

RTRP

Registered Tax Return Preparer Study Guide

Current through March 31st, 2013



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Introduction

About our Study Materials

This study guide is designed to help you pass the Registered Tax Return Preparer competency test by March 31st, 2013. The content is adapted from IRS publications. The materials focus specifically on information you need to learn to pass the test. All of the content references the Internal Revenue Code and IRS publications, as amended through December 31, 2011, and to Circular 230 with a revision date of August 2011.

The format of our computer-based practice tests and the questions in our question bank are very similar to Prometric. Like Prometric, we provide electronic reference materials as exhibits to use while you take our computer-based practice tests. You will also have access to an on-screen calculator, and will be able to mark questions for review.

You Can Pass this Test!

You are probably nervous about this new requirement in your professional life. Don't worry. Everything you need to know is in this book, and you will be guided step by step through the entire process.

Obtain a PTIN

You must have a PTIN to sign up for the RTRP Test. 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. You will need the following information available to complete this process.

- Permanent Mailing Address
- Address on you last filed tax return
- Social Security Number
- Professional Certification Number (e.g. CPA number) if you have one
- Employer Identification Number (EIN) if you have one
- Electronic Filing Identification Number (EEIN) if you have one
- CAF Number, if you have one

Pay Your Fee. Make your payment of \$64.25 by credit card, direct debit, or eCheck.

Get Your PTIN. After the bank confirms your payment, you will receive your PTIN. You will be able to view your next steps, including any testing requirements,

through your online PTIN account.

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.

View the video of the PTIN Sign-up process

This video is a step by step recording of the online PTIN Sign-Up process. It will help you know what to expect.

<http://freestuff.phoenixtax.com/PTIN/PTIN.html>

Signing up for the RTRP test

The Internal Revenue Service (IRS) has contracted with Prometric to conduct its competency test. Prometric provides computerized testing at test centers throughout the world. You will have a choice of testing centers. You may take the test at any time during the year except during the annual black-out period from April 1 — April 15. During this time, the test is unavailable while the system is updated.

When you are ready to take the test, complete the following steps:

1. Go to www.irs.gov/ptin, and login with your username (usually your email address) and password.
2. Click on the link that says "Maintain Your PTIN"
3. Click on the link that says "Schedule a Competency Test"

You will be redirected to the Prometric website to select a testing center, schedule your test, and pay the \$116.00 testing fee.

About the Test

The Registered Tax Return Preparer competency test contains 120 questions (100 scored questions and 20 experimental questions). Approximately 102 questions are multiple-choice and approximately 18 are true and false. The true and false questions are all on the subject of ethics. The 20 experimental questions are distributed throughout the test and will not be identified as such. You will have two and a half hours to complete the test.

During the test, you will have access to the following electronic reference materials:

- Publication 17 (Tax Guide for Individuals)
- Form 1040
- Form 1040 Instructions
- Schedule A Instructions
- Schedule C Instructions
- Schedule SE Instructions
- Schedule D Instructions

Electronic reference materials will be provided as exhibits for candidates to use while taking the computer-based test. You are not allowed to bring your own reference materials to the test center. Due to the time limit of the test, it is recommended that you research the reference materials only when necessary. Be familiar with our questions and study materials before taking the exam.

Note: The electronic reference materials provided for the test only cover approximately 70% of the materials tested. It is important that you have a good knowledge of our materials before taking the exam. DO NOT just rely on the provided electronic reference materials.

Test Content and Scope

The outline below is a list of topics that could be included in the test.

Subject Area
Domain 1: Preliminary Work and Collection of Taxpayer Data
Domain 2: Treatment of Income and Assets
Domain 3: Deductions and Credits
Domain 4: Other Taxes
Domain 5: Completion of the Filing Process
Domain 6: Practices and Procedures
Domain 7: Ethics

Note: Through March 31, 2013, all references on the test are to the Internal Revenue Code, as amended through December 31, 2011. Unless otherwise stated, all questions relate to calendar year 2011. Circular 230 questions relate to Circular 230 with a revision date of August 2011.

Pass Score

If you pass, your test results will show a passing designation. It will not show a score. All score values above passing indicate that a candidate is qualified — not how qualified.

Failing Score

If you fail, your test results will show a score that is below the scaled passing score. You will also receive diagnostic information to assist you with future testing preparation. Diagnostic information for each sub-domain 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 sub-domain 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 sub-domain in detail as you prepare to take the test again.
3. At or above the minimally acceptable score. Be sure to review this sub-domain as you prepare to take the test again.

Retaking the Test

If you do not pass the test, you must schedule another test appointment and pay another test fee. There is currently no limit to the number of times you may take the test.

Studying for the Test

Thoroughly read each chapter and complete the review questions at the end. If you purchased the RTRP Self-Tests along with this guide, access the RTRP Self-Tests through your account on www.PhoenixTax.com, and use Learning Mode to do additional practice questions on topics related to the chapter. Make sure you have a solid understand of the content of each chapter before moving on to the next chapter.

If you did not purchase the RTRP Self-Tests, we highly recommend them.

View a demo: <http://freestuff.phoenixtax.com/RTRPTestDemo/index.html>

Purchase here: <http://phoenixtax.com/products/RT12T>

Preparing to Take the Test

1. **Go through the Prometric Online Sample Test.** This is a short sample of what the actual test will look like. You can access the sample test online at: <http://www.prometric.com/ClientFiles/irs/irsrp2012b/index.htm>
2. **Take and retake the RTRP Self-Tests** in Simulation Mode until you get at minimum 75% on each test. Simulation Mode is based on the Prometric Online Sample Test, and gives you a 120 question RTRP test. It duplicates the testing experience at the Prometric Testing Center. This will give you confidence. Familiarity will help you stay calm during the actual test.
3. **View this IRS video** about the experience of visiting a Prometric Testing Center to take the test. Knowing what to expect will also help you stay calm and concentrate on doing well on the test. <http://youtu.be/SnCuf3mTFwo>

Test Taking Strategy

We recommend the following method for taking the test:

1. Go through the whole test and answer all of the questions. Don't spend too much time on a single question. If you are unsure of an answer, mark the question for later review, but don't leave a question unanswered. This way, if you run out of time, there won't be any unanswered questions. Do not use the reference materials at this time.
2. After you have been through all of the questions once, review all of your marked questions. If you are unsure of an answer, but know where to find it in the reference materials, quickly look it up. Plan your time carefully. Look up the answers about which you are the most uncertain first.
3. If there is a question that you cannot remember anything about, and have no idea where to find the answer, leave it to the very last. Do not spend a lot of time looking through the reference materials to answer one hard question. Remember, not all of the answers can be found in the reference material.

The Income Tax Return

The Registered Tax Return Preparer test is primarily designed to test a return preparer's ability to fill out and file a 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 discuss a return with the IRS.

In This Chapter

1. Filing Requirements
2. Filing Status
3. Personal Exemptions and Dependents
4. Extensions of Time to File
5. Third Party Designee
6. Amended Returns

Filing Requirements

2011 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	\$9,500
	65 or older	\$10,950
Married Filing Jointly	Under 65 (both spouses)	\$19,000
	65 or older (one spouse)	\$20,150
	65 or older (both spouses)	\$21,300
Married Filing Separate	Any age	\$3,700
Head of Household	Under 65	\$12,200
	65 or older	\$13,650
Qualifying Widow(er)	Under 65	\$15,300
	65 or older	\$16,450

*If the taxpayer turns 65 on January 1, 2012, the taxpayer is considered 65 at end of 2011. **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 \$950 (\$2,400 if age 65 or older **OR** blind; \$3,850 if age 65 or older **AND** blind).
- Earned income was more than \$5,800 (\$7,250 if age 65 or older **OR** blind; \$8,700 if age 65 or older **AND** blind).
- Gross income was more than the larger of:
 1. Earned income (up to \$5,500) plus \$300 (\$1,750 if age 65 or older **OR** blind; \$3,200 if age 65 or older **AND** blind).
 2. \$950 (\$2,400 if age 65 or older **OR** blind; \$3,850 if age 65 or older **AND** blind), or

Married Dependent

- Gross income was at least \$5 and spouse files separate return and itemizes deductions
- Unearned income was \$950 (\$2,100 if age 65 or older **OR** blind; \$3,250 if age 65 or older **AND** blind).
- Earned income was more than \$5,800 (\$6,950 if age 65 or older **OR** blind; \$8,100 if age 65 or older **AND** blind).

- Gross income was more than the larger of:
 1. \$950 (\$2,100 if age 65 or older **OR** blind; \$3,250 if age 65 or older **AND** blind) or,
 2. Earned income (up to \$5,500) plus \$300 (\$1,450 if age 65 or older **OR** blind; \$2,600 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 11 of Schedule F (Form 1040), Profit or Loss From Farming.

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. Recapture of an education credit.
 - g. Recapture of any other credits.
 - h. Uncollected 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.
 - i. Recapture taxes.
2. The taxpayer received distributions from an Archer MSA, Medicare Advantage MSA, or Health Savings Account.

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.

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

A filing status depends on whether the taxpayer is considered unmarried or married. For federal tax purposes, a marriage means only a legal union between a man and a woman as husband and wife.

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.

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 as husband and wife.
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.

Married Persons Living Apart

If a taxpayer lives apart from his or her spouse and meets certain tests, the taxpayer may be considered unmarried. If this applies, 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 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.

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.

Death of Spouse

If a spouse died 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

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 filer.
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).
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.
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 year spouse dies.
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 self and spouse
- Exemption for dependents (dependency exemptions)

Personal Exemption

A taxpayer may take one personal exemption of \$3,700, 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 taxpayer can take an exemption for a spouse only if the spouse had no gross income and was not a dependent of another person. A spouse is never considered the taxpayer's dependent.

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 \$3,700 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 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.

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 \$3,700. 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
- Clothing
- Education
- Transportation
- Recreation
- Medical and Dental Care
- Medical Insurance
- Lodging (FMV of the room, apartment, or house in which person lives)
- Other similar necessities

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 full-time 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 Divorced or Separated Parents

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

Noncustodial parent. A child will be treated as a qualifying relative of the noncustodial parent if all of the following apply. The other parent is the noncustodial parent.

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 are 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

- noncustodial 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.

Extensions of Time to File

Automatic Extension

A taxpayer may obtain an automatic 6-month extension of time to file his or her tax return by:

1. Using IRS e-file, or
2. Filing a paper Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.

Extension without Form 4868

A taxpayer can get an extension without filing Form 4868 by paying part or all of his or her estimated tax due by using a credit card or debit card or by using EFTPS. This can be done by phone or the internet.

Payment of Tax

An extension of time to file is not an extension of time to pay. 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 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.

Extensions 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.

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 payment(s),
3. Receive copies of notices or transcripts related to the return, upon request, and
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 under the e-file system.

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. Lisa 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 Lisa use for her tax return?

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

2. John and Linda Smith are a childless married couple who lived apart for all of the year. On December 31, they were legally separated under a decree of separate maintenance. Based on the facts, which of the following is the ONLY filing status choice available to them?

- A. Married filing joint return.
- B. Married filing separate return.
- C. Head of household.
- D. Single.

3. A taxpayer is considered married for the whole year if on the last day of the year he or she is all of the following, except:

- A. Living together in a common law marriage that is recognized in the state of residence.
- B. Married and living together as husband and wife.
- C. Separated under an interlocutory (not final) decree of divorce.
- D. Married and living apart under a separate maintenance decree.

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.

ANSWER: D

A taxpayer's filing status is single if he/she is unmarried or separated from his/her spouse by a divorce or separate maintenance decree and does not qualify for another filing status.

ANSWER: D

A taxpayer is considered married for the whole year if on the last day of your tax year you and your spouse meet any one of the following tests.

- 1. Married and living together as husband and wife.
- 2. Living together in a common law marriage that is recognized in the state where the taxpayer now lives 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.

Chapter One Review

4. All of the following concerning extension of time to file are correct **except**:

- A. An automatic 6-month extension can be requested by filing Form 4868.
- B. If the required payment is made by credit card by the regular due date for the return, the return can be filed any time before the 6-month extension period ends.
- C. Requesting an automatic 6-month extension before the regular due date for the return postpones the requirement to make payment of any tax due.
- D. An automatic 6-month extension can be requested by using IRS e-file (electronic filing).

5. Which of the following is not a requirement that must be met in determining if a taxpayer is unmarried for head of household filing status purposes?

- A. The taxpayer must file a separate return.
- B. The taxpayer must have paid more than half the cost of keeping up his or her home for the tax year.
- C. The taxpayer's spouse must not have lived in the home for the entire tax year.
- D. The taxpayer's home was, for more than half the year, the main home of a child, stepchild, or adopted child whom the taxpayer or the non-custodial parent can properly claim as a dependent.

ANSWER: C

An extension of time to file is not an extension of time to pay. When filing an extension a taxpayer must make an accurate estimate of his/her tax for the tax year. If the taxpayer cannot pay the full amount due, he/she can still get an extension but will owe interest and penalties on the unpaid amount.

ANSWER: C

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.
2. Paid more than half the cost of keeping up a home for the tax year.
3. Not have lived 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.

6. There are five tests which must be met for a child to be your 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.