

# Adjustments to Income

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# Adjustments to Income

- Reduce the TP's income that is subject to tax
- Define Adjusted Gross Income (AGI)

**Total Income – Adjustments = Adjusted Gross Income**

- Reported on [Form 1040, Schedule 1, Part II](#)
- See Pub 4012-Tab E and Pub 4491-Lesson 17

# Adjustments Tax-Aide DC Returns

1. Educator expenses
2. Self-employment tax
3. Self-employed health insurance
4. Early withdrawal penalty
5. Alimony paid
6. IRA contributions
7. Student loan interest
8. Jury duty pay to employer
9. Health Savings Accounts (HSAs)

# I&I Booklet, Parts IV & V


Yes	No	Unsure	Part IV – Expenses – Last Year, Did You (or Your Spouse) Pay
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	1. (B) Alimony or separate maintenance payments? If yes, do you have the recipient's SSN? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	2. Contributions or repayments to a retirement account? <input type="checkbox"/> IRA (A) <input type="checkbox"/> Roth IRA (B) <input type="checkbox"/> 401K (B) <input type="checkbox"/> Other
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	3. (B) College or post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	4. Any of the following? <input type="checkbox"/> (A) Medical & Dental (including insurance premiums) <input type="checkbox"/> (A) Mortgage Interest (Form 1098) <input type="checkbox"/> (A) Taxes (State, Real Estate, Personal Property, Sales) <input type="checkbox"/> (B) Charitable Contributions
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5. (B) Child or dependent care expenses such as daycare?
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	6. (B) For supplies used as an eligible educator such as a teacher, teacher's aide, counselor, etc.?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7. (A) Expenses related to self-employment income or any other income you received?
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	8. (B) Student loan interest? (Form 1098-E)
Yes	No	Unsure	Part V – Life Events – Last Year, Did You (or Your Spouse)
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	1. (A) Have a Health Savings Account? (Forms 5498-SA, 1099-SA, W-2 with code W in box 12)

# 1. Educator Expenses

- Up to \$300 for per educator
  - Classroom supplies, including PPE
  - Professional development
- Must be K–12 teacher, counselor, principal or aide
- Must work in a school at least 900 hours during school year
- DC allows up to \$500 reduction for educator expenses


# 1. Educator Expenses – Pub 4012 E-8


## Educator Expenses

 *Deductions>Adjustments> Educator Expenses; or Keyword: EDUCA*

Don't rely on this table alone. Refer to [Publication 529, Miscellaneous Deductions](#), for more details.

Question	Answer
What is the maximum benefit?	\$300 (If the taxpayer and spouse are both eligible educators, they can deduct up to \$600, but <b>neither</b> can deduct more than their own expenses up to \$300).
Who can claim the expense?	Eligible Educators — an eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide who worked in a school for at least 900 hours during a school year.
What are qualifying expenses?	Qualifying expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. Qualified expenses include amounts paid or incurred for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus. Additionally, professional development expenses are allowed unless reimbursement is offered by the school but not accepted.
What are nonqualifying expenses?	Expenses for home schooling or nonathletic supplies for courses in health or physical education.
What other issues apply?	Taxpayer must reduce qualified expenses by <ul style="list-style-type: none"> <li>• Excludable U.S. series EE and I savings bond interest from Form 8815</li> <li>• Nontaxable qualified tuition program earnings or distributions</li> <li>• Nontaxable distribution of earnings from a Coverdell education savings account</li> <li>• Any reimbursements received for expenses that weren't reported on the Form W-2 education.</li> </ul>

 *Professional development expenses include courses related to the curriculum in which the educator provides instruction.*

 *The deduction amount is indexed for inflation and may change in future years.*

## 2. Self-Employment Tax

- Self-employment (SE) tax is the Social Security tax + the Medicare tax for self-employed
  - Mirrors what employers pay into the fund – 2.9% Medicare; 12.4% Social Security (where ½ is deducted from employee pay, ½ paid from employer)
- *Not to worry: TaxSlayer handles SE tax automatically*
  - Total SE tax (based on Schedule C numbers) is entered on Form 1040 Schedule 2, Part II, line 4 in the payment section
  - One half of SE tax is an adjustment to income shown on Form 1040 Schedule 1, Part II, line 15
  - The adjustment is based on tax shown on Schedule SE in the printed tax return
  - Schedule SE is generated from Schedule C

## 3. Self-Employed Health Insurance (SEHI)

- Self-employed health insurance deduction is in scope
  - for 2021 and all open years (by amendment)
- Applies to returns with Schedule C profit
  - Return with Schedule C *loss* is **out of scope (OOS)**
  - We're seeing more Schedule C income – ride sharing, delivery services, etc.
- Return **out of scope** for TPs with SEHI and who are also entitled to premium tax credits (PTC) from Federal Gov't
- **See Pub 4491 > Adjustments to Income > How do I handle self-employed health insurance deduction on page 17-3**



## 4. Early Withdrawal Penalty

- Penalty for early withdrawal of funds from time deposits, such as CDs
- Penalty is reported on Form 1099-INT or 1099-OID
- Enter in TaxSlayer interest income section

## 5. Alimony Paid (Pre-2019 Divorces)

- Divorce decrees and separation agreements **executed prior to January 1, 2019**
  - Alimony **paid** allowed as a deduction from TP's income
  - Alimony **received** is taxable income for recipient
- New rules for divorce decrees and agreements executed **after December 31, 2018** (or modified after that date, if modification specifies that new rules apply)
  - Alimony **paid** not deductible
  - Alimony **received** not taxable income
- See Pub 4012 Tab E-14

## 5. Alimony Paid (Pre-2019 Divorces), cont'd

- Must be alimony under a divorce or separation decree
- Must provide recipient's Social Security number
  - If don't know, fill in with 111-00-1111 and **must file on paper**
- Child Support is not deductible (nor is it income)
- Alimony under existing pre-2019 order can be compensation for IRA purposes

## 6. IRA Contributions

- Two main concepts
  - Allowable **contribution**
    - Limits yearly amount put into IRA
  - Allowable **deduction**
    - Limits deductible amount on the return
- Deduction applies only to Traditional IRA (No Roth or SIMPLE IRA)

## 6. IRA Contributions: Eligibility Requirements

- Individuals must have **taxable compensation**--wages, self-employment income, commissions, taxable alimony, or taxable scholarships or fellowships (shown in Box 1 of Form W-2)
- **Not included:** interest, dividends, pensions, scholarships, unemployment, social security, or rental income
- Contribution cannot exceed compensation or general IRA limit
- IRA must be set up and contribution made by due date for filing a return

## 6. IRA Contributions: Age Limits

- **No contribution age limit** for either Traditional or Roth IRA in tax years beginning after December 31, 2019
- Traditional IRA contributions after age 70 ½ must be tracked and will reduce future QCD amounts
  - No form to use for tracking; make a note in TaxSlayer
  - See *Income – Retirement* lesson

## 6. IRA Contributions: General IRA Limit

- Contribution and deduction limit for TY2023
  - \$6,500 (\$7,500 if age 50 or over)
  - For each: taxpayer and spouse
- Allowable contribution amount applies to total amount contributed to **all** IRAs (including Roths)
- May need to manually check that total Roth and traditional IRA contributions do not exceed the contribution limit

## 6. IRA Contributions: Amount of Deduction

- Amount of IRA deduction is limited to the **lesser** of
  - (1) Contributions to the traditional IRA for the year, or
  - (2) General contribution limit reduced for contributions to Roth IRA
- Deduction may be further reduced for TPs who participate in employer retirement plan when certain income limits are reached
- TPs covered by retirement plan – Box 13 on W-2 is checked



## 6. IRA Contributions: MFJ

- Can combine compensation of both spouses for total allowable contribution
- Contribution can be made to either spouse's IRA
  - Contributions can be divided between accounts in any amount, subject to maximums
  - Nonworking spouse eligible for IRA contribution

# 6. IRA Deduction Pub 4012 Tab E-15

## IRA Deduction

**CANCEL**

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Enter amount of IRA Contribution made by Taxpayer  
(Generally this is from a Traditional IRA):  
(This deduction may be limited. To see the deductible amount, go to the "Summary/Print" tab located on the left menu after continuing through this page.)  
If you entered over \$6,000 (\$7,000 if age 50 or older), visit Form 5329, Part III to report any excess contribution amount for the current year.

\$|

Enter amount of IRA Contribution made by Spouse  
(Generally this is from a Traditional IRA):  
(This deduction may be limited. To see the deductible amount, go to the "Summary/Print" tab located on the left menu after continuing through this page.)  
If you entered over \$6,000 (\$7,000 if age 50 or older), visit Form 5329, Part III to report any excess contribution amount for the current year.

\$

Check here if contributions were made to a non-working spouse's IRA.

If checked above, select the non-working spouse

**Taxpayer Retirement Plan 1**

Taxpayer has a retirement plan.


Taxpayer DOES NOT have a retirement plan


**Spouse Retirement Plan 1**

Spouse has a retirement plan.

Spouse DOES NOT have a retirement plan

1. Check if the taxpayer's or spouse's Form W-2, Box 13 has Retirement plan checked.

 **If the total of traditional and Roth IRA contributions exceed the lesser of total compensation or the allowable limit, the taxpayer must withdraw the excess plus earnings before the filing deadline. If not, a penalty will apply and the return will be Out of Scope.**

 **If a taxpayer receives difficulty of care payments, then those amounts may increase the amount of nondeductible IRA contributions he/she can make but not above the \$6,500 IRA contribution limitation amount (\$7,500 if age 50 or older).**

## 6. IRA Contribution: Deductible or Not?

Non-deductible IRA contributions do not happen very often with our clients – the next 4 slides give important information but we won't go over them

## 6. IRA Contribution: Deductible or Not?

- Some or all of a traditional IRA contribution may be non-deductible (is subject to tax)
  - If taxpayer or spouse participates in an employer's plan and/or AGI is too high
  - TaxSlayer calculates the nondeductible amount
- Allowable contribution in excess of deduction in any year becomes part of the basis in the IRA (already taxed)
  - Form 8606 records IRA basis
  - Advise taxpayer to keep Form 8606 until IRAs are fully distributed

## 6. Non-Deductible Contributions: Traditional and Roth

- Current year non-deductible contributions
  - TaxSlayer adds Form 8606 to the return
- If there is a Form 8606 in prior year return
  - Update even if no current year distribution or added basis
  - A current 8606 is needed to track basis year-to-year
- Tell taxpayer to keep each year's 8606 form: if lost, the IRA becomes fully taxable
- Enter Roth contributions on Form 8880 for retirement credit
  - Miscellaneous Credits slide deck 33
- Note: Roth IRA contribution is **not** deductible and will not show on tax return – it is done with post-tax dollars

## 6. Roth IRA Contribution Limits

- **No** Roth contribution allowed when MAGI over
  - \$228,000 for MFJ or qualifying surviving spouse
  - \$10,000 for MFS and lived with spouse any time during the year
  - \$153,000 other filing statuses
- Any contribution is an excess contribution – i.e. uses post-tax \$\$

## 6. Excess IRA Contribution

Pub 590-A

- TaxSlayer does **not** compute an excess contribution
  - Check total contributions (traditional and Roth) versus total compensation and maximum amount for age
- Taxpayers making excess contribution
  - Have until due date of the return to withdraw excess amount
  - Subject to 6% penalty each year until remedied
    - Return is **out of scope**

## 7. Student Loan Interest

- Interest paid on qualified student loan for post secondary education expenses
  - Maximum adjustment \$2,500 per year
  - Phases out as AGI increases
  - Taxpayer should have Form 1098-E
    - Taxpayer's records if no Form 1098-E was issued
    - There will be no Form 1098-E if less than \$600



## 7. Student Loan Interest, cont'd

- Loan Qualifications:
  - Taxpayer must be legally obligated for the loan
  - Loan must be taken out solely to pay for education expenses for TP, spouse, or dependent
  - Loan cannot be from a relative or qualified employer plan
  - Student must be enrolled at least half-time in degree program
  - Taxpayer cannot file MFS
  - Taxpayer cannot be claimed as a dependent on someone else's return

## 8. Jury Duty Pay

- Situation:
  - TP serves jury duty and gets paid
  - TP is also paid by employer while on jury duty
  - Employer requires employee to turn over jury duty pay
- Report jury duty income as “other income” in TaxSlayer
- Claim jury duty pay turned over to employer as an Adjustment

# TaxSlayer - Deductions Screen

## Deductions

### Adjustments

Educator expenses, medical savings accounts, student loan interest, etc.

ADD/EDIT

### Standard Deduction

Flat amount based on filing status

BEGIN

### Itemized Deductions

Charitable contributions, mortgage interest, property taxes, etc.

BEGIN

### Credits

Child and dependent care credit, education credits, mortgage interest credit, etc.

ADD/EDIT

### Qualified Business Income Deduction

Deduct qualified income paid by a pass-through business and/or acquired qualified assets

BEGIN

### Compare Deductions

Compare your total deduction amounts

BEGIN

# TaxSlayer - Adjustments Screen

## DEDUCTIONS

### Adjustments

#### **MA MSAs, Archer MSAs and Long-Term Care Insurance Contracts**

Report contributions and distributions—typically reported to you on Form 1099-SA, Form 5498-SA, or Form 1099-LTC

**BEGIN**

#### **Educator Expenses**

Report unreimbursed business expenses (professional development, classroom supplies, etc.)

**BEGIN**

#### **Armed Forces reservists, qualified performing artists, certain fee-basis government officials, or those with impairment-related work expenses**

Report job-related business expenses, vehicle usage, etc.

**BEGIN**

#### **Health Savings Accounts HSAs**

Report HSA contributions (not included on your W-2) and distributions; typically reported to you on Form 1099-SA or 5498-SA

**BEGIN**

#### **Moving Expenses**

Deduction for certain work-related moves

**BEGIN**

# TaxSlayer – Adjustments Screen cont'd

## **Self-Employed Health Insurance Coverage**

For self-employed individuals who paid premiums for medical, dental, or qualifying long-term care insurance coverage

**BEGIN**

## **Penalty on Early Withdrawal of Savings or Certificate of Deposit (CD)**

Usually reported to you on Form 1099-INT and/or 1099-OID

**BEGIN**

## **Alimony Paid**

Only for divorces finalized before Jan. 1, 2019

**BEGIN**

## **Traditional IRA Contributions**

You may be able to claim a deduction based on your contributions

**BEGIN**

## **Nondeductible IRAs**

Report the basis of traditional and Roth IRAs, conversions, nondeductible contributions, and Roth IRA distributions

**BEGIN**

## **Student Loan Interest**

Usually reported to you on Form 1098-E and eligible for a deduction

**BEGIN**

## **Other Adjustments**

Jury duty pay, personal property rental expenses, certain attorney fees, etc.

**BEGIN**

# Adjustments to Income

**Questions?**



**Comments ...**