

SEE

Special Enrollment Exam

Part 1 - Individuals

2018 Study Guide



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Introduction

The Phoenix Tax Group Guarantee

We have been successfully preparing tax practitioners to pass the Special Enrollment Exam for over 20 years. Practitioners who have used our study materials, study strategies and have put in the time and effort have had over a 90% passing rate.

30 Day Refund

If you are not satisfied with any of our products, you can return them for a full refund, excluding shipping and handling charges. A refund must be requested within 30 days of purchase, and all hardcopy materials must be returned in the original box. No credit will be given for any materials marked on, missing or damaged in any way. To request a refund, fill out the Refund Request form at the link below.

Pass Guarantee Refund

1. The Pass Guarantee applies only to products designated as "Packages."
2. To receive a refund, you must have taken and failed a test or exam twice.
3. You must provide your failed scores for both failed exams by filling out the online Refund Request Form (see link below). This must be done within 30 days of the second failed exam.
4. Hard copy materials must be returned within 30 days of the second failed exam.
5. If you purchased Enrolled Agent study materials together in a 3 part package, refunds will be pro-rated for the part being returned.
6. The refund will only apply to the person who purchased the study materials from The Phoenix Tax Group. The refund policy does not apply to companies purchasing study materials for employees.

Instructions

To ensure proper credit, please fill out our online refund request form.

<http://www.phoenixtax.com/about/refunds>

Course Objectives

This course is designed to prepare students to pass the IRS Special Enrollment Examination the first time they take the exam. After completing our course, you should have the tax knowledge needed to pass the exam.

This course is taught at an intermediate level. It is helpful if the student has had some beginning level courses relating to tax laws and at least a year of income tax preparation experience.

Our course is broken down into three parts similar to the parts on the exam. Part 1 discusses individual income tax law, Part 2 discusses sole proprietorship and partnership, corporation (including S corporation), fiduciary, estate, and trust tax law and tax-exempt organizations, and Part 3 discusses practitioner ethics, record-keeping, IRS tax examination, appeals, and collection procedures, practitioner rules and penalties, and research materials. All the materials have been updated to 2017 tax law.

Note: All references on the examination are to the Internal Revenue Code, forms and publications, as amended through December 31, 2017. Also, unless otherwise stated, all questions relate to the calendar year 2017. Questions that contain the term 'current tax year' refer to the calendar year 2017. In answering questions, candidates should **NOT** take into account any changes as a result of the Tax Cuts and Jobs Act of 2017 or any legislation or court decisions after December 31, 2017.

We feel we have the best and most comprehensive enrolled agent exam preparatory course available. However, we are always looking for ways to improve our course. We would appreciate it if you would take a moment to complete the course evaluation located at the end of each part of the course or complete our online evaluation at www.phoenixtax.com.

If you have any questions, please email us at support@phoenixtax.com. Do not call our 800 number.

Good luck on the exam.

How to Prepare for the Exam

The following is a set of guidelines for preparing for the exam:

1. We recommend that you study a minimum of 100 to 120 hours total for all three parts of the exam. For Part 1, we recommend 35-45 hours of study. For Part 2, we recommend 45-60 hours of study. For Part 3, we recommend 20-25 hours of study. Break up your study time. Do not try to study 3 or 4 hours at a time. Most people's comprehension level starts to fade after an hour. You will be surprised how much you can absorb by studying in intervals of 15 to 30 minutes.
2. DO NOT rely on your tax experience to pass this exam. It has been our experience that people with limited tax experience (one year or less) have a far better success rate on this exam than people with many years of tax experience. The reason is that preparers with years of experience tend to rely on their practical knowledge of taxes. This exam tests on theory, not practical experience. The IRS is primarily interested in your ability to understand the tax law and to properly and accurately determine taxable income (i.e., figuring basis in an asset to determine gain, what income is taxable, what deductions are allowed, etc.).
3. You can now use a calculator to do the computational questions. Prometric will provide you with a hand-held calculator. You cannot bring your own calculator.
4. Be familiar with the tax forms and the filing dates for those forms. There is a quick reference in the Appendix.
5. The exam will test on a specific tax law in more than one part. For example, questions pertaining to property basis or retirement plans will be tested in both Part 1 and Part 2; questions pertaining to recordkeeping in Part 1 and Part 2 could be tested in Part 3; taxpayer penalties could be tested in all three parts. Therefore, we strongly recommend you to take the exam in the following order. Take Part 1 first, Part 2 second and Part 3 last. You should also take all three parts of the exam as close together as possible.
6. You must have a positive attitude toward this exam. If you do not think you can pass this exam, you won't. Fifty percent of preparing for this exam is being mentally prepared.

About the Computer Based SEE Exam

The Internal Revenue Service has contracted with Prometric to conduct its examination program. Prometric provides computerized testing at test centers throughout the world. The IRS and Prometric are working together closely to ensure that examinations meet federal requirements as well as professional examination development standards.

Testing Dates

The 2018 SEE examination begins May 1, 2018 and examinations will be offered continuously through February 28, 2019. The exam is in three parts. The three parts **DO NOT** have to be taken at once. You can take one part at a time. Once you have taken and passed one part, you have two years from the date of passing that part to take and pass the other two parts.

Testing Fees

The exam costs \$181.94 per part.

Exam Questions

Each part of the exam has 100 questions. All questions are weighted equally.

Time Limited for the Exam

You are given 3.5 hours to complete each part of the exam. The actual seat time is 4 hours to allow for a tutorial at the beginning and a survey at the end.

Examination Results

The exam is graded on a scale of 40 - 130 with 40 being the lowest score and 130 being the highest score possible. You must have a score of 105 or better for each part of the exam to pass. You will receive your scores immediately after taking the exam.

Passing Score. If you pass, the score will only show a passing designation. It will not show a score.

Failing Score. If you fail, your score report will show a scaled score between 40 and 104. You will also receive diagnostic information to assist you with future examination preparation. Diagnostic information will show an indicator of 1, 2, or 3 meaning:

1. Considerably below the minimally acceptable score. It is important for you to approach how you study this topic as you prepare to take the test again. You may want to consider taking a course or participating actively in a study group on this topic.
2. Marginally below the minimally acceptable score. You should study this topic in detail as you prepare to take the test again.
3. At or above the minimally acceptable score. Be sure to review this topic as you prepare to take the test again.

Experimental Questions

The examination may include some experimental questions that will not be scored. If present, they are distributed throughout the exam and will not be identified as such. These are used to gather statistical information on the questions before they are added to the exam as scored items. These experimental questions will not be counted for or against your final score.

Obtain a PTIN

You must have a PTIN to sign up for the Enrolled Agent Exam. Chances are you already have your PTIN, but if you do not, you can still get one. The IRS Tax Professional PTIN Sign-up System is available at www.irs.gov/ptin. Once online, you will need to:

Create Your Account. Provide your name, email address, and security question information. The system will then email your temporary password, which you will change when you go back to enter your information in the PTIN application.

Apply for Your PTIN. Complete the online application by providing personal information, information about your previous year's tax return, professional credentials, and more.

Get Your PTIN. Your PTIN will be provided online.

It takes about 15 minutes to sign up online and receive your PTIN. If you opt to use the paper application, Form W-12 IRS Paid Preparer Tax Identification Number (PTIN) Application, it will take 4-6 weeks to process.

PTIN renewal. PTINs must be renewed annually by December 31 for the following year. Renewal Open Season usually begins each year in mid-October.

Registering and Scheduling an Examination Appointment

Registration Process

You can register and schedule the exam using one of the three following options:

A. Online—a one-step process

The quickest way to register and schedule an examination is online. This is the only way to register and schedule an exam in the same day.

To register and schedule an examination online, follow these steps:

1. Access **www.prometric.com/irs**.
2. Click the **Obtain a PTIN/Register** for My Test button.
3. If it's your first time, click Create Account button to set up your user ID and password.
4. **Register and pay for the test.** You will be asked to provide your PTIN number. Prometric will assign you a candidate number. It will be the same as your PTIN.
5. **Schedule your test.** Again, go to **www.prometric.com/irs**. Click on the **Schedule My Test** button. You will be asked to provide the candidate number that Prometric assigned to you when you registered for your test in step 4. Schedule your test at your closest testing center at a convenient date and time.

B. By phone

1. Call Prometric at 800.306.3926

C. By mail

1. Mail your completed Form 2587 to:
Prometric
Attn: IRS Special Enrollment Examination
7941 Corporate Drive
Nottingham, MD 21236
2. Wait six to 10 calendar days for delivery and processing before scheduling an examination appointment.

Scheduling an Examination

Candidates can take each part of the examination at their convenience. Consequently, parts do not have to be taken on the same day, or on consecutive days. All parts do not have to be taken or scheduled during an examination window.

Candidates can take examination parts up to four times each during the testing period (May 1, 2018 to February 28, 2019). Once your registration has been processed, you can schedule an examination appointment at any time online at www.prometric.com/irs or by calling 800-306-3926 between 8 a.m. and 9 p.m. (Eastern Time), Monday through Friday. You will be provided a number confirming your appointment. Record and keep this confirmation number for your records—you will need it to reschedule, cancel or change your appointment in any way.

Examination Locations

Examinations are administered by computer at a Prometric Testing Center. Currently, the Special Enrollment Examination is given at nearly 300 Prometric testing centers located across the United States and internationally. Test centers are located in most major metropolitan areas. A complete list of these testing centers, addresses and driving directions is located at www.prometric.com/irs. In the box titled Do More, click on "Continue" and select your preferred test location. Most locations are open on Saturdays and some locations are open on Sundays and evenings.

Testing Fees

The testing fee is \$181.94 for each part of the examination. This fee is paid at the time you schedule your examination. Accepted forms of payment include: MasterCard, Visa, American Express, Discover, Diner's Club cards bearing the MasterCard symbol and JCB. Electronic checks are also accepted when scheduling by phone. Money orders, paper checks and cash are not accepted. Examination testing fees are not refundable or transferable.

Rescheduling Your Appointment

If you need to reschedule an examination for another date, time or location, you must contact Prometric. Rescheduling fees will apply as follows:

- No fee if you reschedule at least 30 calendar days prior to your appointment.
- \$35 fee if you reschedule five to 29 calendar days before your appointment.
- Another \$181.94 full examination fee if you reschedule less than five calendar days before your appointment date.

The Income Tax Return

Chapter one covers the initial steps of filing a tax return—such as determining a taxpayer's filing status, how many exemptions a taxpayer can take, what form(s) to file, important filing deadlines, how to change a return that has already been filed, and authorization of a third party to discuss a return with the IRS.

In This Chapter

1. Filing Requirement
2. Reporting Income and Expenses
3. Extensions of Time to File
4. Filing Status
5. Personal Exemptions and Dependents
6. Third Party Designee
7. Amended Returns

Filing Requirements

2017 Filing Requirements

A taxpayer must file a return if his or her gross income was at least the amount shown on the following chart:

Filing Status	Age*	Gross Income**
Single	Under 65	\$10,400
	65 or older	\$11,950
Married Filing Jointly	Under 65 (both spouses)	\$20,800
	65 or older (one spouse)	\$22,050
	65 or older (both spouses)	\$23,300
Married Filing Separately	Any age	\$4,050
Head of Household	Under 65	\$13,400
	65 or older	\$14,950
Qualifying Widow(er) with Dependent Child	Under 65	\$16,750
	65 or older	\$18,000

*If the taxpayer turns 65 on January 1, 2018, the taxpayer is considered 65 at end of 2017. **Gross Income = standard deduction + personal exemption

Dependents

A dependent must file a return if any of the following apply:

Single Dependent

- Unearned income was more than \$1,050 (\$2,600 if age 65 or older **OR** blind; \$4,150 if age 65 or older **AND** blind).
- Earned income was more than \$6,350 (\$7,900 if age 65 or older **OR** blind; \$9,450 if age 65 or older **AND** blind).
- Gross income was more than the larger of:
 1. \$1,050 (\$2,600 if age 65 or older **OR** blind; \$4,150 if age 65 or older **AND** blind), or
 2. Earned income (up to \$6,000) plus \$350 (\$1,900 if age 65 or older **OR** blind; \$3,450 if age 65 or older **AND** blind).

Married Dependent

- Gross income was at least \$5 and spouse files separate return and itemizes deductions.
- Unearned income was \$1,050 (\$2,300 if age 65 or older **OR** blind; \$3,550 if age 65 or older **AND** blind).
- Earned income was more than \$6,350 (\$7,600 if age 65 or older **OR** blind; \$8,850 if age 65 or older **AND** blind).

- Gross income was more than the larger of:
 1. \$1,050 (\$2,300 if age 65 or older **OR** blind; \$3,550 if age 65 or older **AND** blind) or,
 2. Earned income (up to \$6,000) plus \$350 (\$1,600 if age 65 or older **OR** blind; \$2,850 if age 65 or older **AND** blind).

Self-Employed Taxpayers

Taxpayers must file a return if:

1. Their net earnings from self-employment (excluding church employee income) were \$400 or more, or
2. They had church employee income of \$108.28 or more.

Gross Income from Self-Employment

Gross income from self-employment includes the amount of gross income on line 7 of Schedule C (Form 1040), Profit or Loss From Business and gross income on line 9 of Schedule F (Form 1040), Profit or Loss From Farming.

Types of Self-Employment Income:

- Income from sole proprietorship and non-employee compensation.
- Corporate director fees.
- Partnership income from partnership operating a business (unless limited partner).
- Guaranteed payment from a partnership.
- Bartering income.
- Real estate rent (if received as a real estate dealer).
- Income paid to retired insurance agents based on commissions received prior to retirement.
- Interest received in a trade or business.
- Newspaper vendor's income if vendor is 18 or over.
- Net earnings of members of the clergy (unless taken a vow of poverty).
- Gains and losses by a dealer in options or commodities from dealing or trading in section 1256 contracts or property related to those contracts.
- A professional fiduciary who administers a deceased person's estate.

Certain Children under Age 19 or Full-Time Students

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

Other Situations When a Taxpayer Must File

A taxpayer must file a return if any of the following conditions below apply:

1. The taxpayer owes 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. A taxpayer can file Form 5329 by itself without filing Form 1040.
 - c. Household employment taxes. A taxpayer can file Schedule H by itself without filing Form 1040.
 - d. Social security and Medicare tax on tips not reported to employer or on wages received from an employer who did not withhold these taxes.
 - e. Recapture of first-time homebuyer credit.
 - f. Write-in taxes, including uncollected social security and Medicare or RRTA tax on tips reported to employer or on group-term life insurance and additional taxes on health savings accounts.
 - g. Recapture taxes.
2. The taxpayer received distributions from an Archer MSA, Medicare Advantage MSA, or Health Savings Account.
3. Advance payments of the premium tax credit were made for the taxpayer, spouse, or a dependent who enrolled in coverage through the Health Insurance Marketplace. The taxpayer should have received Form(s) 1095-A showing the amount of the advance payments, if any.

Resident Aliens

Resident Aliens, who reside in the U.S. for the entire year, must file their tax returns using the same rules that apply to U.S. Citizens. A resident alien's income is subject to tax in the same manner as a U.S. Citizen and must report all income whether from sources within or outside the U.S.

Resident Alien

A resident alien is an individual who is not a citizen or national of the U.S. and who meets either the green card test or the substantial presence test for the calendar year.

1. **Green card test.** The taxpayer is a U.S. resident if he or she was a lawful permanent resident of the U.S. at any time during the calendar year. This is known as the green card test because resident aliens hold immigrant visas (also known as green cards).
2. **Substantial presence test.** A taxpayer is considered a U.S. resident if he or she meets the substantial presence test for the calendar year. To meet this test, the taxpayer must be physically present in the United States on at least:
 - a. 31 days during the current calendar year, and
 - b. A total of 183 days during the current year and the 2 preceding years, counting all the days of physical presence in the current year, but only 1/3 the number of days of presence in the first preceding year, and only 1/6 the number of days in the second preceding year.

Dual-Status Aliens

If a person is a U.S. resident for the calendar year, but is not a U.S. resident at any time during the preceding calendar year, the person is a U.S. resident only for the part of the calendar year that begins on the residency starting date. The person is a nonresident alien for the part of the year before that date.

Nonresident Spouse Treated as a Resident

If, at the end of your tax year, a taxpayer is married and one spouse is a U.S. citizen or a resident alien and the other spouse is a nonresident alien, the taxpayer can choose to treat the nonresident spouse as a U.S. resident. This includes situations in which one spouse is a nonresident alien at the beginning of the tax year, but a resident alien at the end of the year, and the other spouse is a nonresident alien at the end of the year.

If the choice is made, the taxpayer and his or her spouse are treated for income tax purposes as residents for the entire tax year. Neither the taxpayer nor his or her spouse can claim under any tax treaty not to be a U.S. resident. Both spouses are taxed on worldwide income. The spouses must file a joint income tax return for the year the choice is made, but the spouses can file joint or separate returns in later years.

Nonresident Aliens

How Income of Nonresident Aliens is Taxed

A nonresident alien usually is subject to U.S. income tax only on U.S. source income. A nonresident alien's income that is subject to U.S. income tax must be divided into two categories:

1. Income that is effectively connected with a trade or business in the U.S., and
2. Fixed, Determinable, Annual, or Periodical (FDAP) income.

The difference between these two categories is that effectively connected income, after allowable deductions, is taxed at graduated rates. These are the same rates that apply to U.S. citizens and residents. Income that is not effectively connected is taxed at a flat 30% (or lower treaty) rate.

Effectively Connected Income

If a taxpayer is engaged in a U.S. trade or business, all income, gain, or loss for the tax year that a taxpayer gets from sources within the U.S. (other than certain investment income) is treated as effectively connected income (ECI). This applies whether or not there is any connection between the income and the trade or business being carried on in the United States during the tax year. Investment income will be considered to be ECI if:

- The income is associated with U.S. assets used in, or held for use in, the conduct of that trade or business; or
- The activities of that trade or business conducted in the U.S. are a material factor in the realization of the income.

Deductions are allowed against ECI, and net ECI is taxed at the same graduated rates used by U.S. citizens.

Fixed or Determinable Annual or Periodical Income (FDAP)

FDAP income consists primarily of passive investment income — interest, dividends, rents, royalties, etc. In theory, FDAP income may consist of any kind of U.S. source income attributable to a foreign person. FDAP income may or may not be effectively connected with a U.S. business. For example, effectively connected income includes rents from real property if the nonresident alien chooses to treat that income as effectively connected with a U.S. business. Deductions are not allowed against FDAP income, and it is taxed at a flat 30% rate or lesser rate under a tax treaty. The FDAP income of an individual is reported on page 4 of Form 1040NR.

30% Withholding Tax

U.S. payers of income other than wages, such as dividends and royalties are required to withhold tax at a flat 30% on nonwage income paid to nonresident aliens.

Deductions for Nonresident Aliens

Exemptions

Resident aliens can claim personal exemptions and exemptions for dependents in the same way as U.S. Citizens. However, nonresident aliens generally can claim only a personal exemption.

Deductions

Nonresident aliens can claim similar deductions that resident aliens can claim. However, nonresident aliens can claim only deductions related to income that is effectively connected with their U.S. trade or business.

Standard Deductions

Nonresident aliens cannot claim the standard deduction unless they are students and business apprentices from India who are eligible for the benefits of Article 21 (2) of the US-India Income Tax Treaty.

Itemized Deductions

Nonresident aliens can deduct certain itemized deductions if they receive income effectively connected with a U.S. trade or business. These deductions include state and local income taxes, charitable contributions to U.S. organizations, casualty and theft losses, and miscellaneous deductions. Use Schedule A of Form 1040NR to claim itemized deductions.

Filing Requirements

Nonresident aliens are required to file an income tax return (Form 1040NR or Form 1040NR-EZ) if they are any of the following:

1. A nonresident alien individual engaged or considered to be engaged in a trade or business in the U.S. during the year. A nonresident alien individual must file even if:
 - a. The nonresident alien had no income from a trade or business conducted in the U.S.,
 - b. The nonresident alien had no income from U.S. sources, or
 - c. The nonresident alien's income is exempt from income tax.
2. A nonresident alien individual not engaged in a trade or business in the U.S. with U.S. income on which the tax liability was not satisfied by the withholding of tax at the source.
3. A representative of a deceased person who would have had to file Form 1040NR.
4. A fiduciary for a nonresident alien estate or trust.

Exceptions. Nonresident aliens do not need to file Form 1040NR or Form 1040NR-EZ if they meet either of the following conditions:

1. The only U.S. trade or business was the performance of personal services, and
 - a. Wages were less than \$4,050, and
 - b. Have no other need to file a return to claim a refund of overwithheld taxes, to satisfy additional withholding at source, or to claim income exempt or partly exempt by treaty.
2. The alien was a nonresident alien student, teacher, or trainee who was temporarily present in the U.S. under an "F," "J," "M," or "Q" visa and has no income that is subject to tax.

Filing Due Dates

Taxpayer (calendar year)	Form	Due Date*	Due Date with Extension
Most Taxpayers	Form 1040	April 15	October 15
Taxpayers Outside the U.S.	Form 1040	June 15	October 15
Decedent Taxpayer	Form 1040	April 15	October 15
Resident Aliens	Form 1040	April 15	October 15
Nonresident Aliens with wages subject to withholding	Form 1040NR	April 15	October 15
Nonresident Aliens without wages subject to withholding	Form 1040NR	June 15	October 15

* If the due dates above land on a holiday or weekend, the due date is the next business day.

When to Report Income and Expenses

A taxpayer must figure taxable income on the basis of a tax year. A “tax year” is an annual accounting period used for keeping records and reporting income and expenses. A taxpayer must account for his or her income and expenses in a way that clearly shows taxable income using an accounting method.

Accounting Periods

Most individual tax returns cover a calendar year—the 12 months from January 1 through December 31. If the taxpayer does not use a calendar year, the accounting period is a fiscal year. A regular fiscal year is a 12-month period that ends on the last day of any month except December. A 52-53-week fiscal year varies from 52 to 53 weeks and always ends on the same day of the week.

Accounting Methods

Most taxpayers use either the cash method or an accrual method. Taxpayers choose a method when they file their first income tax return. If a taxpayer wants to change his or her accounting method after that, the taxpayer must get IRS approval.

Cash Method

The cash method of accounting is used by most individuals and many small businesses with no inventories. Under this method, report all items of income in the year in which they are actually or constructively received. Deduct all expenses in the year they are actually paid.

Constructive Receipt

Income is constructively received when it is made available to the taxpayer without restrictions. It does not have to be in the possession of the taxpayer.

Examples of income constructively received:

- Interest credited to one's bank account, regardless of when funds are withdrawn.
- Debts paid for a taxpayer, if not a gift or loan.
- Payment received by an agent for a taxpayer.
- Check received or made available to a taxpayer.
- Wages that are attached or garnished are treated as constructively received by a taxpayer.
- Income paid in advance such as rents, interest, and pay for services to be performed later.

Accrual Method

Under an accrual method of accounting, income is reported in the year earned. Expenses are deducted or capitalized in the year incurred, rather than when they are paid.

Extensions of Time to File

Automatic Extension

A taxpayer may obtain an automatic 6-month extension of time to file an Individual tax return in one of the following ways:

1. Electronically file Form 4868 (PDF), Application For Automatic Extension of Time To File U.S. Individual Tax Return.
2. Pay all or part of the estimated taxes due using a credit or debit card or by using the Electronic Federal Tax Payment System (EFTPS).
3. File a paper Form 4868 by mail.

Payment of Tax

An extension of time to file is not an extension of time to pay. A taxpayer must make an accurate estimate of tax liability for that year and pay any amount due with Form 4868. If the taxpayer cannot pay the full amount of tax due, he or she can still get the extension. The taxpayer will owe interest on the unpaid amount.

Taxpayers Outside the U.S.

A taxpayer is allowed an automatic 2-month extension to file his or her the tax return and pay any federal tax due if the taxpayer is a U.S. citizen or resident and on the regular due date of the return:

1. Was living outside the U.S. and Puerto Rico, and his or her main place of business or post of duty is outside the U.S. and Puerto Rico, or
2. Is in the military or naval service on duty outside the U.S. and Puerto Rico.

Extension Beyond 2 Months

If a taxpayer cannot file his or her tax return within the automatic 2-month extension, the taxpayer can get an additional 4-month extension by filing Form 4868 and checking the box on line 8.

Extension Period for Individuals Serving in Combat Zone

For individuals serving in a combat zone, the deadline for filing a return, paying any tax due, and filing a claim for refund is extended for at least 180 days after the later of:

1. The last day the taxpayer is in a combat zone or the last day the area qualifies as a combat zone, or
2. The last day of any continuous qualified hospitalization for injury from service in the combat zone.

Federal Disaster

Postponed Tax Deadlines Affected by a Federally Declared Disaster

The IRS may postpone for up to one year certain tax deadlines of taxpayers who are affected by a federally declared disaster. The tax deadlines the IRS may postpone include those for filing income, excise, and employment tax returns, paying income, excise, and employment taxes, and making contributions to a traditional IRA or Roth IRA.

Who is Eligible?

If the IRS postpones a tax deadline, the following taxpayers are eligible for the postponement:

- Any individual whose main home is located in a covered disaster area.
- Any business entity or sole proprietor whose principal place of business is located in a covered disaster area.
- Any individual, business entity, or sole proprietorship whose records are needed to meet a postponed tax deadline, provided those records are maintained in a covered disaster area. The main home or principal place of business does not have to be located in the covered disaster area.
- Any estate or trust that has tax records necessary to meet a postponed tax deadline, provided those records are maintained in a covered disaster area.
- The spouse on a joint return with a taxpayer who is eligible for postponements.
- Any individual, business entity, or sole proprietorship not located in a covered disaster area, but whose records necessary to meet a postponed tax deadline are located in the covered disaster area.
- Any other person determined by the IRS to be affected by a federally declared disaster.

Filing Status

There are five filing statuses:

1. Single (S).
2. Married Filing Jointly (MFJ).
3. Married Filing Separately (MFS).
4. Head of Household (H/H).
5. Qualifying Widow(er) With Dependent Child (Q/W).

Marital Status

Filing status depends on whether the taxpayer is considered unmarried or married.

Unmarried Persons

A taxpayer is considered unmarried for the whole year if, on the last day of the tax year, the taxpayer is unmarried or legally separated from his or her spouse under a divorce or separate maintenance decree. State law governs whether a taxpayer is married or legally separated under a divorce or separate maintenance decree.

Annulled Marriages

If an individual obtains a court decree of annulment (which holds that no valid marriage ever existed), that individual must file amended returns claiming a filing status of single or head of household, whichever applies, for all prior tax years affected by the annulment that are not closed by the statute of limitations.

Considered Married

A taxpayer is considered married for the whole year if, on the last day of the tax year, the taxpayer and his or her spouse meet any one of the following tests:

1. Married and living together.
2. Living together in a common law marriage that is recognized in the state of residence or in the state where the common law marriage began.
3. Married and living apart, but not legally separated under a decree of divorce or separate maintenance.
4. Separated under an interlocutory (not final) decree of divorce. For purposes of filing a joint return, the taxpayer is not considered divorced.

Same-Sex Marriage

For federal tax purposes, the marriage of a same sex couple is treated the same as the marriage of a man to a woman. However, individuals who have entered into a registered domestic partnership, civil union, or other similar relationship that is not considered a marriage under state law are not considered married for federal tax purposes.

Married Persons Living Apart

If a taxpayer lives apart from his or her spouse and meets certain tests, the taxpayer can file as head of household even though he or she is not divorced or legally separated.

Single

A taxpayer's filing status is single if he or she is unmarried or legally separated from their spouse under a divorce or separate maintenance decree and does not qualify for another filing status. A taxpayer is considered unmarried for the whole year if, on the last day of the year, the taxpayer is unmarried or legally separated from spouse under a signed divorce or separate maintenance decree.

Married Filing Jointly

In order to file jointly both spouses must:

1. Include all their income, exemptions, and deductions on the joint return, and
2. Use the same accounting period (spouses can use different accounting methods).

Joint Responsibility

Both spouses may be held responsible, jointly and individually, for the tax and any interest or penalty due on a joint return. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse.

Divorced Taxpayer

Both spouses may be held jointly and individually responsible for any tax, interest, and penalties due on a joint return filed before divorce. This responsibility applies even if the divorce decree states that one spouse will be responsible for any amounts due on previously filed joint returns.

Relief from Joint Responsibility

In some cases, one spouse may be relieved of joint liability for tax, interest, and penalties on a joint return for items of the other spouse which were incorrectly reported on the joint return. There are three types of relief available:

1. **Innocent spouse relief.** The taxpayer must meet all of the following conditions to qualify for innocent spouse relief:
 - a. Filed a joint return which has an understatement of tax due to erroneous items of the taxpayer's spouse (or former spouse).
 - b. Establish that at the time the taxpayer signed the joint return the taxpayer did not know, and had no reason to know, that there was an understatement of tax.
 - c. Taking into account all the facts and circumstances, it would be unfair to hold the taxpayer liable for the understatement of tax.
2. **Separation of liability.** Applies to joint filers who are divorced, widowed, legally separated, or have not lived together for the 12 months ending on the date election of this relief is filed.
3. **Equitable relief.** Applies to all joint filers who do not qualify for innocent spouse relief or separation of liability and to married couples filing separate returns in community property states.

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

Nonresident Alien and Dual-Status Alien

A joint return cannot be filed if either spouse is a nonresident alien at any time during the year. However, if at the end of the year one spouse was a nonresident alien or dual-status alien married to a U.S. citizen or resident, both spouses may choose to file a joint return. Both spouses will be taxed as U.S. citizens or residents for the entire tax year.

Death of Spouse

If a spouse dies during the year, the surviving spouse is considered married for the whole year. If the surviving spouse remarried before the end of the year, he or she may file a joint return with the new spouse. A joint return cannot be filed with deceased spouse. The deceased spouse's filing status is married filing separately for that year. If the surviving spouse files a joint return with the deceased spouse and a personal representative for the deceased spouse is later appointed by the court, the personal representative can change the joint return. This is done by filing a separate return for the decedent within one year from the due date of the return

(including any extensions). The joint return then becomes the separate return for the surviving spouse. The decedent's items are excluded and tax liability of the surviving spouse is refigured.

Married Filing Separately

If spouses file separate returns, each spouse reports only his or her own income, exemptions, deductions, and credits on his or her individual return. A taxpayer can file a separate return even if his or her spouse had no income.

Separate Liability

When spouses file separately, each spouse is responsible only for the tax due on his or her own return.

Itemized Deductions

If spouses file separate returns and one spouse itemizes deductions, the other spouse cannot use the standard deduction and should also itemize deductions.

Community Property States

If a taxpayer lives in Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, or Wisconsin and files separately, the taxpayer's income may be considered separate income or community income for income tax purposes. If the spouses file separately, each spouse must report half of all community income and all of his or her separate income on his or her federal tax return.

Community property. Generally, community property is property:

- That the taxpayer, his or her spouse (or registered domestic partner), or both acquire during the marriage (or registered domestic partnership) while the taxpayer and spouse (or registered domestic partner) are domiciled in a community property state.
- That the taxpayer and his or her spouse (or registered domestic partner) agreed to convert from separate to community property.
- That cannot be identified as separate property.

Community income. Generally, community income is income from:

- Community property.
- Salaries, wages, and other pay received for the services performed by the taxpayer, his or her spouse (or registered domestic partner), or both during the marriage (or registered domestic partnership) while domiciled in a community property state.
- Real estate that is treated as community property under the laws of the state where the property is located.

Separate property. Generally, separate property is:

- Property that the taxpayer or his or her spouse (or registered domestic partner) owned separately before the marriage (or registered domestic partnership).
- Money earned while domiciled in a noncommunity property state.
- Property that the taxpayer or his or her spouse (or registered domestic partner) received separately as a gift or inheritance during the marriage (or registered domestic partnership).
- Property that the taxpayer or his or her spouse (or registered domestic partner) bought with separate funds, or acquired in exchange for separate property, during the marriage (or registered domestic partnership).
- Property that the taxpayer and his or her spouse (or registered domestic partner) converted from community property to separate property through an agreement valid under state law.
- The part of property bought with separate funds, if part was bought with community funds and part with separate funds.

Separate income. Generally, income from separate property is the separate income of the spouse (or the registered domestic partner) who owns the property.

Identifying Income, Deductions, and Credits

Form 8958. If spouses (or domestic partners) file separate returns, each spouse must attach Form 8958, Allocation of Tax Amounts Between Certain Individuals in Community Property States, to his or her Form 1040 to identify the community and separate income, deductions, credits, and other return amounts according to the laws of the state of domicile.

Special rules which apply to married filing separately status

If a taxpayer chooses married filing separately as his or her filing status, the following special rules apply:

1. The tax rate generally will be higher than it would be on a joint return.
2. The exemption amount for figuring the alternative minimum tax will be half that allowed to a joint return.
3. The taxpayer cannot take the credit for child and dependent care expenses in most cases, and the amount that can be excluded from income under an employer's dependent care assistance program is limited to \$2,500 (instead of \$5,000 if filing a joint return). However, if the taxpayer is legally separated or living apart from his or her spouse for the last 6 month of the year, the taxpayer may be able to file a separate return and still take the credit.
4. The taxpayer cannot take the earned income credit.
5. The taxpayer cannot take the exclusion or credit for adoption expenses in most cases.
6. The taxpayer cannot take the education credits (the American opportunity credit and lifetime learning credit), the deduction for student loan interest, or the tuition and fees deduction.
7. The taxpayer cannot exclude any interest income from qualified U.S. savings bonds that was used for higher education expenses.

8. If the taxpayer lived with his or her spouse at any time during the tax year:
 - a. The taxpayer cannot claim the credit for the elderly or the disabled, and
 - b. Will have to include in income more (up to 85%) of any social security or equivalent railroad retirement benefits received.
9. The following credits are reduced at income levels that are half of those for a joint return:
 - a. The child tax credit, and
 - b. The retirement savings contributions credit.
10. The capital loss deduction limit is \$1,500 (instead of \$3,000 if filing a joint return).
11. If one spouse itemizes deductions, the other spouse must also itemize deductions. If the taxpayer can claim the standard deduction, the basic standard deduction is half the amount allowed on a joint return.

Joint Return after Separate Returns

If a taxpayer or spouse (or both) files a separate return, the taxpayer can change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by the taxpayer or spouse claiming married filing separately, single, or head of household filing status.

Separate Returns after Joint Return

Once taxpayers file a joint return, the spouses cannot choose to file separate returns for that year after the due date of the return.

Exception: A personal representative for a decedent can change from a joint return elected by the surviving spouse to a separate return for the decedent. The personal representative has 1 year from the due date (including extensions) of the return to make the change.

Head of Household

To file as head of household, a taxpayer must meet the following requirements:

1. Be unmarried or "considered unmarried" on the last day of the year.
2. Have paid more than half the cost of keeping up a home that was the main home for more than half the year for the taxpayer and any of the following:
 - a. A qualifying child.
 - b. A qualifying relative.

Considered Unmarried

A taxpayer is considered unmarried on the last day of the tax year if he or she meets all the following tests:

1. Filed a separate return. A separate return includes a return claiming married filing separate, single, or head of household filing status.
2. Paid more than half the cost of keeping up a home for the tax year.
3. Did not live with spouse during the last 6 months of the tax year.

4. The taxpayer's home was the main home for the taxpayer's child, stepchild, or eligible foster child for more than half the year.
5. Must be able to claim an exemption for the child. The taxpayer still meets this test if child was not claimed because noncustodial parent is allowed to claim exemption for child.

Temporary Absences

A taxpayer and his or her qualifying child or relative are considered to live together even if one or both are temporarily absent from the home due to special circumstances such as illness, education, business, vacation, or military service.

Special Rule for Parent

A taxpayer may file as head of household even if a parent whom the taxpayer claims an exemption does not live with the taxpayer. The taxpayer must pay more than half the cost of keeping up a home that was the main home for the entire year for a parent or for paying more than half the cost of keeping a parent in a rest home or home for the elderly.

Qualifying Widow(er) with Dependent Child

A taxpayer may use married filing jointly in the year spouse dies and qualifying widow(er) with dependent child, if eligible, in the following two years. To be eligible, taxpayer must meet all of the following tests:

1. Be entitled to file a joint return with spouse for the year the spouse dies. It does not matter whether a joint return is actually filed.
2. Did not remarry before the end of the tax year.
3. Have a child, stepchild, or adopted child, who qualifies as a dependent. This does not include a foster child.
4. The child lived in the taxpayer's home all year, except for temporary absences.
5. Paid more than half the cost of keeping up a home for the year.

Personal Exemptions and Dependents

There are two types of exemptions:

- Personal exemption for taxpayer and spouse.
- Exemption for dependents (dependency exemptions).

Personal Exemption

A taxpayer may take one personal exemption of \$4,050, unless he or she can be claimed as a dependent by another person. If another person can claim the taxpayer as a dependent, the taxpayer cannot take the personal exemption, even if the other person does not actually claim the exemption.

Joint Return

On a joint return, the taxpayer can claim an exemption for self and one for a spouse.

Separate Return

A spouse is never considered the taxpayer's dependent. A taxpayer can take an exemption for a spouse only if the spouse:

- Had no gross income,
- Is not filing a tax return, and
- Was not a dependent of another person.

Death of Spouse

If the taxpayer's spouse dies during the year, the taxpayer may claim spouse's exemption. If the taxpayer is a surviving spouse without gross income and remarries, the taxpayer may be claimed as an exemption on both the final separate return of deceased spouse and the separate return of new spouse, if new spouse files separately. If the surviving spouse files jointly with new spouse, he or she can only be claimed as an exemption on that return.

Exemptions for Dependents

A taxpayer can claim one dependency exemption of \$4,050 for each person claimed as a dependent. The term "dependent" means:

- A qualifying child, or
- A qualifying relative.

A taxpayer can claim an exemption for a qualifying child or qualifying relative only if these three tests are met:

1. **Dependent Taxpayer Test.** The taxpayer cannot claim anyone else as a dependent if the taxpayer can be claimed as a dependent by another person.
2. **Joint Return Test.** A taxpayer is not allowed an exemption for a dependent if the dependent files a joint return. **Exception:** The dependent filed a joint return merely as a claim for refund and no tax liability would exist for either spouse on separate returns.
3. **Citizen or Resident Test.** To meet this test, the person must be a U.S. citizen or resident, or a resident of Canada or Mexico. **Exception for adopted child:** If the taxpayer legally adopted a child who is not a U.S. citizen, U.S. resident alien, or U.S. national, this test is met if the child lived with the taxpayer as a member of the taxpayer's household all year. This exception also applies if the child was lawfully placed with the taxpayer for legal adoption.

Qualifying Child

The following are the five tests that must be met for a child to be a qualifying child:

1. **Relationship Test.** To meet this test, a child must be:
 - a. A son, daughter, stepchild, eligible foster child, or a descendant (e.g., grandchild) of any of them, or
 - b. A brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant (e.g., niece or nephew) of any of them.
2. **Age Test.** To meet this test, a child must be:
 - a. Under age 19 at the end of the year and younger than the taxpayer (or spouse if filing jointly),
 - b. A full-time student under age 24 at the end of the year and younger than the taxpayer, or
 - c. Permanently and totally disabled at any time during the year, regardless of age.
3. **Residency Test.** To meet this test, a child must have lived with the taxpayer for more than half of the year. A child is considered to have lived with the taxpayer during periods of time when either the taxpayer or child or both, are temporarily absent due to special circumstances such as illness, education, business, vacation, or military. A child who died during the year is treated as having lived with the taxpayer all year if the taxpayer's home was the child's home the entire time he or she was alive during the year. The taxpayer can claim an exemption for a child who was born alive during the year, even if the child lived only for a moment. There must be proof of a live birth shown by an official document, such as a birth certificate.
4. **Support Test.** To meet this test, the child cannot have provided more than half of his or her own support for the year.
5. **Joint Return Test.** To meet this test, the child cannot file a joint return for the year. **Exception:** The joint return test does not apply if the child and his or her spouse file a joint return merely as a claim for refund.

Special Test for Qualifying Child of More than One Person

If a taxpayer and another person have the same qualifying child, use the following tie-breaker rules:

- If only one of the persons is the child's parent, the child is the qualifying child of the parent.
- If the parents do not file a joint return together, the child is the qualifying child of the parent with whom the child lived for the longer period of time during the year.
- If no parent can claim the child as a qualifying child, the child is treated as the qualifying child of the person who had the highest AGI for the year.
- If a parent can claim the child as a qualifying child but no parent claims the child, the child is treated as the qualifying child of the person who had the highest AGI for the year, but only if that person's AGI is higher than the highest AGI of any of the child's parents who can claim the child.

Qualifying Relative

The following are the four tests that must be met for a person to be a qualifying relative:

1. **Not a qualifying child test.** A child is not a qualifying relative if the child is the taxpayer's qualifying child or the qualifying child of any other taxpayer.
2. **Member of household or relationship test.** To meet this test, a person must either:
 - a. Live with the taxpayer all year as a member of the taxpayer's household, or
 - b. Be the taxpayer's child, stepchild, eligible foster child or a descendant of any of them, sibling, step-sibling, half-sibling, parent, step parent, foster parent, any of these relationships established through marriage (in-laws, even if the marriage ends in death or divorce), uncle, aunt, niece, and nephew.
3. **Gross income test.** To meet this test, a person's gross income for the year must be less than \$4,050. Gross income is all income (in the form of money, property, and services) that is not exempt from tax. Gross receipts from rental property are gross income. Do not deduct taxes, repairs, etc., to determine the gross income from rental property. Gross income includes a partner's share of the gross, not a share of the net, partnership income.
4. **Support test.** To meet this test, a taxpayer must provide more than half of a person's total support during the calendar year. The following items are included in support:
 - Food
 - Medical and Dental Care
 - Clothing
 - Medical Insurance
 - Education
 - Lodging (FMV of the room, apartment, or house in which person lives)
 - Transportation
 - Other similar necessities
 - Recreation

Items not included in total support:

1. Federal, state, and local income taxes paid by persons from their own income.
2. Social security and Medicare taxes paid by persons from their own income.
3. Life insurance premiums.
4. Funeral expenses.
5. Scholarships received by a child if the child is a student.
6. Survivors' and dependents' educational assistance payments used for support of the child who received them.

Figuring support. Compare the amount contributed by taxpayer to the person's support with the total amount of support the person received from all sources. This includes the person's own funds used for support. A person's own funds are not support unless they are actually spent for support.

Tax-exempt income. In figuring a person's total support, include tax-exempt income, savings, and borrowed amounts used to support that person.

Child support. All child support payments actually received from the noncustodial parent are considered used for the support of the child. If the support payments are more than the amount required for this year, any payment for an earlier year is not support provided by the noncustodial parent for either the earlier year or for this year.

Support Test for Children of Divorced or Separated Parents (or Parents Who Live Apart)

Custodial parent. The custodial parent is the parent with whom the child lived for the greater number of nights during the year. The other parent is the noncustodial parent.

Noncustodial parent. A child will be treated as a qualifying relative of the non-custodial parent if all of the following apply.

1. The parents are either divorced or legally separated under a decree, separated under a written separation agreement, or have lived apart during the last 6 months of the year.
2. The child received over half of his or her support for the year from both parents.
3. The child is in the custody of one or both parents for more than half the year.
4. Either of the following statements is true.
 - a. The custodial parent signs a written declaration (Form 8332) that he or she will not claim the child as a dependent for the year and the non-custodial parent attaches this written declaration to his or her return.
 - b. A pre-1985 decree of divorce or separate maintenance or written separation agreement that applies to the tax year states that the noncustodial parent can claim the child as a dependent and the noncustodial parent provides at least \$600 for the support of the child during the year.

Note: The taxpayer must include the social security number (SSN) for each person being claimed as an exemption. If the taxpayer has not yet obtained or received an SSN for the person, the taxpayer will have to file Form 4868 for an extension of time to file. If the dependent is a resident or nonresident alien who does not have and is not eligible to get an SSN, the IRS will issue the dependent an individual taxpayer identification number (ITIN). Use Form W-7, Application for IRS Individual Identification Number. It usually takes about 30 days to get an ITIN.

Phaseout of Exemptions

The amount claimed as a deduction for exemptions is phased out once adjusted gross income (AGI) exceeds the following levels:

Filing Status	Phaseout Range	
	Phaseout Begins	Phaseout Ends
Married filing separately	\$156,900	\$218,150
Single	\$261,500	\$384,000
Head of household	\$287,650	\$410,150
Married filing jointly or qualifying widow(er)	\$313,800	\$436,300

Reduce the dollar amount of exemption by 2% for each \$2,500 or part of \$2,500 (\$1,250 if married filing separately) that AGI exceeds the amount shown above for each filing status. If AGI exceeds the amount shown above by more than \$122,500 (\$61,250 if married filing separately), the amount of the deduction for exemptions is reduced to zero.

Third Party Designee

A taxpayer can authorize the IRS to discuss his or her return with a friend, family member, or any other person the taxpayer chooses. By checking the "Yes" box in the "Third Party Designee" area of the return, the taxpayer authorizes the IRS to call the designee to answer questions that may arise during the processing of the tax return. It also authorizes the designee to:

1. Give the IRS any information that is missing from the tax return.
2. Call the IRS for information about the processing of the return or the status of the refund or payments.
3. Receive copies of notices or transcripts related to the return, upon request.
4. Respond to certain IRS notices that the taxpayer shared with the designee about math errors, offsets, and return preparation.

The designee is not authorized to receive any refund check, bind the taxpayer to anything (including any additional tax liability), or otherwise represent the taxpayer before the IRS. The authorization will automatically end no later than the due date (without regard to extensions) for filing the next year's return.

Amended Returns

A taxpayer can file an amended return if he or she discovered an error in the originally filed return. A taxpayer should amend his or her return if, after the original return is filed, it is discovered that:

1. The taxpayer did not report some income,
2. The taxpayer claimed deductions or credits that should not have been claimed,

3. The taxpayer did not claim deductions or credits that could have been claimed, or
4. The taxpayer should have claimed a different filing status. (Once a joint return is filed, a taxpayer cannot choose to file separate returns for that year after the due date of the return. However, an executor may be able to make this change for a deceased spouse.)

Form 1040X

Use Form 1040X, Amended U.S. Individual Income Tax Return, to file an amended return. An amended tax return cannot be filed electronically.

Time for Filing a Claim for Refund

Generally, a taxpayer must file a claim for a credit or refund within 3 years after the date the original return was filed or within 2 years after the date the taxpayer paid the tax, whichever is later. Returns filed before the due date (without regard to extensions) are considered filed on the due date (even if the due date was a Saturday, Sunday, or legal holiday).

Chapter One Review

1. A taxpayer, under age 65, who can be claimed as a dependent on another person's tax return must file a tax return if the dependent taxpayer has unearned income of more than

- A. \$950
- B. \$1,050
- C. \$4,050
- D. \$6,350

2. In which of the following situations is NO return required to be filed?

- A. Single, filing status single, under age 65, gross income \$11,000.
- B. Married, joint filing status, both spouses under age 65, gross income \$21,000.
- C. Single, filing status single, age 70, gross income \$11,500.
- D. Married, separate filing status, age 65, gross income \$5,000.

3. A taxpayer was married with two dependent children. Her husband died in April and she did not remarry before the end of the year. Which filing status should the taxpayer use for her tax return?

- A. Single
- B. Married Filing Jointly
- C. Head of Household
- D. Qualifying Widow(er) With Dependent Child

ANSWER: B

A taxpayer, under age 65, who can be claimed as a dependent on another person's tax return must file a tax return if the dependent taxpayer has unearned income of more than **\$1,050**.

ANSWER: C

Taxpayers, under age 65, filing as single must file a tax return if their gross income is at least \$10,400.

Married taxpayers, both under 65, filing jointly must file a tax return if their gross income is at least \$20,800.

Taxpayers, age 65 or older, filing single must file a return if their gross income is at least \$11,950.

Married taxpayers, any age, filing separately must file a return if their gross income is at least \$4,050.

ANSWER: B

If a spouse dies during the year, the surviving spouse is considered married for the whole year and can choose to file married filing jointly.

Chapter One Review

4. Which of the following is NOT a requirement a taxpayer must meet to claim head of household filing status?

- A. The taxpayer's spouse did NOT live in the same home with his or her spouse during the last 6 months of the tax year.
- B. The taxpayer paid more than half of the cost of keeping up the home for the entire year.
- C. The taxpayer's home was the main home of the taxpayer's dependent parent for more than half the year.
- D. The taxpayer is unmarried or considered unmarried on the last day of the year.

5. A nonresident alien can claim the following itemized deductions EXCEPT:

- A. State and local income taxes
- B. Casualty and theft losses
- C. Charitable contributions to foreign organizations
- D. Miscellaneous deduction

6. All the following qualify as a dependent EXCEPT:

- A. A taxpayer's deceased wife's stepmother who lived with the taxpayer for 7 months during the tax year. She had no income and filed no tax return. The taxpayer provided more than half of her total support.
- B. A taxpayer's son who filed a joint return with his wife to receive a refund of all his withholding. No tax liability would have been due even if they had filed separate returns. All other exemption tests are met.
- C. A taxpayer's 23 year-old daughter who is not a student and earned \$4,050. She lived with the taxpayer all year and the taxpayer provided more than half of her total support.
- D. A taxpayer's 17 year-old niece who is a resident of Canada but lived with the taxpayer for 10 months. She earned \$500 during the summer and the taxpayer provided more than half of her total support.

ANSWER: C

A taxpayer may file as head of household if he or she meets all of the following requirements.

1. Is unmarried or considered unmarried on the last day of the year.
2. Paid more than half the cost of keeping up a home for the year.
3. A qualifying person lived with the taxpayer in the home for more than half the year (except for temporary absences, such as school). The taxpayer must pay more than half the cost of keeping up a home that was the main home for the entire year for a parent or pay more than half the cost of keeping a parent in a rest home or home for the elderly.

ANSWER: C

Nonresident aliens can deduct certain itemized deductions if they receive income effectively connected with a U.S. trade or business. These deductions include state and local income taxes, charitable contributions to U.S. organizations, casualty and theft losses, and miscellaneous deductions. Use Schedule A of Form 1040NR to claim itemized deductions.

ANSWER: C

Stepparents or in-laws do not have to live with the taxpayer the entire year to meet the member of household or relationship tests. The joint return test does not apply if a joint return is filed by the dependent and his or her spouse merely as a claim for refund and no liability would exist for either spouse on separate returns. To meet the resident test, a person must be a U.S. citizen or resident, or a resident of Canada or Mexico, for some part of the calendar year in which the tax year begins. A taxpayer cannot take an exemption for a dependent if that person had gross income of \$4,050 or more. This test does not apply if the person is the taxpayer's child and is either:

1. Under age 19 at the end of the year, or
2. A full-time student under age 24 at the end of the year.

7. A taxpayer can get an automatic 6-month extension by all of the following EXCEPT:

- A. Filing Form 4868.
- B. E-file Form 4868 using a tax software or a tax professional.
- C. Paying part or all of the estimate taxes due by using a credit card over the phone or internet.
- D. Calling the IRS and asking for an extension.

8. Which of the following is true regarding the filing of Form 4868, Application for Automatic Extension of Time to File a U.S. Individual Income Tax Return?

- A. Filing Form 4868 provides an automatic 2-month extension of time to file and pay income tax.
- B. Any U.S. citizen who is out of the country on April 15, is allowed an automatic 4-month extension of time to file his or her return and pay any federal income tax due.
- C. Interest is charged on tax not paid by the due date of the return even if an extension is obtained.
- D. Electronic filing cannot be used to get an extension of time to file.

ANSWER: D

A taxpayer may obtain an automatic 6-month extension of time to file a U.S. individual income tax return in one of the following ways:

1. Electronically file Form 4868, Application For Automatic Extension of Time To File U.S. Individual Tax Return, using tax software with a personal computer.
2. Pay all or part of the estimated taxes due using a credit or debit card or by using the Electronic Federal Tax Payment System (EFTPS).
3. File a paper Form 4868 by mail.

ANSWER: C

Refer to the analysis on the previous question. Any U.S. citizen who is out of the country on April 15, is allowed an automatic **2-month extension** of time to file his or her tax return and pay any federal income tax due. An extension of time to file can be electronically filed.

9. There are five tests which must be met for a child to be a qualifying child. Which of the following is NOT a requirement?

- A. Residency Test
- B. Relationship Test
- C. Gross Income Test
- D. Support Test

ANSWER: C

There are two types of exemptions: personal exemptions and dependency exemptions. The single taxpayer receives one personal exemption while the married couple filing jointly receives two. A person can be claimed as a dependent if he or she is a qualifying child or qualifying relative and meets the following three tests.

1. **Dependent taxpayer test.** The taxpayer cannot claim anyone else as a dependent if the taxpayer can be claimed as a dependent by another person.
2. **Joint Return Test.** A taxpayer is not allowed an exemption for a dependent if he or she files a joint return. **Exception:** The dependent filed a joint return merely as a claim for refund and no tax liability would exist for either spouse on separate returns.
3. **Citizen or Resident Test.** To meet this test, the person must be a U.S. citizen or resident, or a resident of Canada or Mexico, for some part of the calendar year.

Qualifying Child. The following are the five tests that must be met for a child to be a qualifying child.

1. **Relationship Test.** To meet this test, a child must be:
 - a. A son, daughter, stepchild, eligible foster child, or a descendant (e.g., grandchild) of any of them, or
 - b. A brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant (e.g., niece or nephew) of any of them.
2. **Age Test.** To meet this test, a child must be:
 - a. Under age 19 at the end of the year,
 - b. A full-time student under age 24 at the end of the year, or
 - c. Permanently and totally disabled at any time during the year, regardless of age.
3. **Residency Test.** To meet this test, a child must have lived with the taxpayer for more than half of the year. There are exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents. A child is considered to have lived with the taxpayer during periods of time when either the taxpayer or child or both, are temporarily absent due to special circumstances such as illness, education, business, vacation, or military service.
4. **Support Test.** To meet this test, the child cannot have provided more than half of his or her own support for the year.
5. **Joint Return Test.** To meet this test, the child cannot file a joint return for the year. **Exception.** The joint return test does not apply if the child and his or her spouse file a joint return merely as a claim for refund.

Phoenix Tax Group Refund Policies

30 Day Refund

If you are not satisfied with any of our products, you can return them for a full refund, excluding shipping and handling charges. A refund must be requested within 30 days of purchase, and all hardcopy materials must be returned in the original box. No credit will be given for any materials marked on, missing or damaged in any way. To request a refund, fill out the Refund Request form at the link below.

Pass Guarantee Refund

1. The Pass Guarantee applies only to products designated as "Packages."
2. To receive a refund, you must have taken and failed a test or exam twice.
3. You must provide your failed scores for both failed exams by filling out the online Refund Request Form (see link below). This must be done within 30 days of the second failed exam.
4. Hard copy materials must be returned within 30 days of the second failed exam.
5. If you purchased Enrolled Agent study materials together in a 3 part package, refunds will be pro-rated for the part being returned.
6. The refund will only apply to the person who purchased the study materials from The Phoenix Tax Group. The refund policy does not apply to companies purchasing study materials for employees.

Instructions

To ensure proper credit, please fill out our online refund request form.

<http://www.phoenixtax.com/about/refunds>

Evaluation

Enrolled Agent Exam Study Package Survey

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