



Individual Income Tax: Income Part 1

Course #3111B

Taxes

2 Credit Hours

Support@PacificCPE.com | (800) 787-5313

PacificCPE.com

INDIVIDUAL INCOME TAX: INCOME PART 1

This course covers basic information about the tax system and discusses which income is and is not taxed. Types of income discussed include: wages, salaries, tips, interest, dividends, social security, and others.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

INTRODUCTION

Part One: The Income Tax Return

Filing Information

Filing Status

Dependents

Estimated Tax

Wages, Salaries, and Other Earnings

Tip Income

Interest Income

Dividends and Other Distributions

Rental Income and Expenses

Social Security and Equivalent Railroad Retirement Benefits

Study the course materials from pages 1 to 70

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recall important tax changes to be used for 2020 tax returns
- Recognize the length of the automatic extension provided by filing Form 4868.
- Recognize the various filing statuses and who is eligible to use them.
- Identify the purpose of estimated taxes.
- Recall what types of compensation are included as income for tax purposes.
- Recognize what tips should be included in income for tax purposes.
- Recall the proper tax treatment for various types of interest.
- Identify the proper treatment of various types of dividends.
- Recognize key taxation thresholds related to social security income.

NOTICE: This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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INTRODUCTION

Chapter Objective

After completing this chapter, you should be able to:

- Recall important tax changes to be used for 2020 tax returns.

Note



The major changes/provisions affecting 2020 are from the Tax Cuts and Jobs Act of 2017 and the usual inflation adjustments. The Further Consolidated Appropriations Act of 2020 was signed into law on December 20, 2019, which includes important tax changes, extenders, and other provisions signed into law and extended through 2020, as summarized later in the Introduction. In addition, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law March 27, 2020 in response to the economic fallout of the COVID-19 pandemic, and includes key provisions affecting withdrawals from retirement plans and IRAs, the tax treatment of coronavirus-related distributions, and more. These changes are also noted throughout the course.

This course is a general overview of federal income tax laws for individuals filing 2020 tax returns. The course begins with the rules for filing a tax return. The course explains who must file a return, which tax forms to use, when the return is due, and other general information. It will help identify which filing status your clients qualify for and whether the income they are receiving is taxable. The course goes on to explain the standard deduction, the kinds of expenses they may be able to deduct, and the various kinds of credits they may be able to take to reduce their tax.

Throughout the course are examples showing how the tax law applies in typical situations. Sample forms and schedules show how to report certain items on tax returns. Also, throughout the course are flowcharts and tables that present tax information in an easy-to-understand manner.

We start with a section on important tax changes.

I. IMPORTANT TAX CHANGES/PROVISIONS FOR 2020

- **Individual tax rates are set at 0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**
- **Increase of the standard deduction** to \$12,400 and \$24,800 for individuals and married couples filing jointly, respectively (2020).

Elderly and/or blind taxpayers receive an additional standard deduction amount added to the basic standard deduction. The additional standard deduction for a blind taxpayer—a taxpayer whose vision is less than 20/200—and for a taxpayer who is age 65 or older at the end of the year is:

- \$1,300 for married individuals; and
- \$1,650 for singles and heads of household.

The additional standard deduction for taxpayers who are both age 65 or older at year-end and blind is double the additional amount for a taxpayer who is blind (but not age 65 or older) or age 65 (but not blind). For example, a 65 year-old single blind taxpayer would add \$3,300 to his or her usual standard deduction: \$1,650 for being age 65 plus \$1,650 for being blind ($\$1,650 \times 2 = \$3,300$). Thus, his or her standard deduction would be \$15,700 ($\$12,400 + \$3,300 = \$15,700$).

- **Personal exemptions eliminated for 2018-2025.**
- **Write off of state and local taxes restricted to \$10,000.**
- **Many itemized deductions eliminated.** The tax law eliminates itemized deductions for:
 - Unreimbursed employee expenses, such as mileage (previously deductible to the extent they exceeded 2% of adjusted gross income)
 - Tax preparation expenses
 - Alimony payments (see details)
 - Investment expenses
 - Miscellaneous itemized deductions
 - Moving expenses to move to a new job, and
 - Personal casualty losses (except for losses associated with special disaster relief legislation).
- **Charitable contributions.** People who itemize will be allowed to deduct cash contributions up to 60% of their adjusted gross income, instead of 50% under prior law.

Note



See the impact of the CARES Act, later in this summary and the course, for additional changes to charitable contributions.

- **The Child Tax Credit is \$2,000 in 2020** for single filers and married couples. The tax credit is fully refundable up to \$1,400 and begins to phase-out for families making over \$400,000. Parents must provide a child's valid social security number in order to receive this credit.
- **The mortgage interest deduction**
 - For all homeowners with existing mortgages at 12/17/2017 that were taken out to buy a home, there is no change to the current mortgage interest deduction.
 - For homeowners with new mortgages after 12/17/2017 on a first or second home, the home mortgage interest deduction is available on up to \$750,000 of mortgage debt.
- **Medical bills.** Medical expenses can be deducted in 2020 for medical expenses exceeding 7.5 percent of adjusted gross income (as adjusted by the Further Consolidated Appropriations Act of 2020).
- **Alimony - Post 2018 Divorce Agreements.** Under the tax code before TCJA passage, alimony (but **not** child support) was deductible by the payer and included in the income of the recipient for tax purposes. Under the TCJA, that tax treatment continues only for alimony payments made pursuant to a divorce or separation agreement entered into on or before December 31, 2018. Thus, alimony payments made in 2018 are deductible to the payer and includible in the recipient's income.

However, under TCJA, §11051, alimony payments will no longer be tax deductible to the payer or includible in the income of the recipient if made under:

- a) A divorce or separation agreement entered into after December 31, 2018; or
- b) A divorce or separation agreement entered into on or before December 31, 2018 but modified after that date if the modified agreement specifically provides that the provisions of the Tax Cuts and Jobs Act of 2017 will apply.

Alimony payments made under a divorce or separation agreement entered into on or before December 31, 2018 but paid after that date—with the exception of such payments made under a modified agreement described in b) above—will continue to be tax deductible to the payer and includible in the income of the recipient.

- **Adjusted estate taxes.** Estates worth up to \$11.58 million per person are exempt from the federal estate tax in 2020. This means that married couples with estates worth up to \$23.16 million will not be affected by the federal estate tax. These numbers are increased for inflation each year.
- **Repeal of Obamacare individual tax penalty.** The Affordable Care Act (popularly called Obamacare) required individuals to obtain minimally adequate health insurance for themselves and their dependents. Those that failed to comply had to pay a tax penalty