



Individual Income Tax: Figuring Your Taxes and Credits

Course # 3119C

Taxes

2 Credit Hours

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INDIVIDUAL INCOME TAX: FIGURING YOUR TAXES AND CREDITS

This course covers how to figure your tax and how to figure the tax of certain children who have unearned income. It also discusses tax credits that, unlike deductions, are subtracted directly from your tax.

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

How to Figure Your Tax
Tax on Unearned Income of Certain Children
Child and Dependent Care Credit
Credit for the Elderly or the Disabled
Child Tax Credit/Credit for Other Dependents
Education Credits
Earned Income Credit (EIC)
Premium Tax Credit (PTC)
Other Credits

Study the course materials from pages 1 to 78

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize various alternative minimum tax adjustments and preference items
- Recall the rules related to the tax on unearned income of certain children
- Recall how to figure the child and dependent care credit
- Identify who qualifies to take the credit for the elderly or disabled
- Recall the limits of the child tax credit.
- Identify the requirements for and benefits of the American opportunity credit and the lifetime learning credit.
- Recall the limit of investment income to qualify for the earned income credit.
- Recognize who is eligible to claim the premium tax credit.
- Identify various nonrefundable and refundable credits available for income tax purposes

NOTICE

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2021. There is a possibility some of these references will change..

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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.

TABLE OF CONTENTS

Chapter 1: How to Figure Your Tax	1
I. Introduction	1
II. Figuring Your Tax	1
III. Alternative Minimum Tax	2
Chapter 1: Test Your Knowledge	3
Chapter 1: Solution and Suggested Responses	4
Chapter 2: Tax on Unearned Income of Certain Children	5
I. Introduction	5
II. Parent's Election to Report Child's Interest and Dividends	5
Effect of Making the Election	6
III. Tax for Certain Children Who Have Unearned Income	7
WHEN FORM 8615 MUST BE FILED	7
EARNED INCOME	7
SUPPORT	8
ALTERNATIVE MINIMUM TAX	8
NET INVESTMENT INCOME TAX	8
Chapter 2: Test Your Knowledge	9
Chapter 2: Solutions and Suggested Responses	10
Chapter 3: Child and Dependent Care Credit	11
I. What's New	11
II. Introduction	11
III. Tests to Claim the Credit	11
QUALIFYING PERSON TEST	14
EARNED INCOME TEST	15
WORK-RELATED EXPENSE TEST	16
JOINT RETURN TEST	21
CARE PROVIDER IDENTIFICATION TEST	21
IV. How to Figure the Credit	22
FIGURING TOTAL WORK-RELATED EXPENSES	22
EARNED INCOME LIMIT	24
DOLLAR LIMIT	25
AMOUNT OF CREDIT	26

V. How to Claim the Credit	27
VI. Employment Taxes for Household Employers	28
Chapter 3: Test Your Knowledge	29
Chapter 3: Solutions and Suggested Responses	30
Chapter 4: Credit for the Elderly or the Disabled	31
I. Introduction	31
II. Can You Take the Credit?	31
QUALIFIED INDIVIDUAL	33
INCOME LIMITS	36
III. Figuring the Credit	36
Credit Figured by You	36
Chapter 4: Test Your Knowledge	37
Chapter 4: Solutions and Suggested Responses	38
Chapter 5: Child Tax Credit/Credit for Other Dependents	39
I. What's New	39
II. Introduction	39
III. Qualifying Child for the CTC	40
IV. Credit for Other Dependents (ODC)	40
Qualifying Person for the ODC	41
V. Limits on the CTC and ODC	41
VI. Claiming The CTC and ODC	42
VII. Additional Child Tax Credit (ACTC)	43
Chapter 5: Test Your Knowledge	44
Chapter 5: Solutions and Suggested Responses	45
Chapter 6: Education Credits	46
I. Introduction	46
II. Who Can Claim an Education Credit	48

III. Qualified Education Expenses	51
NO DOUBLE BENEFIT ALLOWED	51
ADJUSTMENTS TO QUALIFIED EDUCATION EXPENSES	52
Chapter 6: Test Your Knowledge	54
Chapter 6: Solutions and Suggested Responses	55
Chapter 7: Earned Income Credit (EIC)	56
I. Introduction	56
II. Do You Qualify for the Credit?	57
IF IMPROPER CLAIM MADE IN PRIOR YEAR	57
Chapter 7: Test Your Knowledge	60
Chapter 7: Solutions and Suggested Responses	61
Chapter 8: Premium Tax Credit (PTC)	62
I. What's New	62
II. Introduction	62
III. What Is the Premium Tax Credit (PTC)?	63
IV. Who Can Take the PTC?	63
V. How To Take the PTC?	64
Chapter 8: Test Your Knowledge	66
Chapter 8: Solutions and Suggested Responses	67
Chapter 9: Other Credits	68
I. Important	68
II. Introduction	68
III. Nonrefundable Credits	69
ADOPTION CREDIT	69
Credit to Holders of Tax Credit Bonds	70
FOREIGN TAX CREDIT	71
MORTGAGE INTEREST CREDIT	72
NONREFUNDABLE CREDIT FOR PRIOR YEAR MINIMUM TAX	72
Residential Energy Credit	73
retirement savings contributions credit (SAVER'S CREDIT)	74

IV. Refundable Credits	74
CREDIT FOR TAX ON UNDISTRIBUTED CAPITAL GAIN	74
Health Coverage Tax Credit	75
CREDIT FOR EXCESS SOCIAL SECURITY TAX OR RAILROAD RETIREMENT TAX WITHHELD	75
Chapter 9: Test Your Knowledge	77
Chapter 9: Solution and Suggested Responses	78
Glossary	79
Index	94
Final Exam Copy	96

CHAPTER 1: HOW TO FIGURE YOUR TAX

Chapter Objective

After completing this chapter, you should be able to:

- Recognize various alternative minimum tax adjustments and preference items.

I. INTRODUCTION

After you have figured your income and deductions as explained in *Parts One* through *Five*, your next step is to figure your tax. This chapter discusses:

- The general steps you take to figure your tax, and
- An additional tax you may have to pay called the alternative minimum tax (AMT).

II. FIGURING YOUR TAX

Your income tax is based on your taxable income. After you figure your income tax and any alternative minimum tax, subtract your tax credits and add any other taxes you may owe. The result is your total tax. Compare your total tax with your total payments to determine whether you are entitled to a refund or must make a payment.

This section provides a general outline of how to figure your tax.

Tax. Most taxpayers use either the Tax Table or the Tax Computation Worksheet to figure their income tax. However, there are special methods if your income includes any of the following items.

- A net capital gain.
- Qualified dividends taxed at the same rates as a net capital gain.
- Lump-sum distributions.
- Farming and fishing income (see Schedule J (Form 1040)).
- Tax for certain children who have unearned income.
- Parents' election to report child's interest and dividends.
- Foreign earned income exclusion or the housing exclusion.

Credits. After you figure your income tax and any alternative minimum tax (discussed later), determine if you are eligible for any tax credits.

III. ALTERNATIVE MINIMUM TAX

This section briefly discusses an additional tax you may have to pay.

The tax law gives special treatment to some kinds of income and allows special deductions and credits for some kinds of expenses. Taxpayers who benefit from the law in these ways may have to pay at least a minimum amount of tax through an additional tax. This additional tax is called the alternative minimum tax (AMT).

In 2021, you may have to pay the alternative minimum tax if your taxable income for regular tax purposes, combined with certain adjustments and tax preference items, is more than:

- \$114,600 if your filing status is married filing joint (or qualifying widow(er) with dependent child),
- \$73,600 if your filing status is single or head of household, or
- \$57,300 if your filing status is married filing separate.

These amounts will be indexed annually for inflation.

Adjustments and tax preference items. The more common adjustments and tax preference items include:

- Addition of *standard deduction* (if claimed),
- Addition of *itemized deductions* claimed for state and local taxes, certain interest, and part of medical expenses,
- Subtraction of any *refund of state and local taxes* included in gross income,
- Changes to accelerated *depreciation* of certain property,
- Difference between *gain or loss* on the sale of property reported for regular tax purposes and AMT purposes,
- Addition of certain income from *incentive stock options*,
- Change in certain *passive activity loss* deductions,
- Addition of certain *depletion* that is more than the adjusted basis of the property,
- Addition of part of the deduction for certain *intangible drilling costs*, and
- Addition of *tax-exempt interest* on certain private activity bonds.

CHAPTER 1: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CPE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1.

You may have to calculate and pay the alternative minimum tax (AMT) if your taxable income for regular tax purposes, combined with certain adjustments and tax preference items, exceeds a specified amount. Which of the following is not a tax preference item or an adjustment:

- A. changes to accelerated depreciation of certain property
- B. deductions for intangible drilling costs
- C. tax-exempt interest on certain private activity bonds
- D. interest income from savings accounts

CHAPTER 1: SOLUTION AND SUGGESTED RESPONSES

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

- | | |
|----|--|
| 1. | <p>A. Incorrect. Changes to accelerated depreciation of certain property is an example of an adjustment or tax preference item.</p> <p>B. Incorrect. Deductions for intangible drilling costs is an example of an adjustment or tax preference item.</p> <p>C. Incorrect. Tax-exempt interest on certain private activity bonds is an example of an adjustment or tax preference item.</p> <p>D. CORRECT. Interest income on a standard savings account would be reported on Schedule B and not as a tax preference item.</p> |
|----|--|