

# Adjustments to Income

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Taxwise Online

IRS Training Workbook

ADJUSTMENTS TO INCOME  
IRS Training Workbook

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# Table of Contents

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<b>Taking This Course</b> .....	<b>2</b>
<b>Adjustments to Income</b> .....	<b>3</b>
Objectives .....	3
Adjustments .....	3
Certain Business Expenses.....	5
Health Savings Account .....	6
Moving Expenses .....	6
Deductible Part of Self-Employment Tax .....	7
Penalty on Early Withdrawal of Savings .....	8
Alimony Paid.....	8
IRA Deduction .....	9
Student Loan Interest Deduction.....	10
Tuition and Fees Deduction .....	11
Other Deductions.....	11
Lesson Review .....	13
Summary.....	14
<b>Glossary</b> .....	<b>15</b>
<b>Index</b> .....	<b>16</b>

# Taking This Course

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This book contains the information presented in the media versions of the lesson in a readable format. This allows you to follow along with the lesson and take notes. This manual can be used as a teaching resource later.

Each lesson includes a video presentation and a manual; all videos are interactive. In order to get credit for the lesson, listen to the recording and answer the questions.

There is additional information on SFS University under PrepWise; if you need additional information on preparing a tax return or tax laws please refer to the lessons on Link and Learn.

# Adjustments to Income

## Objectives

After completing this lesson, you should be able to:

- Report adjustments to the taxpayer's income within the Taxwise Online Program.

## Adjustments

IRS Publication 4012, *VITA/TCE Volunteer Resource Guide*, Section E has information to help you determine if the taxpayer is entitled to adjustments to income.

Form 1040 provides the largest number of adjustments to income. They are found in the **Adjustments to Income** section on page 1 of the form.

Adjustments to Income		
23	Educator expenses	0
24	Certain business expenses of reservists, qualified performing artists, and fee-based government officials. Form 2106 or 2106-EZ	0
25	Health savings account deduction. Form 8889	0
26	Moving expense. Form 3903	0
27	Deductible part of self-employment tax	0
28	Self-employed SEP, SIMPLE, and qualified plans	0
29	Self-employed health insurance deduction	0
30	Penalty on early withdrawal of savings	0
31	Alimony paid.	0
	Recipient's SSN: _____ and amount _____	0
32	IRA deduction	0
33	Student loan interest deduction	0
34	Tuition and fees deduction	0
35	Domestic production activities deduction. Form 8903	0
	Other:	0
	Reforestation	0
	Sub-pay (Trade Act)	0
	Jury duty pay you gave to your employer	0
	501(c)18 pension plan	0
	PPR	0
	Form 2555, line 50	0
	Archer MSA deduction. Form 8853	0
	Deduction for whistleblower fees	0
	Attorney fees and court costs for discrimination claims	0
36	<b>Total adjustments</b>	<b>0</b>
37	<b>Adjusted gross income</b>	<b>0</b>

When using Taxwise Online, always select Form 1040. It provides options to deal with the widest range of taxpayer possibilities. Form 1040A allows fewer adjustments to income, and Form 1040EZ does not allow adjustments.

Educator expenses should be reported on line 23 of Form 1040. From line 23, link to the **1040 Wkt2- Student Loan, Education** worksheet:

US		Student Loan Interest, Coverdell ESA and QTP, Tuition and Fees		2013
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>		
<b>Student Loan Interest (Postsecondary Education)</b>	Taxpayer	Spouse	Total	
<b>1</b> Amount paid in 2013. See instructions for limitations and definition of qualified student loan interest. Total column is limited to \$2,500	<u>0</u>	<u>0</u>	<u>0</u>	
Modified AGI for this computation including excluded income from Forms 2555 (EZ) and 4563, excluded income from Puerto Rico, and excluded adoption benefits from Form 8839, line 30 <u>0</u> Married filing separately and a dependent of another cannot take this deduction. The interest deduction phases out when modified AGI exceeds \$60,000 (\$125,000 married filing jointly) and is -0- when AGI exceeds \$75,000 (\$155,000 married filing jointly).				
<b>2 Student loan interest deduction</b>	<u>0</u>	<u>0</u>	<u>0</u>	
<b>Educator Expenses - Elementary and Secondary</b>	Taxpayer	Spouse	Total	
Amount of unreimbursed classroom expenses, such as books, supplies, computer equipment and related software, other equipment, and supplementary materials used by the eligible educator in the classroom, up to \$250. Amounts over \$250 should be listed on Schedule A, Job Expenses, subject to 2% of AGI	<u>0</u>	<u>0</u>	<u>0</u>	
<b>Education Savings Accounts (ESAs) and QTPs</b>		Taxpayer	Spouse	
<b>1</b> Excess contributions	F9 to worksheet	<u>0</u>	<u>0</u>	
<b>2</b> Taxable distributions	F9 to worksheet	<u>0</u>	<u>0</u>	

The Educator Expense adjustment applies to elementary and secondary teachers, counselors, principals, and teacher’s aides who worked at least 900-hours during the school year. Each qualified educator can deduct up to \$250 of qualified, unreimbursed expenses.

Enter the total amount in the **Educator Expenses – Elementary and Secondary** section.



amount of the travel expenses that are related to traveling more than 100 miles as a reservist. This carries to Line 24 of the Form 1040 as an adjustment.

## Health Savings Account

The Health Savings Account deduction is in-scope this year only for those volunteers who have certified on this extra topic through Link & Learn. If you are certified for this topic, and your taxpayer contributed to or took a distribution from their HSA, link from line 25 and complete Form 8889.

## Moving Expenses

Some taxpayers are entitled to an adjustment to income for moving expenses. Military moves are within scope only for volunteers who have certified for the Military and International courses. Determine their qualifying moves, allowances and reimbursements, moving expenses, and record the amounts in their return.

If this is a DITY move (military do-it-yourself), reimbursements are shown on Form W-2 Box 12 with code P.

Link from Form 1040, line 26 to **Form 3903- Moving Expenses** to report military moving expenses:

US 3903	Moving Expenses	2013
Name: <u>Sample Client</u>	SSN: <u>275-54-9635</u>	
If you are using more than one Form 3903 in this return, enter a label for this form <u>                    </u>		
<b>Distance Test Worksheet</b>		
1 Number of miles from your old home to your new workplace		<u>0</u>
2 Number of miles from your old home to your old workplace		<u>0</u>
3 Subtract line 2 from line 1. If -0- or less, enter -0-		<u>0</u>
Is line 3 at least 50 miles?		
<input type="checkbox"/> <b>Yes.</b> You meet the test.		
<input checked="" type="checkbox"/> <b>No.</b> You do not meet the test. You CANNOT deduct moving expenses unless you are a member of the Armed Forces.		
<b>Armed Forces</b>		
If this move is due to an Armed Forces permanent change of station and the 39 week or 50 mile requirements for a moving deduction will not be met, check <input type="checkbox"/>		
1 Transportation and storage of household goods and personal effects		<u>0</u>
2 Travel and lodging expenses in moving from your old to your new home. Do not include the cost of meals. You can deduct the actual cost of travel or, if you drove, <u>0</u> miles at 24 cents per mile	<u>0</u>	<u>0</u>
Other travel and lodging expenses	<u>0</u>	<u>0</u>
3 Add lines 1 and 2		<u>0</u>

Select the **Armed Forces** check box located at the top of the form to indicate that the taxpayer moved due to an Armed Forces permanent change of station.

**Armed Forces**

If this move is due to an Armed Forces permanent change of station and the 39 week or 50 mile requirements for a moving deduction will not be met, check

Line 2 contains two separate entries:

- Type the amount of miles traveled and compute the standard mileage amount. For 2013, the standard mileage rate for moving is 24 cents per mile.
- Type other travel costs. Note that meals are not an allowable expense.

To add other expenses or reimbursements, link from lines 1, 2, or 4 to a scratch pad.

## Deductible Part of Self-Employment Tax

Link from Form 1040, line 27 to **Sch SE- Self-employment Tax for the Taxpayer or Spouse** to see the calculations. Taxwise Online automatically figures the deductible part of the self-employment tax and displays it on line 27:

US Schedule SE	Self-Employment Tax	2013
Self-employed person: <u>Sample Client</u>	SSN: <u>275-54-9635</u>	
<b>Part I: Self-Employment Tax</b>		
<b>Note:</b> If your only income subject to self-employment tax is church employee income, skip lines 1 through 4c, and go to line 5a. Income from services performed as a minister or member of a religious order is NOT church employee income.		
<b>A</b> If you are a minister, member of a religious order, or Christian Science practitioner, AND you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here <input type="checkbox"/>		
<b>Note:</b> Skip lines 1a, 1b, and 2 if you use the optional method below.		
<b>1a</b> Net farm profit (loss) from Schedule F and farm partnerships, Schedule K-1, Form 1065, line 14, code A	<input type="text" value="0"/>	0
<b>b</b> If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1, Form 1065, box 20, code Z	<input type="text" value="0"/>	0
<b>2</b> Net profit (loss) from Schedule C, Schedule C-EZ, Schedules K-1, Form 1065, line 14a, code A (other than farming) If you are a minister, F9 here or on line 2 to link to the minister's	<input type="text" value="0"/>	0

The deduction flows from line 13 of Schedule SE.

The Schedule SE and the Deduction for the deductible part of self-employment tax calculates at the completion of Schedule CEZ

# Penalty on Early Withdrawal of Savings

To report any penalty on early withdrawal of savings link from Form 1040, line 30 to **Schedule B- Interest and Ordinary Dividends**, then from **Line B-Other Interest**, link to an **Interest Statement**:

US Schedule B		Interest Received					2013		
Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.									
Payer	Box 1 or 3 amount	TSJ	+/-	State adjust Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Federal withheld
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0

When typing interest information from Form 1099-INT, verify the entry on Form 1040, line 8.

You can also link from Form 1040, line 8a to Schedule B, then to an **Interest Statement**. Type the amount from Form 1099-INT, box 2 in the **Early Penalty** column. Taxwise Online displays the calculated penalty amount on line 30.

# Alimony Paid

Type alimony paid on Form 1040, line 31. If the taxpayer paid alimony to more than one person, from line 31, link to the **Alimony Paid- Form 1040 Line 31** worksheet:

US 1040		Line 31: Alimony Paid		2013	
Do not skip lines. You can delete lines by using the ALT and DELETE keys.					
Recipient's social security number			Amount		
			0		
			0		
			0		
			0		

Refer to the table on page E-1 of your IRS Publication 4012, *VITA/TCE Volunteer Resource Guide*, to determine if a payment is considered alimony.

# IRA Deduction

Link from Form 1040, line 32 to an **IRA Wkt- Traditional, Roth IRAs, ESAs** worksheet to type any IRA contributions:

US		Deductible and Nondeductible IRA Worksheet		2013	
Name: <u>Sample Client</u>			SSN: <u>275-54-9635</u>		
<b>Traditional IRA Contributions</b>					
Were you covered by a retirement plan?				<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If married filing jointly, was your spouse covered by a retirement plan?				<input type="checkbox"/> Yes	<input type="checkbox"/> No
				Taxpayer	Spouse
<b>1</b> Maximum modified AGI for deductible contributions					
Filing status					
	Covered by a retirement plan?	Yes	No		
1 or 4		\$69,000	No limit		
2	Spouse covered by a plan	\$115,000			
2	Spouse not covered by a plan		\$188,000		
2	Neither spouse covered by a plan		No limit		
3	Lived with spouse at anytime in 2013	\$10,000	No limit		
3	Did not live with spouse in 2013	\$69,000	No limit		
5		\$115,000	No limit	0	0
<b>2</b> Modified AGI computation					
	Social security computation without IRA			0	
	Taxable social security for this computation			0	
	Modified income including taxable social security			0	
<b>3</b> Adjustments to income without IRA contribution				0	
<b>4 Modified AGI.</b> Subtract line 3 from line 2				0	0
<b>5</b> Line 1 minus line 4. If -0- or less, enter -0- on line 6				0	0
<b>6</b> Line 5 times the applicable percentage from the instructions, rounded up to nearest \$10. Do not enter less than \$200, or more than \$5,500 (\$6,500 if age 50 or older)				5500	0

Be sure to type any contributions to traditional IRAs on Line 10 as well as contributions to any Roth IRAs on Line 20. Although Roth contributions are not deductible, they may have an impact on traditional IRA contributions/deductions and on the Retirement Savers Credit.

For tax year 2013, the amount an individual can contribute to any type of IRA is limited to \$5,500 (\$6,500 if the person is 50 or older) or the amount of compensation, whichever is smaller.

IRS Publication 4012, *VITA/TCE Volunteer Resource Guide*, Section E has tables that show the AGI limits for deducting a traditional IRA contribution.

# Student Loan Interest Deduction

Link from Form 1040, line 33 to a **1040 Wkt2 – Student Loan Education Worksheet** to enter any student loan interest deduction:

US		Student Loan Interest, Coverdell ESA and QTP, Tuition and Fees		2013
Name: <u>Sample Client</u>		SSN: <u>275-54-9635</u>		
<b>Student Loan Interest (Postsecondary Education)</b>		Taxpayer	Spouse	Total
<b>1</b> Amount paid in 2013. See instructions for limitations and definition of qualified student loan interest. Total column is limited to \$2,500		<u>0</u>	<u>0</u>	<u>0</u>
Modified AGI for this computation including excluded income from Forms 2555 (EZ) and 4563, excluded income from Puerto Rico, and excluded adoption benefits from Form 8839, line 30 <u>0</u> Married filing separately and a dependent of another cannot take this deduction. The interest deduction phases out when modified AGI exceeds \$60,000 (\$125,000 married filing jointly) and is -0- when AGI exceeds \$75,000 (\$155,000 married filing jointly).				
<b>2 Student loan interest deduction</b>		<u>0</u>	<u>0</u>	<u>0</u>
<b>Educator Expenses - Elementary and Secondary</b>		Taxpayer	Spouse	Total
Amount of unreimbursed classroom expenses, such as books, supplies, computer equipment and related software, other equipment, and supplementary materials used by the eligible educator in the classroom, up to \$250. Amounts over \$250 should be listed on Schedule A, Job Expenses, subject to 2% of AGI		<u>0</u>	<u>0</u>	<u>0</u>
<b>Education Savings Accounts (ESAs) and QTPs</b>		Taxpayer	Spouse	
<b>1</b> Excess contributions	F9 to worksheet	<u>0</u>	<u>0</u>	<u>0</u>
<b>2</b> Taxable distributions	F9 to worksheet	<u>0</u>	<u>0</u>	<u>0</u>

Taxwise Online calculates the deductible amounts, applying the appropriate limits and displays the total adjustment on line 33.

IRS Publication 4012, *VITA/TCE Volunteer Resource Guide*, Section E shows the phase-out limits and provides information to help you determine if your taxpayer is eligible for the deduction.

# Tuition and Fees Deduction

Link from Form 1040, line 34 to a **Student Loan Interest, Coverdell ESA and QTP, Tuition and Fees** worksheet to enter any tuition and fees deductions:

**Tuition and Fees as an AGI Deduction**

In most cases, tuition and fees will create a better income tax result by using Form 8863, Education Credits. The same rules for qualified tuition and fees apply to the credit and the deduction. Both the credit and the AGI deduction should be checked for Federal and state tax purposes. No deduction is allowed if filing Form 1040NR or married filing separately. You CANNOT take the education credit and the AGI deduction for the SAME student.

Some things to consider

Form 8863, Education Credits

- 40% of the American Opportunity Credit is refundable and is reduced once the AGI reaches \$80,000 single (\$160,000, married filing jointly), and is -0- once the AGI reaches \$90,000 single (\$180,000, married filing jointly).
- The nonrefundable education credits are reduced once the AGI reaches \$53,000, single (\$107,000, married filing jointly), and is -0- when the AGI reaches \$63,000, single (\$127,000, married filing jointly).
- The American Opportunity Credit, if not reduced, can be as much as \$2,500 credit per student.
- The Lifetime Learning Credit, if not reduced, is limited to \$2,000.

Tuition and Fees as an AGI Deduction

- The deduction is limited to \$4,000, if AGI does not exceed \$65,000, single (\$130,000 married filing jointly).
- The deduction is limited to \$2,000, if AGI exceeds \$65,000, single (\$130,000 married filing jointly).
- The deduction is -0- when AGI exceeds \$80,000, single (\$160,000 married filing jointly).

Amounts listed below will transfer to Form 8917 automatically.

	Student's name	Social security number	Qualified expenses
Sample	Client	275-54-9635	0
			0
			0
			0

Complete the **Tuition and Fees as an AGI Deduction**. The amounts listed here automatically transfer to Form 8917.

## Other Deductions

Jury duty pay given to your employer is the only other deduction within scope. This is reported on Form 1040 line 35.

<b>35</b>	Domestic production activities deduction. Form 8903	0	
	Other: Reforestation	0	
	Sub-pay (Trade Act)	0	
	Jury duty pay you gave to your employer	0	
	501(c)18 pension plan	0	
	PPR	0	
	Form 2555, line 50	0	
	Archer MSA deduction. Form 8853	0	
	Deduction for whistleblower fees	0	
	Attorney fees and court costs for discrimination claims	0	
		0	
<b>36</b>	<b>Total adjustments</b>		<b>0</b>

# Lesson Review

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1. Adjustments are reported on form \_\_\_\_\_ page \_\_\_\_\_ line \_\_\_\_\_ to \_\_\_\_\_.
2. Business expenses can be reported on what possible forms?
3. Alimony paid is reported on what line?

# Summary

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You should now be able to:

- Report adjustments to the taxpayer's income within the Taxwise Online Program

# Glossary

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Adjustment

Employee Business Expense

Link & Learn

Self-Employment Tax

Alimony

IRA

Deduction

