

The Income Tax Return

This self-study course discusses important tax changes for 2019 tax returns and basic information on the tax system. It also discusses the requirements for filing a tax return and which filing status to choose. This is a Basic tax course with no prerequisites, and qualifies for 2 CE credit in IRS Federal Tax Law.

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NOTICE

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

Introduction

Chapter Objective

After completing this chapter, you should be able to:

- Recall important tax changes to be used for 2019 tax returns.

Note: The major changes/provisions affecting 2019 are from the Tax Cuts and Jobs Act of 2017 and the usual inflation adjustments. These changes are noted throughout the course.

This course is a general overview of federal income tax laws for individuals filing 2019 tax returns. The course begins with the rules for filing a tax return. The course explains who must file a return, which tax forms to use, when the return is due, and other general information. It will help identify which filing status your clients qualify for and whether the income they are receiving is taxable. The course goes on to explain the standard deduction, the kinds of expenses they may be able to deduct, and the various kinds of credits they may be able to take to reduce their tax.

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

I. Important Tax Changes/Provisions For 2019

SUMMARY OF CHANGES: TAX CUTS AND JOBS ACT (TCJA)

- **Lowered individual taxes and set the rates at 0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**
- **Increases the standard deduction** to \$12,200 and \$24,400 for individuals and married couples filing jointly, respectively (2019).

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

- \$1,300 for married individuals; and
- \$1,650 for singles and heads of household.

The additional standard deduction for taxpayers who are both age 65 or older at yearend and blind is double the additional amount for a taxpayer who is blind (but not age 65 or older) or age 65 (but not blind). For example, a 65 year-old single blind taxpayer would add \$3,300 to his or her usual standard deduction: \$1,650 for being age 65 plus \$1,650 for being blind ($\$1,650 \times 2 = \$3,300$). Thus, his or her standard deduction would be \$15,200 ($\$12,200 + \$3,300 = \$15,500$).

- **Eliminated the personal exemptions for 2018-2025.**
- **Restricted write off of state and local taxes to \$10,000.**
- **Eliminated many itemized deductions.** The new tax law eliminates itemized deductions for:
 - Unreimbursed employee expenses, such as mileage (previously deductible to the extent they exceeded 2% of adjusted gross income)
 - Tax preparation expenses
 - Alimony payments (see details)
 - Investment expenses
 - Miscellaneous itemized deductions
 - Moving expenses to move to a new job, and
 - Personal casualty losses (except for losses associated with special disaster relief legislation).

- **Charitable contributions.** People who itemize will be allowed to deduct cash contributions up to 60% of their adjusted gross income, instead of 50% under prior law.
- **The Child Tax Credit is \$2,000 in 2019** for single filers and married couples. The tax credit is fully refundable up to \$1,400 and begins to phase-out for families making over \$400,000. Parents must provide a child's valid social security number in order to receive this credit.
- **The mortgage interest deduction**
 - For all homeowners with existing mortgages at 12/17/2017 that were taken out to buy a home, there will be no change to the current mortgage interest deduction.
 - For homeowners with new mortgages after 12/17/2017 on a first or second home, the home mortgage interest deduction will be available on up to \$750,000 of mortgage debt.
- **Medical bills.** Medical expenses can be deducted in 2019 for medical expenses exceeding 10 percent of adjusted gross income.
- **Alimony - Post 2018 Divorce Agreements.** Under the tax code before TCJA passage, alimony (but not child support) was deductible by the payer and included in the income of the recipient for tax purposes. Under the TCJA, that tax treatment continues only for alimony payments made pursuant to a divorce or separation agreement entered into on or before December 31, 2018. Thus, alimony payments made in 2018 are deductible to the payer and includible in the recipient's income.
However, under TCJA, §11051, alimony payments will no longer be tax-deductible to the payer or includible in the income of the recipient if made under:
 - a) A divorce or separation agreement entered into after December 31, 2018; or
 - b) A divorce or separation agreement entered into on or before December 31, 2018 but modified after that date if the modified agreement specifically provides that the provisions of the Tax Cuts and Jobs Act of 2017 will apply.
 Alimony payments made under a divorce or separation agreement entered into on or before December 31, 2018 but paid after that date—with the exception of such payments made under a modified agreement described in b) above—will continue to be taxdeductible to the payer and includible in the income of the recipient.
- **Adjusts estate taxes.** Under the TCJA, estates worth up to \$11.40 million per person are exempt from the federal estate tax in 2019. This means that married couples with estates worth up to \$22.80 million will not be affected by the federal estate tax. These numbers are increased for inflation each year.
- **Repealed Obamacare individual tax penalty.** The Affordable Care Act (popularly called Obamacare) required individuals to obtain minimally adequate health insurance for themselves and their dependents. Those that failed to comply had to pay a tax penalty to the IRS. The TCJA permanently eliminates this penalty starting in 2019, effectively making individual compliance with Obamacare purely voluntary.
- **Lowered the corporate tax rate to 21% (beginning January 1, 2018).**
- **Section 199A. 20% tax deduction that applies to the first \$321,400 of joint income** earned by all businesses organized as S corporations, partnerships, LLCs, and sole proprietorships.
- **Rental Real Estate Safe Harbor for § 199A.** As discussed in Notice 2019-07, a safe harbor is available to individuals and owners of pass through entities. Under the safe harbor, a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Taxpayers may still treat rental real estate that does not meet the requirements of the safe harbor as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.
Solely for the purposes of section 199A, a rental real estate enterprise will be treated as a trade or business if the following requirements are satisfied during the taxable year with respect to the rental real estate enterprise:

- (A) Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise;
- (B) For taxable years beginning prior to January 1, 2023, 250 or more hours of rental services are performed per year with respect to the rental enterprise. For taxable years beginning after December 31, 2022, in any three of the five consecutive taxable years that end with the taxable year (or in each year for an enterprise held for less than five years), 250 or more hours of rental services are performed per year with respect to the rental real estate enterprise; and
- (C) The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding –
 - (i) hours of all services performed;
 - (ii) description of all services performed;
 - (iii) dates on which such services were performed; and
 - (iv) who performed the services.

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

- **Increases Section 179 expensing.** Increases the Section 179 maximum annual deduction limit to \$1,020,000, and increases the phase-out threshold to \$2,550,000 in tax year 2019.
- **Increased bonus depreciation.** Increases to 100% the first-year bonus depreciation percentage (from the prior 50% rate) for long-term assets placed in service after September 27, 2017. Allowed bonus depreciation to be used for purchases of used property, as well as new property.
- **Computers no longer listed property.** Computers are not classified as listed property in tax year 2019.
- **Eliminated entertainment and meals deduction.** Eliminated deductions for entertainment and meal expenses for tax year 2019. Businesses may still deduct 50% of the cost of food consumed by employees during work or travel.

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

- **Eliminated net operating loss carrybacks.** Eliminated the net operating loss carryback and limited carryforwards to 80 percent of taxable income.
- **Increased business vehicle depreciation limits.** Increased the allowable depreciation limits for certain passenger automobiles to: \$10,000 for the first year in which the vehicle was placed in service (up from \$3,160), \$16,000 for the second year (up from \$5,100), \$9,600 for the third year (up from \$3,050), and \$5,760 for the fourth and later years in the recovery period (up from \$1,875).
If a taxpayer claims 100% bonus depreciation, the greatest allowable passenger automobile depreciation is:
 - \$18,000 for the first year;
 - \$16,000 for the second year;
 - \$9,600 for the third year; and
 - \$5,760 for each later taxable year in the recovery period.
- **Business use of a taxpayer’s personal vehicle.** Taxpayers may no longer deduct unreimbursed employee expenses—including unreimbursed expenses related to business use of a personal vehicle—as “miscellaneous itemized deductions” to the extent the total of such expenses exceeds 2% of his or her AGI.

However, the 2019 alternative standard mileage rate applicable to eligible business use of a vehicle is 58¢ per mile, up from 54.5¢ in 2018.

- **Use of a personal vehicle for charitable purposes remains at 14 cents per mile.**
- **Use of a taxpayer’s personal vehicle to move.** Many taxpayers change their residence each year, and many of those taxpayer relocations involve new jobs. Prior law permitted a taxpayer to deduct moving expenses by car, provided the new location was at least 50 miles farther from the taxpayer’s former home than the former main job location. The moving expense deduction has been suspended and has made the moving expense reimbursement taxable income.
- **Alternative minimum tax exemption amount increased.** The tax code provides for an AMTI exemption for purposes of determining the alternative minimum tax amount. The amount of the AMTI exemption varies according to the taxpayer’s filing status and the tax year. The applicable AMTI exemption amounts for 2019 are as follows:

Filing Status	Phaseout of Exemption Amount	Alternative Minimum Taxable Income Exemption*
Single or Head of Household	\$510,300	\$71,700
Married Filing Jointly & Qualifying Widow(er)	\$1,020,600	\$111,700
Married Filing Separately	\$510,300	\$55,850

*The AMTI exemption amounts are indexed for inflation.

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

- \$1,020,600 for taxpayers whose filing status is “married filing jointly” or “qualifying widow(er)”; and
- \$510,300 for taxpayers whose filing status is “single,” “head of household,” “married filing separately” and for trusts and estates.
- **Limitation on itemized deductions.** The Act suspended the phase-out of itemized deductions for 2018 through 2025. Accordingly, itemized deductions are unlimited regardless of the taxpayer’s income.
- **Maximum capital gain/dividend tax rate.** High-income taxpayers are subject to higher capital gain and qualified dividend tax rates. For tax years beginning in 2019, the longterm capital gain and qualified dividend tax rate is 20% for married taxpayers filing jointly whose taxable income exceeds \$488,850 and to singles whose taxable income exceeds \$434,550. For taxpayers in lower income tax brackets:
 - The 0% rate applies to –
 - Single filers with income up to \$39,375,
 - Joint filers with income up to \$78,750; and
 - The 15% rate applies to –
 - Single filers with income between \$39,376 and \$434,550, and
 - Joint filers with income between \$78,751 and \$488,850.

II. Summary

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

- Revising individual tax rates downward;
- Eliminating personal exemptions;
- Increasing the AMT exemption and the income at which AMT exemption phaseout occurs;

- Increasing the standard deduction;
- Limiting the deduction for state and local taxes;
- Reducing the mortgage debt on which mortgage interest is deductible;
- Eliminating the equity debt interest deduction except for interest on loans used to buy, build or substantially improve the home that secures the loan;
- Increasing the limit on the deductibility of charitable cash contributions;
- Eliminating miscellaneous itemized deductions subject to 2% of AGI limit;
- Eliminating the moving expense deduction/exclusion for other than military;
- Eliminating the deduction for alimony payments made and the inclusion in income of alimony payments received for agreements after 12/31/2018;
- Eliminating the phaseout of itemized deductions for higher income taxpayers;
- Increasing the Child Tax Credit and making part of the credit refundable;
- Broadening the definition of eligible education expenses under §529 College Savings Plans to include limited annual tax-free distributions for elementary and secondary school tuition;
- Eliminating the recharacterization of traditional-to-Roth IRA conversions;
- Eliminating the individual mandate penalty for failing to maintain health coverage beginning in 2019; and
- Increasing the estate and gift tax exemption.

INTRODUCTION: TEST YOUR KNOWLEDGE

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

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

1. What is the highest individual tax rate in 2019:

- A. 21%
- B. 25%
- C. 37%
- D. 39.5%

2. The Tax Cuts and Jobs Act eliminated which of the following deductions:

- A. miscellaneous itemized deductions
- B. personal casualty losses
- C. moving expenses to move to a new job
- D. all of the above

3. For 2019, what medical expenses can be deducted:

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

INTRODUCTION: SOLUTIONS AND SUGGESTED RESPONSES

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

1.

- A. Incorrect. Twenty-one percent is the maximum tax rate for corporations.
 - B. Incorrect. The highest rate is greater than 25%.
 - C. **CORRECT**. The TCJA reduced the top rate down to 37%.
 - D. Incorrect. The top rate in 2017 was 39.5%, but this was lowered by the TCJA.
- 2.
- A. Incorrect. The TCJA eliminated several itemized deductions, including miscellaneous itemized deductions. However, this is not the best answer.
 - B. Incorrect. Personal casualty loss deductions, other than those associated with special disaster relief legislation, have been eliminated by the TCJA, but this is not the best answer.
 - C. Incorrect. The deduction for moving expenses to a new job for most employees has been eliminated by the TCJA, but this is not the best answer.
 - D. **CORRECT**. All of the responses are included in the list of deductions that were eliminated by the TCJA.
- 3.
- A. Incorrect. Medical expenses are still at least partly deductible.
 - B. Incorrect. For 2018, medical expenses that exceed 7.5% of a taxpayer's adjusted gross income can be deducted.
 - C. **CORRECT**. In 2019, the limit on deductible medical expenses for those expenses greater than 10% of the taxpayer's adjusted gross income.
 - D. Incorrect. Not all of medical expenses incurred are deductible.

Chapter 1: Filing Information

Chapter Objective

After completing this chapter, you should be able to:

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

I. Important Reminders

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

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

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

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

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

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

II. Introduction

Table 1-1 summarizes the key filing requirements.

TABLE 1-1. 2019 FILING REQUIREMENTS FOR MOST TAXPAYERS

IF your filing status is...	AND at the end of 2019 you were...*	THEN file a return if your gross income was at least...**
single	under 65	\$12,200
	65 or older	\$13,850
married filing jointly***	under 65 (both spouses)	\$24,400
	65 or older (one spouse)	\$25,700
	65 or older (both spouses)	\$27,000
married filing separately	any age	\$5
head of household	under 65	\$18,350
	65 or older	\$20,000
qualifying widow(er) with dependent child	under 65	\$24,400
	65 or older	\$25,700

* If you were born on January 1, 1955, you are considered to be age 65 at the end of 2019.

** Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States (even if you may exclude part or all of it). Do not include social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time during 2019, or (b) one-half of your social security benefits plus your other gross income is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the Instructions for Form 1040 or Pub. 915 to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, do not reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.

**** If you did not live with your spouse at the end of 2019 (or on the date your spouse died) and your gross income was at least \$5, you must file a return regardless of your age.*

CERTAIN CHILDREN UNDER AGE 19 OR FULL-TIME STUDENTS

If a child's only income is interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends), the child was under age 19 at the end of 2019 or was a full-time student under age 24 at the end of 2019, and certain other conditions are met, a parent can elect to include the child's income on the parent's return. If this election is made, the child does not have to file a return.

CHAPTER 1: TEST YOUR KNOWLEDGE

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

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

1. If your filing status is married filing jointly, and at the end of 2019 both you and your spouse were under age 65, then you need to file a return if your gross income was at least how much:

- A. \$12,200
- B. \$24,400
- C. \$25,700
- D. \$27,000

CHAPTER 1: SOLUTION AND SUGGESTED RESPONSES

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

1.
 - A. Incorrect. If your filing status is single, and at the end of 2019 you were under 65, then you need to file a return if your gross income was at least \$12,200.
 - B. **CORRECT**. If your filing status is married filing jointly, and at the end of 2019 both spouses were under 65, then you need to file a return if your gross income was at least \$24,400.
 - C. Incorrect. If your filing status is married filing jointly, and at the end of 2019 only one spouse was older than 65, then you need to file a return if your gross income was at least \$25,700.
 - D. Incorrect. If your filing status is married filing jointly, and at the end of 2019 both spouses were older than 65, then you need to file a return if your gross income was at least \$27,000.

Chapter 2: Filing Status

Chapter Objective

After completing this chapter, you should be able to:

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

I. Introduction

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

- Single,
- Married Filing Jointly,
- Married Filing Separately,
- Head of Household, and
- Qualifying Widow(er).

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

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

II. Marital Status

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

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

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

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

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

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

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

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

1. You are married and living together.

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

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

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

III. Single

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

Your filing status may be single if you were widowed before January 1, 2019, and did not remarry in 2019. However, you might be able to use another filing status that will give you a lower tax. See Head of Household and Qualifying Widow(er) to see if you qualify.

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

IV. Married Filing Jointly

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

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

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

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

If your spouse died in 2020 before filing a 2019 return, you can choose married filing jointly as your filing status on your 2019 return.

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

FILING A JOINT RETURN

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

Joint responsibility. Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. This means that if one spouse does not pay the tax due, the other may have to. Or, if one spouse does not report the correct tax, both spouses may be

responsible for any additional taxes assessed by the IRS. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse.

You may want to file separately if:

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

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

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

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

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

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

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

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

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

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

V. Married Filing Separately

You can choose married filing separately as your filing status if you are married. This filing status may benefit you if you want to be responsible only for your own tax or if it results in less tax than filing a joint return. If you and your spouse do not agree to file a joint return, you must use this filing status, unless you qualify for head of household status.

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

standard deduction even if your spouse chooses to itemize deductions. See Head of Household, later, for more information.

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

VI. Head Of Household

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

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

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

QUALIFYING PERSON

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

Example - Child

Your unmarried son lived with you all year and was 18 years old at the end of the year. He did not provide more than half of his own support and does not meet the tests to be a qualifying child of anyone else. As a result, he is your qualifying child and, because he is single, your qualifying person for you to claim head of household filing status.

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

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

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

Temporary absences. You and your qualifying person are considered to live together even if one or both of you are temporarily absent from your home due to special circumstances such as illness,

education, business, vacation, military service, or detention in a juvenile facility. It must be reasonable to assume that the absent person will return to the household after the temporary absence. You must continue to keep up the home during the absence.

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

VII. Qualifying Widow(er)

If your spouse died in 2019, you can use married filing jointly as your filing status for 2019 if you otherwise qualify to use that status. The year of death is the last year for which you can file jointly with your deceased spouse. See Married Filing Jointly, earlier.

You may be eligible to use qualifying widow(er) with dependent child as your filing status for 2 years following the year of death of your spouse. For example, if your spouse died in 2018, and you have not remarried, you may be able to use this filing status for 2019 and 2020.

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

How to file. On Form 1040, check the “Qualifying widower” box on the top of the form.

Eligibility rules. You are eligible to file your 2019 return as a qualifying widow(er) if you meet all of the following tests.

1. You were entitled to file a joint return with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return.
2. Your spouse died in 2017 or 2018 and you did not remarry before the end of 2019.
3. You have a child or stepchild (not a foster child) whom you can claim as a dependent or could claim as a dependent except that, for 2019:
 - a) The child had gross income of \$4,200 or more,
 - b) The child filed a joint return, or
 - c) You could be claimed as a dependent on someone else’s return.

If the child is not claimed as your dependent in the Dependents section on Form 1040, enter the child’s name in the entry space at the far right of the filing status checkboxes (next to Qualifying widow(er)).

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

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

Example

John’s wife died in 2017. John has not remarried. During 2018 and 2019, he continued to keep up a home for himself and his child who lives with him and for whom he can claim as a dependent. For 2017 he was entitled to file a joint return for himself and his deceased wife. For 2018 and 2019, he can file as qualifying widower. After 2019, he can file as head of household if he qualifies.

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

CHAPTER 2: TEST YOUR KNOWLEDGE

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

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

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

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

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

- A. true
- B. false

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

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

CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES

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

1.

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

2.

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

3.

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

Chapter 3: Dependents

Chapter Objective

After completing this chapter, you should be able to:

- Recall the various requirements for a qualifying relative.

I. Important Changes

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

II. Dependents

The term “dependent” means:

- A qualifying child, or
- A qualifying relative.

You can claim an exemption for a qualifying child or qualifying relative only if these three tests are met.

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

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

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

- You cannot claim any dependents if you (or your spouse if filing jointly) could be claimed as a dependent by another taxpayer.
- You cannot claim a married person who files a joint return as a dependent unless that joint return is filed only to claim a refund of withheld income tax or estimated tax paid.
- You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident alien, U.S. national, or a resident of Canada or Mexico.¹
- You cannot claim a person as a dependent unless that person is your qualifying child or qualifying relative.

1) The child must be your son, daughter, stepchild, foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.	1) The person cannot be your qualifying child or the qualifying child of any other taxpayer.
2) The child must be (a) under age 19 at the end of the year and younger than you (or your spouse, if filing jointly), (b) under age 24 at the end of the year, a student, and younger than you (or your spouse, if filing jointly), or (c) any age if permanently and totally disabled.	2) The person either: (a) must be related to you in one of the ways listed under the IRS’s Relationship test, or (b) must live with you all year as a member of your household (and your relationship must not violate local law). ²
3) The child must have lived with you for more than half of the year. ²	3) The person’s gross income for the year must be less than \$4,200. ³
4) The child must not have provided more than half of his or her own support for the year.	4) You must provide more than half of the person’s total support for the year. ⁴

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

CHAPTER 3: TEST YOUR KNOWLEDGE

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

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

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

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

CHAPTER 3: SOLUTIONS AND SUGGESTED RESPONSES

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

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

Chapter 4: Estimated Tax

Chapter Objective

After completing this chapter, you should be able to:

- Identify the purpose of estimated taxes.

I. Important

Estimated tax safe harbor for higher income taxpayers. If your 2019 adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you will have to deposit the smaller of 90% of your expected tax for 2020 or 110% of the tax shown on your 2019 return to avoid an estimated tax penalty.

II. Estimated Tax

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

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

WHO MUST PAY ESTIMATED TAX PAYMENTS?

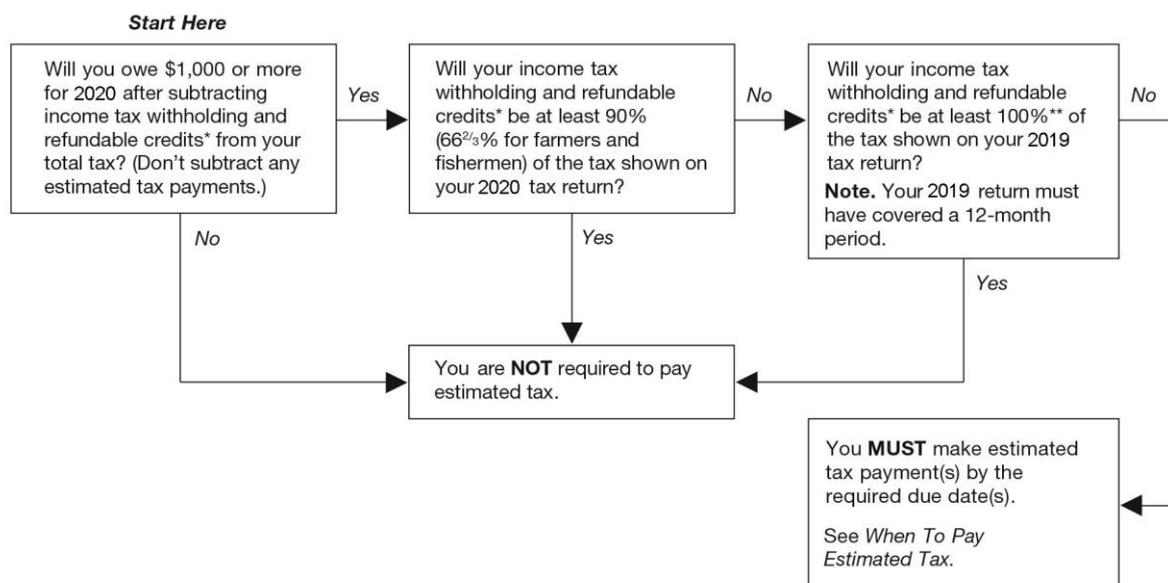
If you owe additional tax for 2019, you may have to pay estimated tax for 2020.

General rule. In most cases, you must pay estimated tax for 2020 if both of the following apply.

1. You expect to owe at least \$1,000 in tax for 2020 after subtracting your withholding and refundable credits.
2. You expect your withholding plus your refundable credits to be less than the smaller of:
 - 90% of the tax to be shown on your 2020 tax return, or
 - 100% of the tax shown on your 2019 tax return. Your 2019 tax return must cover all 12 months.

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

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



*Use the refundable credits shown on the 2020 Estimated Tax Worksheet.
 **110% if less than two-thirds of your gross income for 2019 and 2020 is from farming or fishing and your 2019 adjusted gross income was more than \$150,000 (\$75,000 if your filing status for 2020 is married filing a separate return).

WHEN TO PAY ESTIMATED TAX

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

Jan. 1 through Mar. 31	Apr. 15
Apr. 1 through May 31	Jun. 15
Jun. 1 through Aug. 31	Sept. 15
Sept. 1 through Dec. 31	Jan. 15 next year

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

CHAPTER 4: TEST YOUR KNOWLEDGE

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

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

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

- A. true
- B. false

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

- A. income taxes

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

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

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

CHAPTER 4: SOLUTIONS AND SUGGESTED RESPONSES

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

1.

- A. **CORRECT**. For 2019, if your adjusted gross income was more than \$150,000 (\$75,000 if you are married filing a separate return), you will have to deposit the smaller of 90% of your expected tax for 2020 or 110% of the tax shown on your 2019 return to avoid penalties.
- B. Incorrect. You may have to pay estimated tax if the amount withheld from your salary, pension, or other income is not enough. There is a safe harbor for higher income taxpayers whose adjusted gross income was more than given amounts.

2.

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

3.

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

FINAL EXAM

The Income Tax Return

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

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

- A. \$12,200
- B. \$13,500
- C. \$13,850
- D. \$24,400

2. For 2019, what is the maximum estate and gift tax exemption for an individual taxpayer:

- A. \$5.0 million
- B. \$5.5 million
- C. \$11.4 million
- D. \$22.8 million

3. During 2019, what is the standard mileage rate for operating your car for charitable purposes:

- A. 14.0 cents a mile
- B. 18.0 cents a mile
- C. 20.0 cents a mile
- D. 58.0 cents a mile

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

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

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

- A. on the date the taxpayer files his or her return
- B. on the first day of the tax year
- C. on the last day of the tax year
- D. on April 15th of the tax year

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

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

7. If you are a widow(er) with a dependent child and you have not remarried, you may be eligible to use the qualifying widow(er) with dependent child as your filing status for a maximum of how long:

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

D. 3 years following the year of death of your spouse

8. In order to be a qualifying relative, the person's gross income for the year 2019 generally must be less than:

- A. \$2,100
- B. \$2,200
- C. \$4,200
- D. \$4,400

9. What is the method used to pay tax on income that is not subject to withholding called:

- A. excise tax
- B. estimated tax
- C. direct tax
- D. capital gains tax

10. For 2019, the social security tax on employees is what percentage of wages up to the \$132,900 threshold:

- A. 6.2%
- B. 7.65%
- C. 12.4%
- D. 15.3%