided adoption benefits from Form 8839, line 31		1f	
	g	Wages from Form 8919, line 6		1g	
	h	Other earned income (see instructions). Enter type and amount:		1h	
	i	Nontaxable combat pay election (see instructions)	1i		
	z	Add lines 1a through 1h		1z	
Attach Sch. B if required.	2a	Tax-exempt interest 2a	b Taxable interest	2b	
	3a	Qualified dividends 3a	b Ordinary dividends	3b	
	c	Check if your child's dividends are included in 1 ☐ Line 3a	2 ☐ Line 3b		
	4a	IRA distributions 4a	b Taxable amount	4b	
	c	Check if (see instructions) 1 ☐ Rollover	2 ☐ QCD 3 ☐		
	5a	Pensions and annuities 5a	b Taxable amount	5b	
	c	Check if (see instructions) 1 ☐ Rollover	2 ☐ PSO 3 ☐		
	6a	Social security benefits 6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐			
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐			
	7a	Capital gain or (loss). Attach Schedule D if required		7a	
	b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)			
	8	Additional income from Schedule 1, line 10		8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**		9	

Additional Income

SCHEDULE 1 (Form 1040)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to *www.irs.gov/Form1040* for instructions and the latest information.

OMB No. 1545-0074

2025

Attachment Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR | **Your social security number**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss . . . . . .

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See *www.irs.gov/1099k*.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes			1	
2a	Alimony received			2a	
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C			3	
4	Other gains or (losses). Check if any from Form(s): ☐ 4797 ☐ 4684			4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			5	
6	Farm income or (loss). Attach Schedule F			6	
7	Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here ☐ and enter amount repaid:			7	
8	Other income:				
a	Net operating loss	8a	( )		
b	Gambling	8b			
c	Cancellation of debt	8c			
d	Foreign earned income exclusion from Form 2555	8d	( )		
e	Income from Form 8853	8e			
f	Income from Form 8889	8f			
g	Alaska Permanent Fund dividends	8g			
h	Jury duty pay	8h			
i	Prizes and awards	8i			
j	Activity not engaged in for profit income	8j			
k	Stock options	8k			
l	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8l			
m	Olympic and Paralympic medals and USOC prize money (see instructions)	8m			
n	Section 951(a) inclusion (see instructions)	8n			
o	Section 951A(a) inclusion (see instructions)	8o			
p	Section 461(l) excess business loss adjustment	8p			
q	Taxable distributions from an ABLE account (see instructions)	8q			
r	Scholarship and fellowship grants not reported on Form W-2	8r			
s	Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d	8s	( )		
t	Pension or annuity from a nonqualifed deferred compensation plan or a nongovernmental section 457 plan	8t			
u	Wages earned while incarcerated	8u			
v	Digital assets received as ordinary income not reported elsewhere. See instructions	8v			
z	Other income. List type and amount:	8z			
9	Total other income. Add lines 8a through 8z			9	
10	Combine lines 1 through 7 and 9. This is your **additional income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8			10	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F **Schedule 1 (Form 1040) 2025** Created 7/25/25

Class 1
Introduction to Taxes

Today's Agenda:

1. Welcome to ACC 405!
2. Marriott School Vision, Mission and Values
3. Tax overview
4. Reflect and Preview
5. New Groups!

Upcoming Deadlines:

- Pre-class quiz 2 (due Wed 1/12)

BYU MARRIOTT SCHOOL *of* BUSINESS

VISION

We aspire to transform the world through Christlike leadership.

MISSION

We develop leaders of faith, intellect, and character.

VALUES

Faith in Christ

Integrity in Action

Respect for All

Excellence

GUIDING PRINCIPLE

Centered on Students

- We value deep and abiding faith in Jesus Christ. Our faith gives us the capacity to envision a better future, the confidence to make it happen, and the courage to act in the face of challenges.
- We value integrity and hold ourselves to the highest moral and ethical standards.
- We value respect for all individuals as children of God and recognize the inherent worth, divine potential and agency of each person.
- We value excellence in learning, teaching, management and leadership. Excellence motivates us to continually improve.

Best Practices for Pre-class Preparation

- Individually complete the pre-class work
- Meet as a group and talk about anything you missed—articulate what you did and what you should have done and/or ask for help in understanding
- Demonstrate your knowledge individually (pre-class quiz)
- Come to class with your questions and excitement to learn!

Pre-class Preparation: Overview

- Read the Overview: A quick summary of what you are learning

Class 02 - Dependents, Filing Status and Tax Formula

Overview

Today, we will review and apply the individual income tax formula. Before diving into the formula, it is essential to understand the concepts of dependents and filing status, as both play significant roles in tax calculations.

A **dependent** is someone who relies on the taxpayer for financial support. There is a series of tests to determine if someone qualifies as a dependent. Dependents are important for determining eligibility for various tax credits and deductions, which can reduce a taxpayer's overall tax liability.

Filing status determines the tax rates applied to income to calculate tax liability. Choosing the correct filing status is critical, as it affects the standard deduction, tax brackets, and eligibility for certain credits and deductions. Once you understand how to determine dependents and the correct filing status, we will put it all together and apply the **tax formula**.

Pre-class Preparation: Review/Study

- Canvas outlines sections to review/reference in the text
- You have the option of reading the identified sections or using the help of SmartBook (not graded)
- Work through the practice problems with your text as a resource
- Solutions to the practice problems are posted on Canvas

Step 1: Study, Practice, and Check Your Work

Complete the following activities (in the order listed), to prepare for your pre-class quiz and class. You can work through this material individually, with a group, with the help of AI or a TA, really anything that will help you become familiar with the material. The solution file to the assigned homework is posted after the table below. Be sure to come to class with your questions!

Prepare for Class/Quiz	Topic	Textbook Reference	SmartBook Help

Review/Study	Who qualifies as a dependent?
	Qualifying Child
		Ch 4, LO2:
		• Dependents of the Taxpayer
		• Dependency Requirements
		• Qualifying Child
		  ○ Relationship test
		  ○ Age test
		  ○ Residence test
		  ○ Support test
			Class 2 Dependent: Qualifying Child
			(16 min)

Review/Study	Who qualifies as a dependent?
	Qualifying Relative
		Ch 4, LO2:
		• Qualifying Relative
		  ○ Relationship test
		  ○ Support test
		  ○ Gross income test
		• Exhibit 4-8*
			Class 2 Dependent: Qualifying Relative
			(12 min)

Practice	Ch 4 Problems: 36, 37		

Pre-class Preparation: Pre-Class Quiz

- Individual
- 1 Attempt
- Access your section with the passcode given
- Open book and your own notes (no AI or friends)
- Due 30 minutes before class

Pre-Class Quiz 2: Tax Formula

The pre-class quiz is located on Connect (publisher learning package); however, you can access the quiz with the links at the bottom of this page.

Quiz instructions:

- Individual quiz
- 1 Attempt
- Open book and notes (your own book and notes....no AI or friends)
- Due 30 minutes before class

Note: you must only access your section. You will enter a password to confirm you are selecting the correct link. If you access both links, you will receive a "0" on the quiz.

Morning Sections: Pre-class Quiz 2 (Password: morning)
Afternoon Sections: Pre-class Quiz 2 (Password: afternoon)

In-Class

- Application and practice
- In-Class handout
- Learn by doing!

Activity: Reflect and Preview

Take-Aways:

Questions:

Next Class Period:

After Class Resources

- After class, follow up questions with group, TA, or faculty
- Re-do pre-class practice problems, pre-class quizzes, in-class handouts and post-class quizzes.
- TAs will be setting office hours in addition to faculty office hours to help and support you
- Class Slides will be posted after class by 5:00 p.m., which will include solutions to in-class activities.

Course Information and Resources

Exam Reference Material	Q&A Discussion Boards	TA Office Hours	Faculty Information	Student Wellness

Post-Class Quizzes

- One a week, due Saturday at midnight. (1st one Jan 17)
- Review material we have covered in class as well as research a few minor issues not discussed in class but covered in the book.
- Take early, don't wait until Saturday to take it!
- 3 Attempts—open book, notes, group (no AI)
  - Attempt on your own (attempt 1)
  - Learn from your mistakes by additional studying and seeking assistance from group members
  - Repeat the quiz (attempt 2)
  - Seek assistance from the TAs or your professor (attempt 3)
  - Repeat the quiz (attempt 3)

Don’t Worry

- We know tax has a lot of information
- We also know tax law will change
- Our goal is to become familiar with the terms, concepts and calculations so that you can interpret and apply the tax code.
- The exam will have reference material
- You won’t see an example that we haven’t done either pre-class, in-class or post-class.

What qualifies as a Tax?

- A ***Tax*** is a payment required by a government agency that is unrelated to any specific benefit or service received from the government agency.

- Key components of a tax:
  - Payment required
  - Payment imposed by government agency (federal, state, local)
  - Payment not tied directly to benefit received by the taxpayer.

National Football League

NFL Rules

- 4 downs to gain 10 yards
- Safety-2 points
- Holding-Penalty (10 yards)
- Untimed Down

November 27, 2016-Baltimore, Maryland

Baltimore Ravens (have possession)	19
Cincinnati Bengals	12

4th Down at Ravens 22-yard line

11 seconds left in the 4th Quarter

What could happen?

November 27, 2016-Baltimore, Maryland

https://youtu.be/baCeMpAZIgI

November 27, 2016-Baltimore, Maryland

November 27, 2016-Baltimore, Maryland

November 27, 2016-Baltimore, Maryland

NFL 2017 Rules:
Rule 12, Section 3, Article 3

ARTICLE 3. INTENTIONAL FOULS TO MANIPULATE GAME CLOCK

A team may not commit multiple fouls during the same down in an attempt to manipulate the game clock.

Penalty: For multiple fouls to run off time from the game clock: Loss of 15 yards, <u>and the game clock will be reset</u> to where it was at the snap. After the penalty is enforced, the game clock will start on the next snap.

Activity 1: Individual Income Tax Formula

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

Provided on the exam

Activity 2: Tax Liability and Rates

	Calculation
Tax Liability	
Average Tax Rate	
Effective Tax rate	

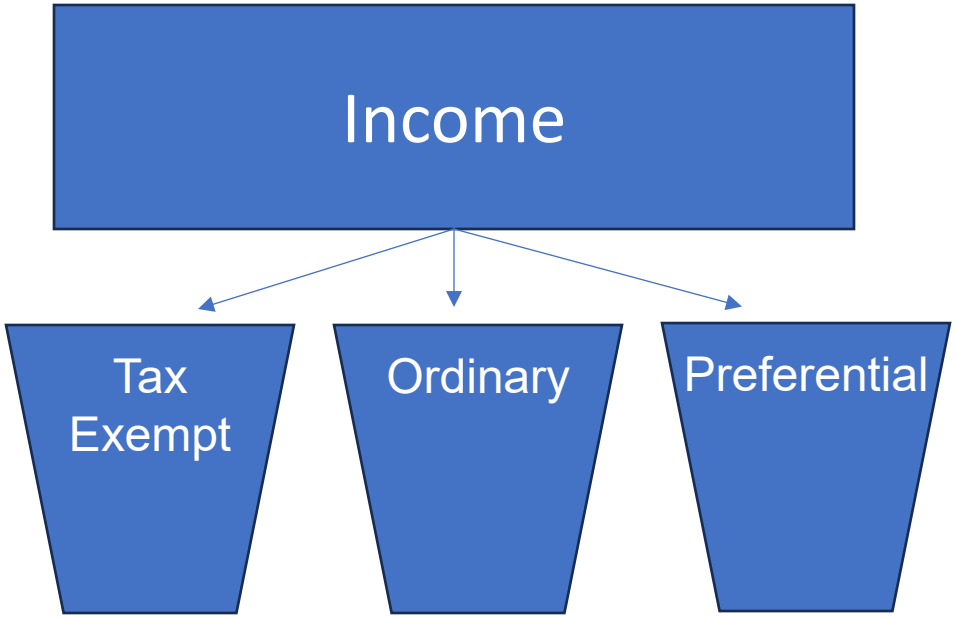
Activity 2: Check your work

	Calculation
Tax Liability	Tax base × Tax rate
Average Tax Rate	Tax liability / Taxable income
Effective Tax rate	Tax liability / All income

	Calculation
Tax Liability	Tax base × Tax rate

- **Tax base**: increased by taxable income and decreased by permitted tax deductions

- **Tax rate**: based on filing status (single, married…etc) AND
- Character of the income
  - Tax exempt
  - Ordinary
  - Preferential
    - Capital Gains
    - Qualified Dividends



Tax rate schedule - 2025

Schedule Y-1—Married Filing Jointly or Qualifying Surviving Spouse		
If taxable income is over:	But not over:	The tax is:
$ 0	$ 23,850	10% of taxable income
$ 23,850	$ 96,950	$2,385 plus 12% of the excess over 23,850
$ 96,950	$206,700	$11,157 plus 22% of the excess over $96,950
$206,700	$394,600	$35,302 plus 24% of the excess over $206,700
$394,600	$501,050	$80,398 plus 32% of the excess over $394,600
$501,050	$751,600	$114,462 plus 35% of the excess over $501,050
$751,600	–	$202,154.50 plus 37% of the excess over $751,600

Tax Rate Example:

Bill and Mercedes have $160,000 of ordinary taxable income and an additional $10,000 of nontaxable income. Using the 2025 married filing jointly tax rates, what is their **tax liability**, ***average*** tax rate, and ***effective*** tax rate?

Tax Rates Solution Part A

Tax Liability = $25,028, computed as:

($160,000 − $96,950) × 22% + $11,157 = $25,028

Average tax rate: 15.64% ($25,028/$160,000)

Effective tax rate: 14.72% ($25,028/$170,000)

Tax Rates Solution Part B

If they receive an additional $80,000 of taxable income, what is their ***marginal*** tax rate on this income?

ACC 200 Answer: 22% (Next dollar earned)

Marginal tax rate calculation:

$$\frac{\text{Change in tax liability}}{\text{Change in taxable income}}$$

Tax rate schedule - 2025

Schedule Y-1—Married Filing Jointly or Qualifying Surviving Spouse		
If taxable income is over:	But not over:	The tax is:
$ 0	$ 23,850	10% of taxable income
$ 23,850	$ 96,950	$2,385 plus 12% of the excess over 23,850
$ 96,950	$206,700	$11,157 plus 22% of the excess over $96,950
$206,700	$394,600	$35,302 plus 24% of the excess over $206,700
$394,600	$501,050	$80,398 plus 32% of the excess over $394,600
$501,050	$751,600	$114,462 plus 35% of the excess over $501,050
$751,600	–	$202,154.50 plus 37% of the excess over $751,600

Tax Rate Example:

If they receive an additional $80,000 of taxable income, what is their ***marginal*** tax rate?

Tax on $160,000 = $25,028

Tax on $240,000 = ???

Marginal Rate

$160,000 = $25,028 tax liability:

($160,000 − $96,950) x 22% + $11,127 = $25,028

$240,000 = $43,294 tax liability:

($240,000 − $206,700) x 24% + $35,302 = $43,294

$$\frac{(\$43{,}294 - \$25{,}028)}{(\$240{,}000 - \$160{,}000)} = 22.83\%$$

Reflect and Preview

Individual Income Tax Formula

Gross Income

Less For AGI deductions

= Adjusted Gross Income

Less From AGI deductions

Greater of

-Standard deduction

-Itemized deduction

Less New OBBBA deductions

Less Qualified Business Income (QBI) deduction

= Taxable Income

Multiply by tax rate(s)

= Income tax liability

Plus other taxes

= Total tax

Less credits

Less payroll withholdings

Less prepayments

= Taxes due or (refund)

For and From deductions

Itemized or standard deduction

Tax rate: based on filing status and filing status based on dependents

Child credit: Dependent?

Next class period

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return** **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.

☐ Filed pursuant to section 301.9100-2 ☐ Combat zone ☐ Deceased MM / DD / YYYY Spouse MM / DD / YYYY

☐ Other

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.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. ☐
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

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

2

Filing Status Check only one box.

☐ Single
☐ Married filing jointly (even if only one had income)
☐ Married filing separately (MFS). Enter spouse's SSN above and full name here:
☐ Head of household (HOH)
☐ Qualifying surviving spouse (QSS)
If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:
☐ If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) . . ☐ Yes ☐ No

1

Dependents (see instructions)

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

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.	(a) ☐ Yes (b) ☐ And in the U.S.

Next class period

1. Determine dependents of the taxpayer (Qualifying Child or Qualifying Relative)
   - Use Exhibit 4-9 (page 4-19) to help (provided on the exam)

2. Determine filing status (depends on if you have dependents)
   - Married Filing Joint
   - Surviving Spouse
   - Married Filing Separate
   - Head of Household Use Exhibit 4-10 (provided on the exam)
   - Single

3. Review individual tax formula
   - For and from deductions
   - Itemized vs standard deduction
   - New from deduction “Qualified Business Income” (QBI)
   - New OBBBA from deductions

4. When applying tax rates, you need to know the character of the income: ordinary or preferential (capital gain)

Universal Declaration of Human Rights: celebrating human dignity and religious belief

- "Part of our earthly journey is to support, sustain, and build up human dignity in one another with kindness, compassion, and peace."
- "In an increasingly angry and more secular world we need gratitude, we need connection, we need kindness and compassion for one another."

--Elder Jeremy R. Jaggi

Best Practices New Groups

- How will we communicate?
- Where will you meet?
- When will you meet (stop/start)?
- Pre-group meeting preparation expectations?
- When will we take (individually) the pre-class quiz?