2019

WHITTENBURG/GILL

Income Tax FUNDAMENTALS

Includes intuit proconnect™

2019 Income Tax FUNDAMENTALS

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CENGAGE

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CENGAGE

Income Tax Fundamentals, **2019 Edition**
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Library of Congress Control Number: 2018959083

ISBN: 978-1-337-70306-2

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20 Channel Center Street
Boston, MA 02210
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Printed in the United States of America
Print Number: 01 Print Year: 2018

Concise, Current, & Practical!

Income Tax Fundamentals' Winning Forms Approach Is Time-Tested

Income Tax Fundamentals 2019 Edition is designed as a self-contained book for an introductory course in individual income taxation. We take pride in the concise, current, and practical coverage of the income tax return preparation process. *Income Tax Fundamentals* continues to be the **market-leading textbook** with a tax forms-based approach that is a reliable choice, with an experienced author team that offers a commitment to accuracy. The workbook format of the textbook presents materials in practical sections with multiple examples and review problems. The presentation of the material does not assume that the reader has taken a course in accounting, making it appropriate for use as a self-study guide to federal income tax. *Income Tax Fundamentals* adopters tell us:

> Great text. I have used it for years mostly because of its simple and straightforward approach to the basic income tax elements.
>
> — Jerold K. Braun, Daytona State College

> This text provides an excellent overview for community tax classes. The software gives these students good hands-on experience with the concepts.
>
> — Jay Wright, New River Community College

> I love this book with all its comprehensive problems that progress from easy to difficult.
>
> — LoAnn Nelson, PhD, CPA, Lake Region State College

> The layout of the chapters is well-thought out.
>
> — James Hromadka, San Jacinto College

> I enjoy using the Whittenburg text...it is the best I have found.
>
> — Jana Hosmer, Blue Ridge Community College

Whittenburg and Gill's hallmark "**Forms Approach**" allows students to practice filling out tax returns right in the book without having to download tax forms online. *Income Tax Fundamentals* has been redesigned to follow the new Form 1040 and supporting Schedules 1 through 6. Every attempt to align the concepts with the schedules has been made so students can follow from the detailed form to the schedule and eventually to Form 1040.

intuit proconnect™

Each individual tax form needed to complete the problems in the textbook is included within ***Income Tax Fundamentals*** and within the complimentary Intuit ProConnect Online. ProConnect Online is an industry-leading tax preparation software that is hosted on the cloud and provides robust tax content and easy navigation. The Intuit website offers community and knowledge-based content, view alerts, and FAQ articles. All of the 2018 individual income tax return problems in the textbook may be solved using the Intuit software, or students may prepare the tax returns by hand.

Income Tax Fundamentals

Evolves Each Year to Benefit You

New to This Edition

Update for the Tax Cuts and Jobs Act (TCJA) of 2017

In late 2017, Congress undertook the most significant changes to the tax law since 1986. The updates to the tax law have been entirely embedded into the concepts, exercises, and tax return problems throughout *Income Tax Fundamentals*. Changes such as the qualified business income deduction, the expanded child tax credit, increases to the standard deduction, removal of personal and dependent exemptions, new limitations on itemized deductions, changes to the individual tax rates and a reduction of the corporate tax rate are covered in detail and incorporated into the end-of-chapter problems and test bank.

Reorganized around the new Form 1040 and Schedules

The 2018 Form 1040 underwent a significant redesign by the IRS and now has a series of 6 new attached Schedules. The textbook has been reorganized to better match the structure of the new Form 1040.

Introduction of additional real-life source documents

We continue to include commonly used source documents in the exercises and tax return problems such as Form W-2, a myriad of Forms 1099, Form 1095-A, and additional accounting schedules such as trial balances and income statements in an effort to replicate the tax return preparation process more closely. Information that is not relevant to the problem is included to encourage students to use analytical and critical-thinking skills to deal with less structured problems.

Post-TCJA Tax Law is included

In addition to making the standard cost of living changes required by tax law, *Income Tax Fundamentals* addresses the extensive guidance issued by the IRS subsequent to the issuance of the TCJA in an effort to interpret the more complicated sections. Treasury Department updates to the qualified business income deduction, meals and entertainment, and others as late as October 2018 have been addressed in this textbook.

Updated Cumulative Software Problem

The cumulative software problem included as Group 5 questions at the end of Chapters 1-8 have been updated to include more source documents (Form W-2s, 1099s, etc.) and include extraneous information to encourage students to think more critically about the relevance of certain items when preparing tax returns.

A Complete Learning System—CengageNOWv2

CengageNOWv2 for Taxation takes students from motivation to mastery. It elevates thinking by providing superior content designed with the entire student workflow in mind. Students learn more efficiently with the variety of engaging assessments and learning tools. For instructors, CengageNOWv2 provides ultimate control and customization and a clear view into student performance that allows for the opportunity to tailor the learning experience to improve outcomes.

Motivation

Many instructors find that students come to class unmotivated and unprepared. To help with engagement and preparedness, CengageNOWv2 for Whittenburg offers the following feature:

Self-Study Questions based on the information presented in the textbook help students prepare for class lectures or review prior to an exam. Self-Study Questions provide ample practice for the students as they read the chapters, while providing them with valuable feedback and checks along the way, as the solutions are provided conveniently in Appendix E of the textbook.

Application

Students need to learn problem-solving skills in order to complete taxation problems on their own. However, as students try to work through homework problems, sometimes they become stuck and need guidance. To help reinforce concepts and keep students on the right track, CengageNOWv2 for Whittenburg offers the following:

- **End-of-chapter homework: Group 1 and 2 problems**
- **Algorithmic versions** of end-of-chapter homework are available for at least 10-15 problems per chapter.

- **Detailed feedback for each homework question.** Homework questions include enhanced, immediate feedback so students can learn as they go. Levels of feedback include an option for "check my work" prior to submission of an assignment. Then, after submitting an assignment, students receive even more extensive feedback explaining why their answers were incorrect. Instructors can decide how much feedback their students receive and when, including providing the full solution, if they wish.
- Built-in **Test Bank** for online assessment.

For students who need additional support, CengageNOWv2's **Adaptive Study Plan** is complete with quizzes, an eBook, and more.

- It is designed to help give students additional support and prepare them for the exam.

Mastery

Finally, students need to make the leap from memorizing concepts to actual critical thinking. They need to be able to connect multiple topics and master the material. To help students grasp the big picture of taxation, tax return preparation, and achieve the end goal of mastery, CengageNOWv2 for Whittenburg offers the following:

Comprehensive Problems allow students to complete the problems by entering the relevant information on tax forms and schedules.

Cengage Learning Testing Powered by Cognero®

Cognero® is a flexible, online system that allows instructors to:

- author, edit, and manage test bank content from multiple Cengage Learning solutions
- create multiple test versions in an instant
- deliver tests from your LMS, your classroom or wherever you want

Cognero® possesses the features necessary to make assessment fast, efficient, and effective:

- Simplicity at every step. A desktop-inspired interface features drop-down menus and familiar, intuitive tools.
- Full-featured test generator. Choose from 15 question types (including true/false, multiple choice, and essay). Multi-language support, an equation editor, and unlimited metadata help ensure your tests are complete and compliant.
- Cross-compatible capability. Import and export content into other systems.

CL Testing Powered by Cognero® is accessible through the instructor companion site, **www.cengage.com/login.**

Key Terms

Key Terms with page references are located at the end of all of the chapters and reinforce the important tax terms introduced in each chapter.

Key Points

Following the Key Terms is a brief summary of the learning objective highlights for each chapter to allow students to focus quickly on the main points of each chapter.

Reliable Instructor Resources Are Convenient

Solutions Manual

The manual contains detailed solutions to the end-of-chapter problems in the textbook, Chapter Outlines and Suggested Minimum Assignments, and the Additional Comprehensive Problems that are located in Appendix D.

Comprehensive Instructor Companion Website

This password-protected site contains instructor resources: the Solutions Manual, the Test Bank, Cognero® testing tools, Solutions to the Cumulative Tax Return Problems, Intuit ProConnect Online software solutions and instructions, PowerPoints, and more: **www.cengage.com/login**.

As We Go to Press

To access tax law information after the publication of this textbook, please visit **www.cengage.com**. At the home page, input the ISBN of your textbook (from the back cover of your book). This will take you to the product page where free companion resources can be found.

Step-by-Step Format Builds Student Confidence

The practical, step-by-step format in ***Income Tax Fundamentals 2019 Edition*** builds from simple to complex topics. The authors are careful to lead students down a path of understanding rather than overwhelming them with excessive detail and multiple Internal Revenue Code references.

- Helpful examples within each chapter provide realistic scenarios for students to consider.

EXAMPLE Scott provides all of the support for an unrelated family friend who lives with him for the entire tax year. He also supports a cousin who lives in another state. The family friend can qualify as Scott's dependent, but the cousin cannot. The family friend meets the member of the household test. Even though the cousin is not considered a relative, he could have been a dependent if he met the member of the household part of the test. ♦

- The short Learning Objective sections within each chapter offer numerous examples, supported by the "Self-Study Problems" throughout. The Self-Study Problems encourage students to answer a series of short questions in a fill-in-the-blank or multiple-choice format. The solutions to the Self-Study Problems are provided at the end of the textbook, offering immediate solutions to students to help build confidence.

- The Quick Tax Reference Guide on the inside of the back cover of the textbook includes the Tax Equation.

If Taxable Income is Over:	But Not Over:	The Tax is:
Single Individual		
$0	$9,525	10% of taxable income *
$9,525	$38,700	$952.50 + 12% of the excess over $9,525 *
$38,700	$82,500	$4,453.50 + 22% of the excess over $38,700 *
$82,500	$100,000	$14,089.50 + 24% of the excess over $82,500 *
$100,000	$157,500	$14,089.50 + 24% of the excess over $82,500
$157,500	$200,000	$32,089.50 + 32% of the excess over $157,500
$200,000	$500,000	$45,689.50 + 35% of the excess over $200,000
$500,000		$150,689.50 + 37% of the excess over $500,000
Married Filing Jointly or Qualifying Widow(er)		
$0	$19,050	10% of taxable income *
$19,050	$77,400	$1,905.00 + 12% of the excess over $19,050 *
$77,400	$100,000	$8,907.00 + 22% of the excess over $77,400 *
$100,000	$165,000	$8,907.00 + 22% of the excess over $77,400
$165,000	$315,000	$28,179.00 + 24% of the excess over $165,000
$315,000	[illegible]	$64,179.00 + 32% of the excess over $315,000
$400,000	[illegible]	$91,379.00 + 35% of the excess over $400,000
[illegible]	[illegible]	[illegible] + 37% of the excess over [illegible]

LEARNING OBJECTIVES

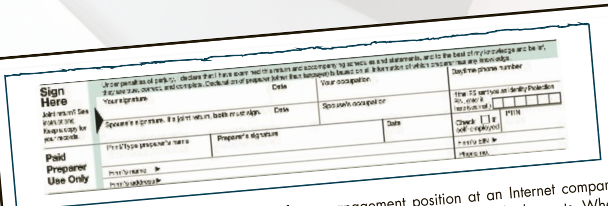
After completing this chapter, you should be able to:

LO 1.1 Explain the history and objectives of U.S. tax law.
LO 1.2 Describe the different entities subject to tax and reporting requirements.
LO 1.3 Apply the tax formula for individuals.
LO 1.4 Identify individ[illegible] must file tax returns

- Learning Objectives help organize information and are referenced by the end-of-chapter exercises.

Real-World Applications Keep Students Engaged

- The "Would You Sign This Tax Return?" feature places readers in the office of a tax preparer with interesting and sometimes humorous real-world tax ethics questions that will intrigue students. Many of these features are inspired by the authors' own experiences working with various clients in tax preparation. As part of each scenario, students decide if they would sign the tax return. You, as the instructor, can use the cases to spark group discussions on basic tax preparation ethics.



ILYA AKINSHIN/Shutterstock.com; Zhukov Oleg/Shutterstock.com

Would You Sign This Tax Return?

Your client, William Warrant, was hired for a management position at an Internet company planning to start a website called "indulgedanimals.com" for dogs, cats, and other pets. When he was hired, William was given an incentive stock option (ISO) worth $500,000, which he exercised during the year. Exercise of the ISO creates a tax preference item for alternative minimum tax (AMT) and causes him to have to pay substantial additional tax when combined with his other tax items for the year. He is livid about the extra tax and refuses to file the AMT Form 6251 with his tax return because the AMT tax is "unfair" and "un-American" according to him. Would you sign this tax return?

- Real-world examples within Tax Break segments provide actual, effective examples of tax-planning strategies that clearly illustrate the concepts discussed throughout the book and cover nearly every basic tax-planning technique used by tax preparers.

TAX BREAK

Divorcing couples may save significant taxes if one or both of the spouses qualifies as an "abandoned spouse" and can use the head of household filing status. The combination of head of household filing status for one spouse with married filing separately filing status for the other spouse is commonly seen in the year (or years) leading up to a divorce. In cases where each spouse has custody of a child, the separated taxpayers may each claim head of household status.

- Interesting tax facts within "Would You Believe?" sections grab students' attention with interesting asides, including captivating facts and stories about tax laws and preparation.

Would You Believe?

The following quotation is often attributed to Albert Einstein: "The hardest thing in the world to understand is the income tax."

- New Law Alert boxes throughout the textbook draw students' attention to specific areas affected by new tax legislation.

New Tax Law!

The TCJA made no direct changes to the accumulated earnings tax or the personal holding company tax; however, the significant decrease in the corporate tax rate makes deferring income without distributing the earnings and profits of a corporation considerably more attractive from a tax planning perspective. Undoubtedly, this will increase both the use of this strategy and the IRS' sensitivity to this matter.

Income Tax Fundamentals

Delivers Proven End-of-Chapter Strengths

- The pages are perforated, allowing students to complete end-of-chapter problems and submit them for homework. Students can also tear out tax forms as needed.
- Several question types ensure a variety of assignment options:
  - Multiple-Choice Questions
  - Problems
  - Writing Assignments
  - Comprehensive Problems
  - The Cumulative Software Problem provided in Chapters 1–8 gives students the flexibility to use multiple resources, such as the tax forms within the book, Intuit ProConnect Online or alternative tax preparation software.

Digital Tools Enhance Student Understanding

CengageNOWv2 is a powerful online homework tool. CengageNOWv2 includes an interactive eBook, end-of-chapter homework, detailed student feedback and interactive quizzing, that covers the most challenging topics, a lab guide for using the Intuit ProConnect Online software, flashcards, and much more.

The student companion website offers—*at no additional costs*—study resources for students. Go to **www.cengage.com**, and input the ISBN number of your textbook (from the back cover of your book). This will take you to the product page where free companion resources can be found.

Intuit ProConnect Online access is included with each textbook. A detailed reference lab guide will help the student use the software for solving end-of-chapter problems.

Note to Students: Maximize Your Reading Experience

This book includes many examples to help illustrate learning objectives. After reading each section, including the examples, answer the corresponding Self-Study Problems. You can find the solutions to the Self-Study Problems at the end of the textbook in Appendix E to check your accuracy. Use your performance to measure your understanding, and re-read the Learning Objective section if needed. Many key tax terms are defined in each chapter, which will help improve your overall comprehension.

USING TAX SOFTWARE

Numerous tax return problems in the textbook can be solved using either tax preparation software or hand preparation. The popular software, Intuit ProConnect Online, is available with the textbook. A student guide to Intuit ProConnect Online is provided at the companion website. Your college may offer additional tax preparation software, such as Intuit's ProSeries®, but remember that you can always work the problems by hand.

USING THE FEATURE "WOULD YOU SIGN THIS TAX RETURN?"

A practitioner who knows when to say "I cannot sign this tax return," even if it means losing a client, is exercising the most basic ethical wisdom. Most chapters contain a "Would You Sign This Tax Return?" case reflecting a common client issue. Each issue corresponds to an obvious concept illustrated in the previous section. However, the approach to advise the client is not obvious. The art of explaining tax rules to a client who does not understand them, or, worse, wants to break them, requires not only a good understanding of the rules, but also good interpersonal skills and sometimes the gift of persuasion. The news in the last several years has shown reports of respected CPA firms with members who failed to say the simple words, "I cannot sign this tax return," demonstrating that simple ethical practice is not always easy. We hope instructors will use these cases to spark group discussions or contemplation, and, perhaps, add examples from their own experience.

USING THE CUMULATIVE SOFTWARE PROBLEM

The Cumulative Software Problem can be found at the end of Chapters 1–8. The case information provided in each chapter builds on the information presented in previous chapters, resulting in a lengthy and complex tax return by the conclusion of the problem in Chapter 8. Your professor may have you work in groups to prepare each of the tax returns. The groups can follow the real-world accounting firm model using a preparer, a reviewer, and a firm owner who takes responsibility for the accuracy of the return and signs it. All of the issues in the problem are commonly seen by tax preparers and are covered in the textbook. The full return is difficult to prepare by hand, so tax software is recommended. If the problem is prepared using tax software, the data should be saved so the additional information in the succeeding chapters can be added without duplicating input from previous chapters.

About the Authors

Gerald E. Whittenburg On March 8, 2015, we unexpectedly lost our dear friend and co-author Gene Whittenburg. As the original author of *Income Tax Fundamentals*, Gene was critical in designing the forms-based approach that the book has used successfully for over two decades. Gene started his life in a small town in Texas, entered the Navy, served his country in Vietnam, earned a Bachelor's, Master's, and PhD degrees and served as a distinguished faculty at San Diego State University for almost 40 years. We intend to continue to honor Gene by committing to uphold his standard of publishing excellence.

Steven L. Gill is an associate professor of accounting and taxation in the Charles W. Lamden School of Accountancy at San Diego State University. He received a BS in Accounting from the University of Florida, an MS in Taxation from Northeastern University, and a PhD in Accounting from the University of Massachusetts. Prior to entering academia, he worked for almost 12 years in the field of tax and accounting, including roles in public accounting, internal audit, corporate accounting, and, ultimately, vice president of finance. Although currently in inactive status, he holds a Certified Public Accountant designation. He has published a wide variety of articles in various academic and practitioner journals, and has taught at both the undergraduate and graduate levels, including taxation and financial and management accounting. Steven also serves as an author on Cengage's Federal Tax Research series.

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Acknowledgments

The authors wish to thank all of the instructors who provided feedback for the 2019 edition via surveys as well as the following supplement authors and verifiers for their most valuable suggestions and support:

D. Elizabeth Stone Atkins—*High Point University, High Point, NC*
David Candelaria—*Mt. San Jacinto College, Menifee, CA*
Jim Clarkson—*San Jacinto College South, Houston, TX*
Susan Snow Davis—*Green River Community College, Auburn, WA*
Pennie Eddy—*Appalachian Technical College, Jasper, GA*
Paul Shinal—*Cayga Community College, Auburn, NY*
Lisa Swallow—*University of Montana, Missoula, MT*

In addition, gratitude is expressed to Susan Gill, Kathleen Smith, and Steve Smith for their expert assistance reviewing chapters of this textbook. We also appreciate Susan Snow Davis from Green River Community College, who wrote the helpful guide about how to use Intuit ProConnect Online in the tax course, which may be found on the companion website. In addition we would like to thank Janice Stoudemire, Tracy Newman, and Wendy Shacker on their work of reviewing and verifying the content in CengageNOWv2 including the end-of-chapter items and Test Bank problems. We would also like to extend our thanks to the Tax Forms and Publications Division of the Internal Revenue Service for their assistance in obtaining draft forms each year.

We appreciate your continued support in advising us of any revisions or corrections you feel are appropriate.

Steven L. Gill

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CHAPTER 1

The Individual Income Tax Return

LEARNING OBJECTIVES

After completing this chapter, you should be able to:

LO 1.1 Explain the history and objectives of U.S. tax law.

LO 1.2 Describe the different entities subject to tax and reporting requirements.

LO 1.3 Apply the tax formula for individuals.

LO 1.4 Identify individuals who must file tax returns.

LO 1.5 Determine filing status and understand the calculation of tax according to filing status.

LO 1.6 Define qualifying dependents.

LO 1.7 Calculate the correct standard or itemized deduction amount for taxpayers.

LO 1.8 Compute basic capital gains and losses.

LO 1.9 Access and use various Internet tax resources.

LO 1.10 Describe the basics of electronic filing (e-filing).

OVERVIEW

This chapter introduces the U.S. individual income tax system. Important elements of the individual tax formula are covered, including the tax calculation, who must file, filing status, and the interaction of itemized deductions and the standard deduction. The chapter illustrates all the steps required for completion of a basic Form 1040. Also included is a discussion of reporting and taxable entities.

An introduction to capital gains and losses is included to provide a basic understanding of capital transactions prior to the detailed coverage in Chapter 4. An overview of tax information available at the Internal Revenue Service (IRS) website and other helpful tax websites is also included. A discussion of the process for electronic filing (e-filing) of an individual tax return completes the chapter.

Learning Objective 1.1

Explain the history and objectives of U.S. tax law.

1-1 HISTORY AND OBJECTIVES OF THE TAX SYSTEM

1-1a Tax Law History and Objectives

The U.S. income tax was established on March 1, 1913 by the Sixteenth Amendment to the Constitution. Prior to the adoption of this amendment, the U.S. government had levied various income taxes for limited periods of time. For example, an income tax was used to help finance the Civil War. The finding by the courts that the income tax law enacted in 1894 was unconstitutional eventually led to the adoption of the Sixteenth Amendment. Since adoption of the amendment, the constitutionality of the income tax has not been questioned by the federal courts.

Many people inaccurately believe the sole purpose of the income tax is to raise sufficient revenue to operate the government. The tax law has many goals other than raising revenue. These goals fall into two general categories—economic goals and social goals—and it is often unclear which goal a specific tax provision was written to meet. Tax provisions have been used for such economic motives as reduction of unemployment, expansion of investment in productive (capital) assets, and control of inflation. Specific examples of economic tax provisions are the limited allowance for expensing of capital expenditures and the bonus depreciation provisions. In addition to pure economic goals, the tax law is used to encourage certain business activities and industries. For example, an income tax credit encourages businesses to engage in research and experimentation activities, the energy credits encourage investment in solar and wind energy businesses, and a special deduction for soil and water conservation expenditures related to farm land benefits farmers.

Social goals have also resulted in the adoption of many specific tax provisions. The child and dependent care credit, the earned income credit, and the charitable contribution deduction are examples of tax provisions designed to meet social goals. Social provisions may influence economic activities, but they are written primarily to encourage taxpayers to undertake activities to benefit themselves and society.

An example of a provision that has both economic and social objectives is the provision allowing the gain on the sale of a personal residence up to $250,000 ($500,000 if married) to be excluded from taxable income. From a social standpoint, this helps a family afford a new home, but it also helps achieve the economic goal of ensuring that the United States has a mobile workforce.

The use of the income tax as a tool to promote economic and social policies has increased in recent years. Keeping this in mind, the beginning tax student can better understand how and why the tax law has become so complex.

1-1b The Tax Cuts and Jobs Act of 2017

Although the tax laws often change in some way each year, significant overhauls of the tax code are actually quite rare. However, in December 2017, The Tax Cuts and Jobs Act or TCJA (PL 115-97) was signed into law. This is the most dramatic change to the tax code since 1986 and thus affects the tax rules, and this textbook, in important ways. Some of the more important changes include:

- Repeal of personal exemptions and an increase in the standard deduction
- Lowering of individual tax rates for more or less all taxpayers
- Lowering of the corporate tax rate to a flat 21 percent
- The introduction of a qualified business income deduction for flow-through entities such as partnerships and proprietorships
- The elimination of the inclusion of/deduction for alimony received/paid
- Reduction in certain business deductions, for example, entertainment
- Limitation or elimination of certain itemized deductions
- Significant expansion of the child tax credit
- Repeal of the corporate (but not individual) alternative minimum tax

- Expansion of the bonus depreciation provisions to 100 percent recovery in the first year
- Restriction of like-kind exchange treatment to only real property
- Decrease in the dividend-received deduction percentages

All of these and many other tax law changes are covered in this textbook throughout the chapters. In an effort to balance the budget over the Congressional window of 10 years, many of the provisions were written with a built-in expiration date ("sunset" provisions). A large number of the changes to individual taxation are set to expire at the end of 2025. Whether these provisions are actually permitted to expire is unknown; however, when appropriate, the textbook includes background on the pre-TCJA law in the event those provisions return.

Subsequent to the TCJA, the IRS also underwent a redesign of the base individual income tax form—the Form 1040. As a "forms-based" textbook, many of those changes have been adopted into the structure of the materials.

TAX BREAK

Most taxpayers know they can deduct contributions of cash to qualified charities but may not deduct the value of their time or services. However, taxpayers may be able to deduct mileage ($0.14 per mile) associated with the provision of services to a qualified charity.

Self-Study Problem 1.1 *See Appendix E for Solutions to Self-Study Problems*

Which of the following is not a goal of the income tax system?

a. Raising revenue to operate the government.
b. Providing incentives for certain business and economic goals, such as higher employment rates, through business-favorable tax provisions.
c. Providing incentives for certain social goals, such as charitable giving, by allowing tax deductions, exclusions, or credits for selected activities.
d. All the above are goals of the income tax system.

1-2 REPORTING AND TAXABLE ENTITIES

1.2 Learning Objective

Describe the different entities subject to tax and reporting requirements.

Under U.S. tax law, there are five basic tax reporting entities. They are individuals, corporations, partnerships, estates, and trusts. The taxation of individuals is the major topic of this textbook; an overview of the taxation of partnerships and corporations is presented in Chapters 10 and 11, respectively. Taxation of estates and trusts is a specialized area not covered in this textbook.

1-2a The Individual

The most familiar taxable entity is the individual. Taxable income for individuals generally includes income from all sources such as wages, salaries, self-employment earnings, rents, interest, and dividends. Individual taxpayers file Form 1040. In previous years, Forms 1040EZ and 1040A were also available. The Form 1040 has been simplfied and now is intended to fit on a "postcard." Some of the more complex lines of the old Form 1040 now appear on a series of Schedules (1-6) that are attached to Form 1040:

Schedule	*Primary Purpose*
1	Additional forms of income other than wages, interest, dividends, distributions from qualified retirement plans such as IRAs and pensions, and Social Security benefits. Schedule 1 also reports many of the deductions for adjusted gross income.
2	Additional taxes beyond the basic income tax such as the alternative minimum tax and repayments of the advance premium tax credit.
3	Nonrefundable credits including education credits and the credit for child and dependent care expenses.
4	Other taxes not included on Form 1040 and Schedule 2 such as self-employment taxes, the nanny tax, and the individual responsibility payment under the Affordable Care Act.
5	Payments besides withholding such as estimated payments, premium tax credit, and excess Social Security taxes withheld.
6	Used for taxpayers with a foreign address or those wishing to allow a third-party designee.

In addition to Schedules 1-6, certain types of income and deductions must be reported on specific schedules that are included with the Form 1040. An individual taxpayer's interest income (over $1,500) and dividend income (over $1,500) are reported on Schedule B of Form 1040. Self-employment income from a trade or business, other than farm or ranch activities, is included on Schedule C. Farm or ranch income is reported on Schedule F. The supplemental income schedule, Schedule E, is used to report rental or royalty income and pass-through income from partnerships, S corporations, and estates and trusts. If an individual taxpayer has capital gains or losses, he or she must generally report the details on Schedule D. Taxpayers who use Schedules C, D, E or F will also report that same income on Schedule 1. Schedule A is completed by individuals who itemize their deductions. Itemized deductions on Schedule A include medical expenses, certain taxes, certain interest, charitable contributions, and other miscellaneous deductions. These tax forms and schedules and some less common forms are presented in this textbook.

Would You Believe?

The origin of the Form 1040 has been rumored to be associated with the year 1040 B.C. when Samuel warned his people that if they demanded a king, the royal leader would be likely to require they pay taxes. However, in the early 1980s, the then-Commissioner of the IRS, Roscoe Eggers indicated that the number was simply the next one in the control numbering system for federal forms in 1914 when the form was issued for taxpayers for the tax year 1913. About 350,000 people filed a 1040 for 1913. All the returns were audited. In 2017, less than 1 percent of the approximately 150 million individual tax returns were audited.

1-2b The Corporation

Corporations are subject to the U.S. income tax and must report income annually on Form 1120. The tax rate structure for corporations was changed from the previously progressive tax rate structure with rates from 15 percent to 35 percent, to a flat rate of 21 percent for all corporations regardless of income level.

Some corporations may elect S corporation status. An S corporation does not generally pay regular corporate income taxes; instead, the corporation's income passes through to the shareholders and is included on their individual returns. S corporations must report tax information annually on Form 1120S. Chapter 11 covers the basics of corporate taxation, including a discussion of S corporations.

1-2c The Partnership

The partnership is not a taxable entity; instead it is a reporting entity. Generally, all income or loss of a partnership is included on the tax returns of the partners. However, a partnership must file Form 1065 annually to report the amount of the partnership's total income or loss and show the allocation of the income or loss to the partners. The partners, in turn, report their share of ordinary income or loss on their tax returns. Other special gains, losses, income, and deductions of the partnership are reported and allocated to the partners separately, since these items are given special tax treatment at the partner level. Capital gains and losses, for example, are reported and allocated separately, and the partners report their share on Schedule D of their income tax returns. See Chapter 10 for a discussion of partnerships, including limited partnerships and limited liability companies.

Summary of Major Tax Forms and Schedules

Form or Schedule	*Description*
1040	Individual income tax return
Schedule 1	Additional income and adjustments to income
Schedule 2	Tax
Schedule 3	Nonrefundable credits
Schedule 4	Other taxes
Schedule 5	Other payments and refundable credits
Schedule A	Itemized deductions
Schedule B	Interest and dividend income
Schedule C	Profit or loss from business (sole proprietorship)
Schedule D	Capital gains and losses
Schedule E	Supplemental income and loss (rent, royalty, and pass-through income from Forms 1065, 1120S, and 1041)
Schedule F	Farm and ranch income
1041	Fiduciary (estates and trusts) tax return
1120	Corporate tax return
1120S	S corporation tax return
1065	Partnership information return
Schedule K-1 (Form 1065)	Partner's share of partnership results

All of the forms listed here, and more, are available at the IRS website (**www.irs.gov**).

Self-Study Problem 1.2

See Appendix E for Solutions to Self-Study Problems

Indicate which is the most appropriate form or schedule(s) for each of the following items. Unless otherwise indicated in the problem, assume the taxpayer is an individual.

ITEM	Form or Schedule
1. Bank interest income of $1,600 received by a taxpayer who itemizes deductions	____________
2. Capital gain on the sale of AT&T stock	____________
3. Income from a farm	____________
4. Estate income of $850	____________
5. Partnership reporting of an individual partner's share of partnership income	____________
6. Salary of $70,000 for a taxpayer who itemizes deductions	____________
7. Income from a sole proprietorship business	____________
8. Income from rental property	____________
9. Dividends of $2,000 received by a taxpayer who does not itemize deductions	____________
10. Income of a corporation	____________
11. Partnership's loss	____________
12. Charitable contribution deduction for an individual who itemizes deductions	____________
13. Single individual with no dependents whose only income is $18,000 (all from wages) and who does not itemize deductions or have any credits	____________

Learning Objective 1.3

Apply the tax formula for individuals.

1-3 THE TAX FORMULA FOR INDIVIDUALS

Individual taxpayers calculate their tax in accordance with a tax formula. Understanding the formula is important, since all tax determinations are based on the result. The formula is:

Gross Income
− Deductions for Adjusted Gross Income
= Adjusted Gross Income
− Greater of Itemized Deductions or the Standard Deduction
− Qualified Business Income Deduction
= Taxable Income
× Tax Rate (using appropriate tax tables or rate schedules)
= Gross Tax Liability
− Tax Credits and Prepayments
= Tax Due or Refund

Would You Believe?

In 2016, over 16,000 taxpayers reported adjusted gross income of $10 million or more. That represents much less than 1 percent of returns filed. These same taxpayers paid about 8.4 percent of total income taxes paid. The average taxable income for these taxpayers was just over $25 million.

1-3a Gross Income

The calculation of taxable income begins with gross income. Gross income includes all income, unless the tax law provides for a specific exclusion. The exclusions from gross income are discussed in Chapter 2. Gross income from wages, interest, dividends, pensions, and Social Security are reported directly on Form 1040 (interest and dividends may flow through Schedule B first). All other forms of income are reported on Schedule 1.

1-3b Deductions for Adjusted Gross Income

The first category of deductions includes the deductions for adjusted gross income. These deductions include certain trade or business expenses, certain reimbursed employee business expenses paid under an accountable plan, pre-2019 alimony payments, student loan interest, the penalty on early withdrawal from savings, contributions to qualified retirement plans, and certain educator expenses. Later chapters explain these deductions in detail. Deductions for gross income are reported on Schedule 1.

1-3c Adjusted Gross Income (AGI)

The amount of adjusted gross income is sometimes referred to as the "magic line," since it is the basis for several deduction limitations, such as the limitation on medical expenses. A taxpayer's adjusted gross income is also used to determine limits on certain charitable contributions and contributions to certain individual retirement accounts.

Talk Show Host Stephen Colbert's Tax Tip: Be extremely wealthy…all kinds of breaks for guys like that!

Colbert Report, April 3, 2006

Would You Believe?

1-3d Standard Deduction or Itemized Deductions

Itemized deductions are personal expense items that Congress has allowed as tax deductions. Included in this category are medical expenses, certain interest expenses, certain taxes, charitable contributions, certain casualty losses, and a small number of miscellaneous items. Taxpayers should itemize their deductions only if the total amount exceeds their standard deduction amount. With the repeal of exemptions, the TCJA increased the standard deduction amounts considerably. As a result, the number of taxpayers that elect to itemize deductions is expected to decrease substantially. The following table gives the standard deduction amounts for 2018.

Filing Status	*2018 Standard Deduction*
Single	$ 12,000
Married, filing jointly	24,000
Married, filing separately	12,000
Head of household	18,000
Qualifying widow(er)	24,000

Taxpayers who are 65 years of age or older or blind are entitled to an additional standard deduction amount. For 2018, the additional standard deduction amount is $1,600 for unmarried taxpayers and $1,300 for married taxpayers and surviving spouses. Taxpayers who are both 65 years of age or older and blind are entitled to two additional standard deduction amounts. See LO 1.7 for a complete discussion of the basic and additional standard deduction amounts.

1-3e Exemptions

Prior to the TCJA, taxpayers received a deduction for themselves, spouse (if married filing jointly) and dependents. Exemptions were repealed by the TCJA starting in 2018. This provision expires at the end of 2025.

1-3f The Gross Tax Liability

A taxpayer's gross tax liability is obtained by reference to the tax table or by use of a tax rate schedule. Tax credits and prepayments are subtracted from gross tax liability to calculate the net tax payable to the government or the refund to the taxpayer.

TAX BREAK

Taxpayers may provide information with their individual tax return authorizing the IRS to deposit refunds directly into their bank account. Taxpayers with a balance due may pay their tax bill with a credit card, subject to an IRS fee.

Self-Study Problem 1.3 *See Appendix E for Solutions to Self-Study Problems*

Bill is a single taxpayer, age 27. In 2018, his salary is $29,000 and he has interest income of $1,500. In addition, he has deductions for adjusted gross income of $2,200 and he has $6,500 of itemized deductions. Calculate the following amounts:

1. Gross income $____________
2. Adjusted gross income $____________
3. Standard deduction or itemized deduction amount $____________
4. Taxable income $____________

Learning Objective 1.4

Identify individuals who must file tax returns.

1-4 WHO MUST FILE

Several conditions must exist before a taxpayer is required to file a U.S. income tax return. These conditions primarily relate to the amount of the taxpayer's income and the taxpayer's filing status. Figures 1.1 through 1.3 summarize the filing requirements for taxpayers in 2018. If a taxpayer has any nontaxable income, the amount should be excluded in determining whether the taxpayer must file a return.

Taxpayers are also required to file a return if they have net earnings from self-employment of $400 or more, or owe taxes such as Social Security taxes on unreported tips. When a taxpayer is not required to file but is due a refund for overpayment of taxes, a return must be filed to obtain the refund.

A taxpayer who is required to file a return should mail the return to the appropriate IRS Campus Processing Site listed on the IRS website (**www.irs.gov**) or electronically file the return as discussed in LO 1.10. Generally, individual returns are due on the fifteenth day of the fourth month of the year following the close of the tax year. For a calendar year individual taxpayer, the return due date is generally April 15. If the 15th falls on a weekend or holiday, returns are due the next business day. However, there are two exceptions: (1) In Maine and Massachusetts, Patriots' Day is celebrated on the third Monday of April. When Patriots' Day is on April 15 or the first business day after April 15, the tax filing deadline is deferred for an additional day for residents of Maine and Massachusetts. (2) The second exception is a result of Emancipation Day, a holiday observed in the District of Columbia. Emancipation Day is observed on April 16;

FIGURE 1.1 WHO MUST FILE

Chart A—For Most People

IF your filing status is . . .	AND at the end of 2018 you were* . . .	THEN file a return if your gross income** was at least . . .
Single	under 65 65 or older	$12,000 13,600
Married filing jointly***	under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	$24,000 25,300 26,600
Married filing separately	any age	$5
Head of household	under 65 65 or older	$18,000 19,600
Qualifying widow(er)	under 65 65 or older	$24,000 25,300

If you were born on January 1, 1954, you are considered to be age 65 at the end of 2018. (If your spouse died in 2018 or if you are preparing a return for someone who died in 2018, see Pub. 501.)

*****Gross income** means all income you received in the form of money, goods, property, and services that isn't exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Don't include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time in 2018 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly). If (a) or (b) applies, see the instructions for lines 5a and 5b 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, don't reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9.*

****If you didn't live with your spouse at the end of 2018 (or on the date your spouse died) and your gross income was at least $5, you must file a return regardless of your age.*

FIGURE 1.2

Chart B—For Children and Other Dependents (See *Who Qualifies as Your Dependent*, later.)

If your parent (or someone else) can claim you as a dependent, use this chart to see if you must file a return.

In this chart, **unearned income** includes taxable interest, ordinary dividends, and capital gain distributions. It also includes unemployment compensation, taxable social security benefits, pensions, annuities, and distributions of unearned income from a trust. **Earned income** includes salaries, wages, tips, professional fees, and taxable scholarship and fellowship grants. **Gross income** is the total of your unearned and earned income.

Single dependents. Were you **either** age 65 or older **or** blind?

☐ **No.** You must file a return if **any** of the following apply.
- Your unearned income was over $1,050.
- Your earned income was over $12,000.
- Your gross income was more than the **larger** of—
  - $1,050, or
  - Your earned income (up to $11,650) plus $350.

☐ **Yes.** You must file a return if **any** of the following apply.
- Your unearned income was over $2,650 ($4,250 if 65 or older **and** blind).
- Your earned income was over $13,600 ($15,200 if 65 or older **and** blind).
- Your gross income was more than the **larger** of—
  - $2,650 ($4,250 if 65 or older **and** blind), or
  - Your earned income (up to $11,650) plus $1,950 ($3,550 if 65 or older **and** blind).

Married dependents. Were you **either** age 65 or older **or** blind?

☐ **No.** You must file a return if **any** of the following apply.
- Your unearned income was over $1,050.
- Your earned income was over $12,000.
- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than the **larger** of—
  - $1,050, or
  - Your earned income (up to $11,650) plus $350.

☐ **Yes.** You must file a return if **any** of the following apply.
- Your unearned income was over $2,350 ($3,650 if 65 or older **and** blind).
- Your earned income was over $13,300 ($14,600 if 65 or older **and** blind).
- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your gross income was more than the **larger** of—
  - $2,350 ($3,650 if 65 or older **and** blind), or
  - Your earned income (up to $11,650) plus $1,650 ($2,950 if 65 or older **and** blind).

FIGURE 1.3

Chart C—Other Situations When You Must File

You must file a return if any of the seven conditions below apply for 2018.

1. You owe any special taxes, including any of the following.
   - **a.** Alternative minimum tax.
   - **b.** Additional tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if you are filing a return only because you owe this tax, you can file **Form 5329** by itself.
   - **c.** Household employment taxes. But if you are filing a return only because you owe this tax, you can file **Schedule H** by itself.
   - **d.** Social security and Medicare tax on tips you didn't report to your employer or on wages you received from an employer who didn't withhold these taxes.
   - **e.** Recapture of first-time homebuyer credit. See the instructions for Schedule 4, line 60b.
   - **f.** Write-in taxes, including uncollected social security and Medicare or RRTA tax on tips you reported to your employer or on group-term life insurance and additional taxes on health savings accounts. See the instructions for Schedule 4, line 62.
   - **g.** Recapture taxes. See the instructions for line 11a and Schedule 4, lines 60b and 62.
2. You (or your spouse, if filing jointly) received health savings account, Archer MSA, or Medicare Advantage MSA distributions.
3. You had net earnings from self-employment of at least $400.
4. You had wages of $108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes.
5. Advance payments of the premium tax credit were made for you, your spouse, or a dependent who enrolled in coverage through the Marketplace. You or whoever enrolled you should have received Form(s) 1095-A showing the amount of the advance payments.
6. Advance payments of the health coverage tax credit were made for you, your spouse, or a dependent. You or whoever enrolled you should have received Form(s) 1099-H showing the amount of the advance payments.
7. You have a net tax liability that you deferred by making an election under section 965(i).

however, when the 16th is a Saturday, the holiday is celebrated on the prior Friday and when the 16th is Sunday, the holiday is celebrated on the following Monday. In 2019, April 15 is a Monday and Emancipation Day is Tuesday the 16th, thus the filing deadline will be Monday, April 15th except for Massachusetts and Maine residents, who have a filing deadline of April 17, 2019.

Would You Believe?

Individual taxpayers will have April 15, 2020, as the first time since 2015 that all taxpayers will be required to file on April 15. Going back to the 2016 filing season (for 2015 tax returns), either the Emancipation Day or Patriots Day holidays affected all or some taxpayers and provided a day or two delay in the filing deadline. Procrastinators take notice!

A six-month extension of time to file may be requested on Form 4868 by the April due date. Regardless of the original filing deadline, the extension is until October 15 unless that day falls on a weekend or holiday in which case the extended due date is the following business day. However, all tax due must be paid by the April due date or penalties and interest will apply.

TAX BREAK

For years the IRS has been operating a relatively unknown first-time abatement (FTA) program allowing certain taxpayers to have penalties for late payment or late filing reduced or eliminated. To qualify, taxpayers need to have a "clean record" for the previous 3 tax years. Complete requirements are published in the *Internal Revenue Manual* at **www.irs.gov**.

Self-Study Problem 1.4 *See Appendix E for Solutions to Self-Study Problems*

Indicate by a check mark whether the following taxpayers are *required* to file a return for 2018 in each of the following independent situations:

	Filing Required? Yes	No
1. Taxpayer (age 45) is single with income of $10,000.	______	______
2. Husband (age 67) and wife (age 64) have an income of $25,000 and file a joint return.	______	______
3. Taxpayer is a college student with a salary from a part-time job of $6,500. She is claimed as a dependent by her parents.	______	______
4. Taxpayer has net earnings from self-employment of $4,000.	______	______
5. Taxpayers are married with income of $15,900 and file a joint return. They expect a refund of $600 from excess withholding.	______	______
6. Taxpayer is a waiter and has unreported tips of $450.	______	______
7. Taxpayer is a qualifying widow (age 48) with a dependent son (age 18) and income of $22,800.	______	______

1-5 FILING STATUS AND TAX COMPUTATION

1.5 Learning Objective

Determine filing status and understand the calculation of tax according to filing status.

An important step in calculating the amount of a taxpayer's tax is the determination of the taxpayer's correct filing status. The tax law has five different filing statuses: single; married filing jointly; married filing separately; head of household; and qualifying widow(er). A tax table that must be used by most taxpayers, showing the tax liability for all five statuses, is provided in Appendix A. The tax table must be used unless the taxpayer's taxable income is $100,000 or more or the taxpayer is using a special method to calculate the tax liability. If taxpayers cannot use the tax table to determine their tax, a tax rate schedule is used. Each filing status has a separate tax rate schedule as presented in Appendix A.

1-5a Single Filing Status

A taxpayer who does not meet the definition of married, qualifying widow(er), or head of household status must file as single. This status must be used by any taxpayer who is unmarried or legally separated from his/her spouse by divorce or separate maintenance decree as of December 31 of the tax year. State law governs whether a taxpayer is married, divorced, or legally separated. If a taxpayer's spouse dies during the year, the taxpayer's status is married for that year.

1-5b Married Filing Jointly

Taxpayers are considered married for tax purposes if they are married on December 31 of the tax year. Also, in the year of one spouse's death, the spouses are considered married for the full year. In most situations, married taxpayers pay less tax by filing jointly than by filing separately. Married taxpayers may file a joint return even if they did not live together for the entire year.

TAX BREAK

Head of Household is a filing status that can be difficult to understand but comes with some substantial tax benefits if a taxpayer qualifies. Single parents should carefully analyze their situation since Head of Household provides lower tax rates and higher standard deductions than Single filing status. This benefit is not just limited to single parents. All unmarried taxpayers that maintain a household and provide support for another person should consider whether they qualify for this tax-advantageous status.

1-5c Married Filing Separately

Married taxpayers may file separate returns and should do so if it reduces their total tax liability. They may file separately if one or both had income during the year. If separate returns are filed, both taxpayers must compute their tax in the same manner. For example, if one spouse itemizes deductions, the other spouse must also itemize deductions. Each taxpayer reports his or her income, deductions, and credits and is responsible only for the tax due on his or her return. If the taxpayers live in a community property state, they must follow state law to determine community income and separate income. The community property states include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. See Chapter 2 for additional discussion regarding income and losses from community property.

A legally married taxpayer may file as head of household (based on the general filing status rules) if he or she qualifies as an abandoned spouse. A taxpayer qualifies as an abandoned spouse only if *all* of the following requirements are met:

1. A separate return is filed,
2. The taxpayer paid more than half the cost (rent, utilities, etc.) to maintain his or her home during the year,
3. The spouse did not live with the taxpayer at any time in the last 6 months of the year, and
4. For over 6 months during the year the home was the principal residence for a dependent child, stepchild, or adopted child. Under certain conditions, a foster child may qualify as a dependent.

In certain circumstances, married couples may be able to reduce their total tax liability by filing separately. For instance, since some itemized deductions, such as medical expenses and casualty losses, are reduced by a percentage of adjusted gross income (discussed in Chapter 5), a spouse with a casualty loss and low separate adjusted gross income may be better off filing separately.

1-5d Head of Household

If an unmarried taxpayer can meet special tests or if a married taxpayer qualifies as an abandoned spouse, he or she is allowed to file as head of household. Head of household rates are lower than rates for single or married filing separately. A taxpayer qualifies for head of household status if both of the following conditions exist:

1. The taxpayer was an unmarried or abandoned spouse as of December 31 of the tax year, and
2. The taxpayer paid more than half of the cost of keeping a home that was the principal place of residence of a dependent child or other qualifying dependent relative. An unrelated dependent or a dependent, such as a cousin, who is too distantly related, will not qualify the taxpayer for head of household status. If the dependent is the taxpayer's parent, the parent need not live with the taxpayer. In all cases other than dependent parents, who may maintain a separate residence, the qualifying dependent relative must actually live in the same household as the taxpayer. A divorced parent who meets the above requirements, but has signed an IRS form or a qualifying legal agreement shifting the dependency deduction to his or her ex-spouse, may still file using head of household status.

TAX BREAK

Divorcing couples may save significant taxes if one or both of the spouses qualifies as an "abandoned spouse" and can use the head of household filing status. The combination of head of household filing status for one spouse with married filing separately filing status for the other spouse is commonly seen in the year (or years) leading up to a divorce. In cases where each spouse has custody of a child, the separated taxpayers may each claim head of household status.

1-5e Qualifying Widow(er) with Dependent Child

A taxpayer may continue to benefit from the joint return rates for 2 years after the death of his or her spouse. To qualify to use the joint return rates, the widow(er) must pay over half the cost of maintaining a household where a dependent child, stepchild, adopted child, or foster child lives. After the 2-year period, these taxpayers often qualify for the head of household filing status.

1-5f Tax Computation

For 2018, there are seven income tax brackets (10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent). The individual tax rates for 2018 are presented in the tax rate schedules in Appendix A and should be used for all tax liability calculations. For illustrative purposes only, the tax rate schedule for single taxpayers is presented below. Certain high-income taxpayers are subject to additional taxes discussed in Chapter 6.

Single Tax Rate Schedule

If taxable income is over—	But not over—	The tax is:
$ 0	$ 9,525	10% of taxable income
9,525	38,700	$952.50 + 12% of the excess over $9,525
38,700	82,500	$4,453.50 + 22% of the excess over $38,700
82,500	157,500	$14,089.50 + 24% of the excess over $82,500
157,500	200,000	$32,089.50 + 32% of the excess over $157,500
200,000	500,000	$45,689.50 + 35% of the excess over $200,000
500,000	----------	$150,689.50 + 37% of the excess over $500,000

The tax rates applicable to net long-term capital gains currently range from 0 percent to 31.8 percent depending on the taxpayer's tax bracket and the kind of capital asset. The calculation of the tax on capital gains is discussed in detail in Chapter 4, and the applicable tax rates are discussed in LO 1.8 of this chapter.

The tax rates for qualifying dividends, discussed in detail in Chapter 2, range from 0 percent to 23.8 percent in 2018.

EXAMPLE Carol, a single taxpayer, has adjusted gross income of $120,000 and taxable income of $105,000 for 2018. Her tax is calculated using the 2018 tax rate schedule from Appendix A as follows:

$$\$19{,}489.50 = \$14{,}089.50 + [24\% \times (\$105{,}000 - \$82{,}500)]$$ ♦

EXAMPLE Meg is a single taxpayer during 2018. Her taxable income for the year is $27,530. Using the tax table in Appendix A, her gross tax liability for the year is found to be $3,113. ♦