

EA Test Part 1 Review Notes

These are my review notes for the 2023-2024 EA test Part 1. This is a very abbreviated and concise summary of the information, so it's intended only for review after you have already learned the material from a training course.

See <https://taxmodern.com/exams> for the latest version and other notes. These notes are based on the <https://www.passkeyonline.com/> EA exam training course, which I highly recommend (I'm not affiliated with them at all). I tried Gleim, FastForward, and some of the others but I think the PassKey videos are just more enjoyable to watch and easier to learn from. It's only \$29.95 or \$44.95/month, which is ridiculously cheap.

Ages

- 13** - Child care credit limit.
- 17** - Child Tax Credit limit.
- 18** - Coverdell recipient age limit.
- 19** - EIC for non-disabled non-student. Child dependent unearned income rules. HoH qualifying non-student child.
- 24** - EIC for non-disabled student. Student child dependent unearned income rules. HoH qualifying student child.
- 50** - +\$1000 IRA contribution limit. +\$6500 employee SEP/401/401k contribution.
- 55** - +\$1000 HSA contribution limit.
- 59.5** - Withdraw earnings from Roth IRA without penalty.
- 65** - HSA non-med withdrawal without penalty. SD is +\$1400 married or +\$1750 single/HoH (or on 1/1 of next year, alive for birthday). 1040-SR.
- 70.5** - Old Traditional IRA RMDs (pre-2020), and Qualified Charitable Distributions age.
- 72** - Traditional IRA RMDs.

Income Amounts

- \$5** - MFS filing requirement threshold.
- \$400** - + earned income for child dependent Standard Deduction up to \$12,950. SE income requires filing. SE tax is owed.
- \$1150** - Child dependent unearned investment income becomes taxable.
- \$1500** - In interest/dividends have to file on Sch. B (or if foreign accounts of any amount).
- \$2300** - Investment income kiddie tax applies.
- \$4400** - Relative dependent max income.
- \$12,950** - Single Standard Deduction.
- \$19,400** - HoH Standard Deduction.
- \$25,900** - MFJ Standard Deduction.
- \$75,000** - MFS estimated tax at 110% of prior.
- \$125,000** - NIIT for MFS.
- \$147,000** - SS taxation cap.
- \$150,000** - non-MFS estimated tax at 110% of prior.
- \$170,000** - non-MFJ QBI phase-out.
- \$200,000** - Non-MFJ Child Tax Credit phase out starts. NIIT for single/HoH.

\$250,000 - Non-MFJ home sale capital gains exclusion. NIIT for MFJ.
\$340,100 - MFJ QBI phase-out.
\$375,000 - MFS mortgage amount for interest deduction.
\$400,000 - MFJ Child Tax Credit phase out starts.

Other Dollar Amounts

\$10 - 1099-INT issued.
\$20 - Tips per month to report to employer and tips subject to FICA.
\$300 - Max Educator Expenses.
\$450 - Late return 60+ days max penalty.
\$600 - 1099-NEC required.
\$1000 - ES payments safe harbor.
\$1400 - +SD married (MFJ/MFS/QSS) and blind or 65+.
\$1750 - +Standard Deduction single/HoHand blind or 65+.
\$2000 - Yearly Coverdell contribution limit. Child tax credit amount.
\$2500 - Max student loan interest deduction.
\$3000 - Child tax credit for 6-17. Min to deduct income later repaid as an itemized deduction.
\$3600 - Child tax credit for < 6.
\$6000 - < 50 IRA contribution limit.
\$7000 - > 50 IRA contribution limit.
\$16,000 - Gift tax form filing.
\$20,500 - < 50 SEP/401k/403k employee contribution limit.
\$500,000 - MFJ single home sale capital gains exclusion.
\$750,000 - Mortgage amount for interest deduction.

Percents

0.5% - Failure-to-Pay penalty per month.
1.45% - Employer/employee Medicare tax rate.
3% - +fed rate interest on payments.
3.8% - NIIT tax rate
5% - Failure-to-File penalty per month
6% - IRA/Coverdell/HSA excess contribution penalty
6.2% - Employer/employee SS tax.
10% - Lowest tax bracket
15% - Failure-to-File fraudulent penalty per month
15.3% - Total FICA rate.
20% - QBI deduction. Max cap gains rate. HSA non-med penalty.
24% - Backup withholding for US citizens/residents.
25% - Failure-to-File penalty max. Tax understatement for 6 year assessment. Unrecaptured 1250 gain max.
28% - Max tax on collectible sales profit.
30% - Backup withholding for NR aliens. Nonresident aliens (form 1040NR) 30% flat rate on US source income (unless tax treaty).
37% - Highest tax bracket
75% - File-to-file fraudulent max.
100% - Of prior year tax if AGI <= \$150,000 (\$75,000 if MFS) for estimated tax
110% - Of prior year tax if AGI > \$150,000 (\$75,000 if MFS) for estimated tax

Annual Dates

1/15 - 4th ES payment. Farmer/fisherman regular filing ES due.

3/1 - Farmer/fisherman early filing ES due.

4/1 - Due date for first RMD for Traditional IRA.

4/15 - Individual return due date. 1st ES payment. Late day to amend status MFJ -> MFS (unless death).

6/15 - Citizens abroad due date (active military, NR without withholding, citizens place of business is abroad).
2nd ES payment.

9/15 - 3rd ES payment.

10/15 - Extended deadline.

12/15 - Extended deadline living abroad request.

Dates

2019 - Alimony for new separations no longer taxable/deductible.

Time

2 years - 1040/1040X for refund time from payment.

3 years - 1040/1040X for refund time from return filed. IRS time to assess tax from return date (or due date if filed early).

6 years - IRS time to assess tax from return date if fraud or gross income understated > 25%.

7 years - 1040/1040X for refund if bad debt from worthless securities.

10 years - 1040/1040X for refund if foreign tax accrual/payment. IRS collections from date assessed.

Forms

1040 / 1040X / 1040-SR / 1040-NR - Individual

1041 - Estate return

Sch. 1

Sch. 2

Sch. 3

Sch. A

Sch. B

Sch. C

Sch. D - Combines with 8949.

Sch. E - Real property rental income and royalty income

Sch. F

Sch. SE

W-2G - Gambling winnings.

W-7 - ITIN request

W-9 - Ask for SSN

SS-8 - Report company that is using 1099 when should be W-2. And file 8919 to adjust FICA.

1095-A - ACA payments

706 - Estate taxes
 709 - Gift tax
 843 - Claim for Refund and Request for Abatement
 982 - Reduction of Tax Attributes Due to Discharge of Indebtedness

 1116 - Foreign Tax Credit

 2106 - Employee Business Expenses
 2120 - Multiple Support Declaration
 2555 - Foreign Earned Income

 3520 - Annual Return to Report Transactions with Foreign Trusts/Gifts
 3903 - Moving Expenses (armed forces)

 4137 - FICA for Unreported Tip Income
 4684 - Casualties and Thefts
 4797 - Sale of business assets
 4868 - Extension

 5329 - Qualified plan penalties
 5471 - Information Return of US Persons with Receipt to Certain Foreign Corporations

 6251 - AMT

 8283 - Noncash Charitable Contributions
 8332 - Release of Claim
 8379 - Injured Spouse Allocation
 8606 - Nondeductible IRAs
 8614 - Kiddie Tax (parent)
 8615 - Kiddie Tax (child's)
 8812 - Child tax credits
 8824 - Like-Kind Exchanges
 8829 - Business Use of Your Home
 8863 - Edu credits
 8867 - Paid Preparer's Due Diligence Checklist
 8880 - Saver's Credit
 8938 - Statement of Specified Foreign Financial Assets for Foreign Account Tax Compliance Act (FATCA):
 8949 - Sales of Capital Assets (flows to Sch D)
 8960 - Net Investment Income Tax Individuals
 8962 - ACA tax credit

Residency

- **Resident?** Green card or substantial presence (31 days current tax year AND 183 days during 3 year period -- counting 1/3 of days in previous year and 1/6 of days in previous previous year). **Exempt (remain NR):** foreign officials on A/G visas, teachers on temporary visas, researchers/scholars (for up to 2 years), au pairs

on J-1 visa, foreign students on temp visas (for up to 5 year), if "closer connection" to home country (Canadian snowbirds). If married to US resident, can if elect to.

- **NR alien** - Only taxed on US source income.
- **Resident alien** - Taxed on worldwide income.

Dependent Qualifications

(The "-ish" words here like "sibling-ish" means other similar relationships like half-brother, step-brother also count, etc.)

- **Initial tests:**
 - Dependents can't have **dependents**.
 - Dependent can't file **joint** return (unless only to get a refund but have no taxes even if filing separate).
 - **Citizen** or resident of US, Canada, or Mexico.
- **Qualifying child:** (HoH, EIC, Dependent Care Credit)
 - **Relationship Test:** child-ish, sibling-ish, or descendants of those (niece/nephew, but not cousins).
 - **Age Test:** < 19, or < 24 full-time student (5 months of the year), and younger than TP, or permanently disabled of any age.
 - **Residency Test:** Live with TP more than half of year. Exceptions: divorce (?), death, temp absence (college, military, institutional care, JV, etc.) of any amount of time. Exception: Parents divorced and custodial parent does **form 8332 release of claim (applies to CTC, but doesn't apply to HoH or EIC)**.
 - **Support Test:** Child can't provide > half of own support. SS benefits count as child's own support. Scholarships, food stamps, foster payments, don't count as child income.
 - **Tie-breaker:** If 2 TPs can claim them. They can agree > is parent(s) > live with longest > highest AGI.
- **Qualifying relative:** (HoH, EIC)
 - Is **not qualifying child** of any other TP.
 - **Member of household** entire year **-or- relationship** (child-ish, sibling-ish, parent-ish, or descendant of those). Not a household employee.
 - **Gross Income Test:** \$4400 max. Don't include sheltered workshop if disabled, tax exempt income, SS (unless MFS and lived with spouse at all, or SS is above taxable level). Include gross rent received.
 - **Support Test:** TP provides > half of their support (*food*, clothing, shelter, edu, medical). Exception: Form 2120 Multiple Support Declaration, can pick anyone providing > 10%.

Filing Status

- **HoH** - Unmarried or considered unmarried (separate return and apart last 6 months, or NR alien spouse). Taxpayer pays for > 50% of cost of home + food. Live with taxpayer 6+ months/year (unless is a parent/step-parent, grandparent and TP paying > 50% of **their** home for entire year).
 - Qualifying child: Can be a married child. If TP is married but considered unmarried, a grandchild doesn't qualify.
 - Qualifying relative: Must be relative, not just household member.

- **QSS** - Next 2 years after year of death if unmarried and has qualifying child (not parent). Must be child or stepchild (*can't be a foster child*), is a qualifying dependent. But ignore child income, child not joint return, TP can be a dependent. Lived with the TP entire year (except temporary absences), TP paying > 50% of *their* home for entire year.
- **MFS** - **No** Child Care Credit (unless meets HoH requirements), no EIC (unless ...), no income exclusion, no Adoption Credit, no Premium Tax Credit (unless abandonment/abuse), no edu credits, no student loan interest deduction, no untaxed base amount for SS income. **If lived with spouse at all during the year:** no Elderly/Disabled Credit, more of income included for SS tax calc, no real estate loss allowance (otherwise it's half amount and MAGI), \$10k Roth contribution AGI limit. **Half:** standard deduction, SALT cap, income limit for Child Tax Credit and Savers Credit, capital loss deduction (\$1500), mortgage interest deduction (\$375k). **Reduced:** \$0-\$10k phase out of Traditional IRA contribution deductibility if also have plan at work if lived with spouse.

Standard deduction

- Single/MFS: \$12,950
- MFJ or QSS: \$25,900
- HoH: \$19,400
- Dependent: Greater of \$1150, or earned income + \$400 (up to normal deduction).
- 65+ (tax year or on 1/1 and alive for the birthday) / Blind: (20/200/20 even with glasses)
 - MFJ/MFS/QSS (any kind of married): +\$1400 each
 - Single/HOH: +\$1750

\$0 standard deduction:

- If MFS, both must do same deduction type (or \$0 standard deduction). Fine if one is HoH.
- NR alien / dual-status.
- Short tax year.

Itemized deductions:

- **State/local taxes:** State/local income tax or sales tax (but not both), property taxes (domestic only), DMV taxes. SALT cap is \$10,000 or \$5,000 MFS.
 - **Foreign income tax** - Deductible with no cap.
- **Mortgage interest:** Home mortgage (secured by first or secondary home, up to), mortgage *late fees* and points. Loan of \$750k or \$375k MFS, or if from before 2017-12-15 it's \$1M / \$500k.
- **Investment interest:** (just interest, not other fees) Limited to net investment income, but can carry forward. Not to buy tax-exempt investments (muni bonds).
- **Medical:** > 7.5% of AGI. Must be paid during the year. Paid for dependents, or adopted child (even before adoption). Brail books, guide dog, capital expenses (wheelchair ramp, etc.), glasses, sterilization/fertility, disabled dependent care (if not using for Dependent Care Credit), health insurance (not coverage for lost wages etc), Medicare A/B/D premiums, special disabled/nursing home, special ed (tutoring, etc), lead paint removal, medical conference, legal fees to fight for medical coverage, transportation to medical care (\$.18/\$.22), lodging needed for treatment (\$50/night/person -> up to 2 people for \$100), long-term care insurance (up to limits).
 - **Long-term care:** (chronically ill): can't do 2 activities (eating, toilet, transfer, bathing, dressing) for at least 90 days, or requires supervision for mental issue safety.

- **Not deductible:** weight loss foods, supplements, nonprescription medicine (except insulin), any medicine imported from another country, nicotine gum/patches, anything illegal (medical marijuana), exercise programs, funeral, household help.
- Deductible by parent that pays expense, regardless of custody etc.
- **Charity:** Limited to percent of AGI. 60% limit if cash (to 501c3 orgs). 50% non-cash donations. 30% appreciated cap gains property (claiming FMV as donation), vehicle for the org to use for itself, or private nonoperating foundations, vets orgs, frat societies, nonprofit cemeteries. But is 20% if appreciated cap gains to those. Remainder above limits carried forward up to 5 years (or lost on death), retain same percent of AGI limit.
 - Transportation to volunteering, \$0.14/mile for driving.
 - Non-qualifying orgs: Political orgs, chamber of commerce, raffles (wagering activity).
 - Substantiation: Minimum is bank record or a written receipt.
 - **Cash:** < \$250 cash transaction => TP's written record (at a minimum). > \$250 cash => Written receipt with amount, date, any goods/services. Can be a single annual statement.
 - **Non-cash:** (values are any single donation, or group of similar items)
 - \$0-\$250 need receipt. \$250-\$500 receipt with description, FMV, and statement about no goods/services.
 - > \$500 form 8283. If vehicle, only gross proceeds of sale by the charity (attach their 1098-C), or FMV of the vehicle if that's less (or if the charity keeps it or gives it to a needy person -> with written statement).
 - > \$5000 written appraisal by due date of the return (unless is stock/bonds, even crypto).
 - > \$20,000 artwork or \$500k anything else then attach appraisal to the return.
- **Casualty Losses:** (non-business) Only if federally declared disaster with personal/theft losses. Form 4684 Casualties and Thefts. The first \$100 per casualty and 10% of AGI isn't deductible.
- **Miscellaneous deductions:** Gambling loss (up to earnings amount), work expenses to help with a disability, ponzi investment scheme, amortizable premium on taxable bonds, casualty/theft loss on "income-producing" property (like gold coins as an investment stolen), estate tax on income "in respect of a decedent" (IRD), excess deductions of an estate/trust in final tax year, unrecoverable payment from an annuity.

Capital Gains

Long term cap gains rates: 0%, 15%, 20%

- **Qualified dividends:** (Ordinary dividends are at ordinary tax rate.) But not "nondividend distributions" -> which is a return of capital (not taxable while basis > 0).
- **Distributions from mutual funds** ("capital gain distribution" or "capital gain dividend") reported as long term capital gains (regardless of holding time) on Sch. D.
- **Collectibles:** max 28%.
 - **Inheritance** always has stepped-up/down value on date of death, or Alternate Valuation Date (6 months after) if executor choose.
 - **Noncapital assets:** (ordinary income rates) Business use, anything created by the TP, securities dealer.
 - **Gifts (or sales to related party):** - transfer the basis. Exception: FMV on transfer date is less than the basis, -and- the recipient sells it at a loss, then the basis is the FMV of transfer. No tax if sold for amount between the original basis and the lower transfer FMV.

- **Related Party Transactions:** (close family member or > 50% owned business, not liquidation of a corp) - Can't deduct the loss on the sale, follows gift tax rules. Spouse (not ex), sibling-ish, ancestors/descendants of those. Ok relatives: Uncles, niece/nephew, in-laws step-siblings, step-children, in-laws, ex-spouse.
- **Worthless Security:** Can go back to amend up to 7 years. On form 8949, write "worthless", 12/31.

Sale of main home

(Section 121 Exclusion): \$250k / \$500k joint. If all excluded, don't have to report it. Main home, haven't done it before in at least 2 years, lived in it 2 years of last 5 (both spouses), owned it 2 years of last 5 (either spouse), not just land but can include land. Vacations/seasonal away time doesn't matter. Multiple owners can all take the exclusion if they pass the tests.

- If spouse dies, surviving spouse (not remarried) gets their owned/lived-in time added to their own, and they get 2 years from date of death.
- Military personnel exception - 5 year lookback instead of 10 years.
- Disability Exception - TP becomes disabled, lived in house ≥ 1 year, time in a licensed facility counts for the use test. Still requires ownership test.
- Reduced exclusion: Unforeseen circumstances in household / co-owner (death, divorce, separation, health, job loss, job change > 50 miles, twins, disaster, involuntary conversion, etc etc.), and < 2 years for any of the tests. Calc: $(250k \text{ or } 500k) * (\text{days} / (365 * 2))$.

Other Income (Sch. 1)

- **Gambling:** Even if professional gambler (Sch. C), losses can't exceed earnings, NOL doesn't carry forward.
- **Hobby Income:** Taxable but can't deduct expenses, except COGS.
- **Canceled debt:** (1099-C) Not taxable if these exclusions: (Form 982, Reduction of Tax Attributes Due to Discharge of Indebtedness).
 - **Non-recourse:** Not taxable if the "personally liable" checkbox (recourse loan) isn't checked.
 - **Insolvency exception:** Not taxable if insolvency immediately prior to discharge of debt (*all* their assets including retirement accounts are less than their debts) -> form 982 insolvency, or partially not taxable to the extent of the insolvency. Or bankruptcy (also form 982).
 - **Primary Residence Debt:** Canceled *primary* residence debt up to \$750k (\$375k MFS). Qualified Principal Residence Indebtedness (QPRI) mortgage to buy, build, substantially improve primary residence, including refi or mortgage restructuring.
 - **Student Loan Cancellation:** American Rescue Plan Act (ARPA) allows excluding most student loan forgiveness through 2025.
 - **Otherwise deductible debt:** Such as a business expense.
- **Repossession / foreclosure:** Treated as a "sale". Net loss from a personal use asset isn't deductible.
- **Court awards:**
 - *Not taxable:* Payment for physical injury/sickness, or resulting emotional distress from physical injury not taxable. Wrongful incarceration.
 - *Taxable (income tax but not SE tax):* Emotional distress. Punitive damages. Harassment awards.
 - *Non-deductible by business:* Harassment payments that are nondisclosure.
- **Prizes/Awards:** Taxable at FMV, unless rejected or directed to a charity.
- **Scholarship/fellowship:** Taxable if not degree candidate, is more than qualified edu expenses (not room & board), or is payment for work.

- **Home office:** Business owners only (actively involved, including self-managed rental). Simplified method up to 300 sf at \$5/sf. Exclusively for business. Can't create a loss, but can carry forward. If S-corp, do "accountable plan" to pay self for office. Can divide between businesses based on time etc. (one form 8829 per business).
- **Misc:** Strike benefits, jury duty pay (when not turned over to employer, not parking fees etc), Alaska permanent fund dividends, estate executor, gifts to host of party where sales are made, executor of an estate pay.

Adjustments to Income (Sch. 1)

- **Educator expenses** up to \$300 each. Not health courses (except athletics). P.E. only if athletic equipment. Not for home schooling. K-12 only, 900 hours/year min.
- **Reservists, performing artists, fee-based government officials:** Work related expenses. Form 2106.
- **Moving expenses for armed forces:** For spouse/dependents, if not reimbursed. Form 3903.
- Half of **SE tax**
- **SEP, SIMPLE**, Qualified plans
- **SE health insurance deduction:** Only if business has a profit after subtracting the 1/2 SE tax deduction. Can be wages from S-corp with > 2% share. Can't if either spouse *eligible* for work health insurance, even if decline it.
- **Penalty for early CD withdrawal:** (reported on 1099-INT) Adjustment to income on 1040.
- **Alimony paid** (pre 2019 divorce decree)
- **Student Loan Deduction:** Higher edu loan interest. Self, spouse, or dependents. Not if MFS, not if TP can be claimed as a dependent. \$2500 limit per *return*, has AGI limit. From financial institution only (on 1098-E if > \$600). For degree, certificate, etc.
- Traditional **retirement plan** contributions
- **Misc:** Jury duty pay remitted to employer, expenses related to rental of *personal* property for-profit (Turo, etc), olympic medals, clergy retirement plan contributions, unlawful discrimination claim attorney fees (up to amount of related income), IRS whistleblower award attorney fees/court costs, other misc deductions with 3 letter codes.

Misc:

- **FICA** 7.65% employer/employee -> 15.3% self-employed (each half is 6.2% SS + 1.45% Medicare). Capped at \$147,000 income, then just 2.9% Medicare.
- **Net Investment Income Tax (NIIT)** - 3.8% to fund ACA. Form 8960. Individuals / estates / trusts (lower for trusts). Applies to net investment income above MAGI limits: Single/HOH \$200k, MFJ/QSS \$250k, MFS \$125. US citizens/residents only. Not withheld by employers. **Net investment income:** interest (not tax-exempt muni bonds), dividends, cap gains, passive rental income, nonqualified annuities, trading financial stuff (if not professional trader), passive business income. **Not:** earned income, pension, IRA.
- **Additional Medicare Tax:** 0.9% to fund ACA. Form 8959. Earned income above MAGI limits: Single/HOH/QSS \$200k, MFJ \$250k, MFS \$125. Earned income, anything subject to regular medicare tax (and RRTA). Employer has to withhold it (when over \$200k regardless of filing status), but no employer share. SE can't deduct half of it.

- **AMT:** Form 6251. TCJA made exemption indexed for inflation. No AMT if under the thresholds. Triggers: high income/deductions, exercise incentive stock options (ISOs), large cap gains sale, tax-exempt interest from private activity bonds.
- **Kiddie Tax:** < 19, or < 24 full-time student (but not age 18 if providing > 50% of own support), and required to file tax return, not MFJ, and at least one parent is alive at end of the year. Certain unearned income including investment income, interest, dividends, cap gains distributions, unemployment. Investment income > **\$2300**. First **\$1150** is tax-free, second \$1150 is at child's marginal rate. **Methods to report:** child's return form 8615 (preferred), or parent's return form 8814 (can't if child has earned income) (increases AGI, etc, not good).
- **Nanny Tax:** Household employee, controlled by TP. Not caring for multiple kids. > **\$2400** paid to any person. Employer needs EIN, withholds half of FICA and remits to IRS (not income tax, unless they request it), employer covers half of the FICA, file schedule H, file/provide W-2. Exceptions: Pay to spouse, parent, child < 21 -> No FICA/FUTA paid, but employee has to report for income tax.
- **Mutual fund or REIT dividends:** "declared" in the last quarter but paid in the next year are taxable in the previous year.
- **Constructive Dividends** - C/S corp if caught in an audit. Not deductible to corporation but taxed to recipient too (as dividend). Over/under payment of rent to self, property sold at under FMV, below market interest loan, etc.
- **Estimated tax penalty:** Ok if < \$1000 owed **or** paid at least 90% of it **or** 100% of prior year if AGI <= \$150,000 (\$75,000 if MFS) , 110% of prior year tax if AGI > \$150,000 (\$75,000 if MFS).
- **Clergy:** Pay income and SE tax. Only SE tax on housing provided.
- **Barter:** If goods given instead of pay, if price was agreed beforehand use the price, otherwise use the FMV of the goods.
- **Edu savings plans.** Earnings grow tax-free. Tax free to recipient as long as used for college edu expenses *including room & board* (left over after scholarships). K-12, undergrad, graduate. 10% for distributions not used for edu.
 - **529 plan (Qualified Tuition Programs - QTP):** Contributions are treated as a gift (gift limit), but amounts are removed from calculation of donor's gross estate (?). Limit of \$10k/year for k-12, otherwise 10% penalty plus tax. Can roll over to another 529 (within 60 days). No income limit.
 - **Coverdell ESA:** \$2000/year max per beneficiary (but can be spread over multiple accounts), otherwise 6% penalty imposed *on the child (form 5329)*. May be self-directed. Contributions while child < 18. Use by age 30 (unless special needs), or transfer to a new beneficiary in their family. Has income limit.
- **HSA:** contributions reduce income. Can't be enrolled in Medicare, can't be claimed as a dependent. HDHP and no other insurance. Contribution max \$3650 (self only), \$7300 (family), 55+ get +\$1000. Deductible min. \$1400 self / \$2800 family. Max out of pocket \$7050 self / \$14100 family. OTC medication allowed. 20% penalty + income tax if not used for meds. 6% excess contribution penalty. Taxed but no penalty if 65+, disabled, or dead.

Exempt from tax:

- **Combat** can be optionally untaxed for entire month with any combat zone time. Vet disability or GI bill money isn't taxable.
- **Medicare waiver payments** (optionally) excluded from income only if recipient of care lives in the same home (Notice 2014-7). Still counts as income for credits. Can use to make non-deductible IRA contributions (or Roth).

- **Workers comp** insurance.
- **VA disability comp** (military injury).
- **SSI** - supplemental security income (a type of SS disability income).
- **Life insurance** not taxable if result of death of the insured (but interest from annuity payments is). Or terminally ill < 24 months to live.
- **Muni bonds** (but must be reported because SS calc)
- Dividends left on deposit with the U.S. **Department of Veterans Affairs**
- **Food stamps and utility bill assistance**
- **Series EE and Series I bonds** may be excluded from income if used to pay for qualified higher educational expenses during the year and you meet other requirements for the Educational Savings Bond Program.
- **Child support, alimony from divorced from 2019**. Alimony only taxable if < 2019, in cash, payments don't continue after death, related to contingencies of a child, aren't for repayment of a loan etc.
- Transfer of property in a **divorce settlement**.
 - Retirement plan funds transferred as part of a divorce settlement -> **Qualified domestic relations order (QDRO)**.

Partially/not exempt:

- **Disability insurance?** Is taxable if employer paid premiums with post-tax dollars.
- **Disability retirement income** is taxed as wages until they reach normal retirement age.
- **Social security:** MAGI of half SS, plus AGI, plus tax exempt interest up to \$32k MFJ, \$0 MFS, other \$25k is untaxed. Phases up to 85% taxable.

Credits

If no tax ID number, can't amend to claim credits retroactively and can't claim them after the final return due date.

Form 8867 checklist: For EITC/CTC/ACTC/AOTC/HOH.

- **EITC:** (*refundable*) Schedule EIC. Valid SSN for employment (by final due date of the the return), US citizen or resident all year. AGI limit. Must have earned income (not SS, alimony, pensions, annuities, unemployment, inmate wages, etc -- most non-taxable income except combat pay and *qualified Medicare waiver payments is ok*). Under \$10,300 investment income. Not a dependent.
 - With qualified child (for higher amounts): Child-ish or sibling-ish, or descendent, foster. < 19 or < 24 student and younger than the TP (or disabled). Lived in the US with the TP for more than half the year. Valid SSN unless died the year of birth.
 - Without qualified child: TP must live in the US more than half the year, age 25-65.
- **Form 8812 (child tax credits):**
 - **Child Tax Credit (CTC):** (nonrefundable): child < 17 on 12/31 (even if disabled). Child-ish, sibling-ish, or their descendants. Not providing > 50% of own support. Must be claimed as a dependent on the TP's return (can be non-custodial parent). Child not filing MFJ return (except for a refund). Valid SSN only (US resident or resident alien). Lived with TP > 6 months (unless born/died, or custodial parent gives permission to claim it). \$2000/child. AGI phaseout > \$200k (\$400k joint), decreases by \$50 for every \$1000 over.

- **ACTC:** (*refundable*) May \$1500/child. Refundable, but TP must have earned income. 15% of TP's earned income over \$2500 **or** amount of CTC above their tax liability. Can't if they have foreign earned income exclusion (form 2555).
- **Other Dependent Credit (ODC):** (parent, child without SSN) \$500 each dependent. Can't get CTC (over age or are other dependents -- parents, etc.). Must be claimed as a dependent on the TP's return. Dependent must have a valid SSN *or ITIN by final due date*, US citizen, national, or resident. Didn't qualify for the CTC/ACTC. (same) AGI phaseout > \$200k (\$400k joint), decreases by \$50 for every \$1000 over.
- **Child and Dependent Care Credit:** Dependent child < age 13 at time of care, or disabled of any age. Or disabled spouse/parent/etc, their income doesn't matter. TP working. 20%-35% of expenses depending on AGI. \$3000 for 1 kid, \$6000 for 2+. Not if MFS (unless could basically qualify as HoH). Preschool, after-school care, disabled care, transportation costs of the provider, fees/deposits, household services, day camp. **Not:** Overnight camp, tutoring, forfeited deposit, not for food/etc unless incidental.
- **Adoption Credit:** Up to \$14,890 for qualified expenses ("special needs" child from US gets max credit even if no adoption expenses). AGI phase out is \$223k-\$263k for all filing types. Can't be MFS. Child < 18 (or disabled), not spouse's child. Nonrefundable, but can carry forward up to 5 years.
 - **Expenses:** court costs, travel, meals/lodging, unsuccessful adoption (US citizen/national only), post-adoption expenses. **Not deductible:** illegal, surrogate parenting.
 - **Domestic child:** Expenses paid year of or year before, even if unsuccessful. **Foreign child:** Must be successfully finalized first, then past expenses become deductible.
- **Retirement Savings Contributions Credit (Saver's Credit):** Form 8880. 10%-50% of eligible contributions to IRAs and other plans. Max \$1000 (\$2000 MFJ if both contributing). 18+, not full-time student, not a dependent. AGI phase out (don't need to know) \$20k-\$34k single, \$31k-68k MFJ.
- **Credit for excess SS or RRTA tax withheld:** (*refundable*) When multiple jobs withhold FICA and high income so SS income above the cut-off (\$147k).
- **Edu credits:** Form 8863. Child not a dependent on any return (so child can't claim self). Not MFS. Has AGI limit. Qualified expenses: tuition, required books, equipment. Not room and board, health expenses, insurance, transportation. Reduce expenses by tax-free qualified scholarships/grants, or make the scholarships taxable.
 - **Lifetime Learning Credit:** Max \$2000/*return*. 20% of expenses. Post-secondary of any kind, doesn't have to be for degree, even one class. Unlimited number of years. Felony drugs ok.
 - **AOTC:** (partially *refundable*) Max \$2500/*student* (100% of first \$2000, then 25% of next \$2000). 40% of credit is refundable (so \$1000 max). Same student can't take the Lifetime credit. For degree/credential. At least half-time student. No felony drug convictions. Max 4 years total of post-secondary for the student, undergrad only.
- **Premium Tax Credit:** (*refundable*) From ACA (2010). No more individual mandate on federal since 2018, but some states may, but IRS can't use aggressive collection for it. American Rescue Plan Act (ARPA) passed 2021-03: larger PTC for 2021-2022, allows credit above 400% of poverty line for now. Form 1095-A statement. Most get "Advance Premium Tax Credit" (APTC) paid upfront to the insurance, must file a return to reconcile (form 8962). **Requirements:** marketplace insurance, US citizen/resident, unable to get coverage from employer/government (ok if just child needs it), can't be claimed as dependent, not MFS (unless abuse/abandonment), income limits.

IRA Accounts

\$6000 limit (\$7000 50+) to any IRAs. Unlimited: qualified reservist repayment, rollover contributions, etc.

- And have to have income (either spouse if MFJ). Work income, *taxable* alimony (grandfathered alimony, and not child support), combat pay. Don't have to subtract business loss from wages income. 6% excess contribution penalty, unless corrected by final return due date, then applies only to excess earnings.

- Income ok but nondeductible (creates basis): Qualified Medicare Waiver Payments.

- Doesn't count: Child support, nontaxable alimony (new), passive rental income, portfolio income, pension, annuity, gambling, *excluded* foreign income (untaxed).

- **Rollovers:** Direct trustee to trustee is unlimited. Indirect within 60 days to avoid penalty if indirect, only 1 per year, employer required to withhold 20% (will get a refund as taxes paid when files return).

- **Inherited:** (beneficiary) Can be anyone. Still taxable (Traditional IRA), but no penalty for withdrawing.

- Old plans grandfathered in before SECURE Act 1.0 can choose lump sum or "stretch IRAs" minimum distributions over life expectancy. Now: Fully distributed by end of 10th year following the death. Guidance (proposed) says RMDs for years 1-9 if inherited from someone who already had RMDs (penalties waived for 2021-2022).

- **Eligible Designated Beneficiaries (EDBs):**

- Surviving spouse -> treat as own or rollover to own, or by 10th year, or distribute over life expectancy.

- Minor child (not grandchild), disabled/ill or anyone < 10 years younger than owner -> can distribute over life expectancy, or by 10th year.

- Anyone else not an EDB: Fully distributed by end of 10th year following the death.

- **Prohibited transactions:** Account treated as entirely distributed. Using IRA as collateral, borrowing money from an IRA, buying a non-residence (vacation home) using funds, selling/leasing/exchanging property to the IRA (or fiduciaries), unreasonable compensation for managing it, transacting with "disqualified persons" (spouse, parents, grandparents, children, grandchildren, spouses of those -- but cousins, in-laws, siblings, ok!).

- **Prohibited investment:** Collectibles (except gold/silver coins minted by US Treasury, some bullion, but can't take possession), life insurance, s-corp stock, real estate for personal use.

- Traditional IRA:

- **Contributions:** Always deductible if have qualifying income except when self/spouse also covered by a retirement plan at work (401k etc) and income over a limit. (Otherwise no income limit.) Can still contribute, but nondeductible and have to file form 8606 (\$50 penalty if don't) and will have "basis in the IRA". Have to track it forever to prove it. *Self has plan at work:* Single/HoH \$68k-\$78k phase out. MFJ/QSS \$109-\$129 phase out. MFS \$0-\$10k phase out if lived with spouse at all during year, otherwise single limit. *Or spouse only has a work plan:* MFJ \$204k-\$214k. MFS \$0-\$10k.

- **Distributions:** Taxable unless rollover to another plan, or distribution of nondeductible contributions (tax-free). 10% penalty if under 59.5 unless (still taxed, just not penalty, form 5329): medical expenses > 7.5% of AGI, medical insurance if unemployed, permanently disabled, dead, qualified edu expenses, build/buy/rebuild first home up to \$10k, IRS levy, series of substantially equal periodic payments, active duty reservist, Qualified Disaster Distribution (QDD), after birth/adoption \$5k/child max within 1 year, terminal illness after 2022-12-29.

- **Qualified Charitable Distributions (QCD):** Age 70.5+ (!), up to \$100k per spouse, trustee to charity direct, by end of year, counts towards RMD. QCD exclusion reduced by amount of any contributions made to the IRA the same year.

- **RMDs:** 70.5 -> now 72 if turned in 2020 or later. Or else 50% penalty, or 10% if corrected. First one can wait until April 1st of next year. Required to continue after death (by estate executor).

- **Roth IRA:** Has income limit, but can do "backdoor" conversion. Employer plan has to effect on contribution limit. Never any RMDs.
 - Distributions: Can withdraw basis at any time with no penalty/tax. Withdrawals before 59.5 may have 10% penalty (min. 5 year holding time), or tax-free to beneficiary if had been held for 5 years. Amounts rolled over from a traditional IRA or qualified retirement plan can't be distributed for 5 years, or else 10% penalty.
- (none in 2022) Qualified Disaster Distribution (QDD) / Coronavirus-Related Distribution (CRD) - No penalty, but taxable income. Up to \$100k. Income taxed over 3 years. 3 years to make full/partial repayments.
- Secure Act 2.0 allows penalty-free \$22k withdrawals. No info yet. Retroactive to 2021-01-26. 3 year repayment.

Foreign Income

- All US citizens / US resident aliens subject to tax.
- **Foreign earned income exclusion:** Income from *services* performed in a foreign country while *tax home is in a foreign country*. Not passive, passive rentals, retirement income. Max \$112,000/person, must file form 2555 to claim it each year (per person, not combined for couples). But "election remains in place until formally revoked" ? Tests:
 - **Bona Fide Residence Test:** US citizen/resident who is a *resident* of a foreign country for an uninterrupted period that spans an entire tax year.
 - **Physical Presence Test:** US citizen/resident alien who is present in a foreign country (or multiple) for ≥ 330 full days in 12 months. If partial year, must prorate the foreign income based on the number of days spent in the country. May have to file special extension and wait for it.
- **Foreign Housing Exclusion (if employer paid) / Deduction (self-employed):** Reasonable housing expenses while qualified for foreign earned income exclusion. Reduces income tax but not FICA.
- **Foreign Income Tax Deduction/Credit:** US citizens/residents only (not NR aliens). May just be from foreign investments. Choose itemized deduction (Schedule A) **or** credit (form 1116) -- but have to do same for entire return for all countries -- can amend to change the choice for up to 10 years (!). Tax must be paid by TP, legal/actual income tax, can't double-dip with Foreign Earned Income credit. Not penalties/interest, not terrorist countries, not oil/gas extraction income. If tax reported on 1099-DIV/INT and $\leq \$300$ (\$600 MFJ) then can just claim directly on the 1040 form.

Foreign Accounts

- Laws: Bank Secrecy Act (BSA) / Foreign Account Tax Compliance Act (FATCA)
- "United States Person" - US citizen (including children), US entities, NR alien electing to be treated as US citizen.
- **FBAR** (Form 114 Report of Foreign Bank and Financial Accounts): E-filed with FinCEN (but IRS does enforcement). Due April 15th, but automatic extension to October 15th. US citizens, resident aliens, trusts, estates, and other domestic entities.
 - Person had interest in or signature authority over any financial account outside the US, and aggregate value of all foreign accounts exceeds US\$10,000 at *any time* during the year. Spouses aren't combined, it's just what each person has. Keep account records for 5 years after the year filing. Not "foreign" account if owned by a government entity, international financial

institution, or US military banking. Not safe deposit box, unless has currency or bullion in it. Bullion held by taxpayer doesn't count.

- Spouses can file one FBAR (only one spouse signs it) if all accounts jointly owned, and other spouse files form 114a (with their signature). Otherwise both spouses report on their own FBAR all their own personal accounts and all jointly owned accounts.
- Penalties: Can be > \$10k/year for non-willful (penalty is per FBAR form)., or willful \$100k or 50% of the balance per year. Plus criminal penalties \$250k and 5 years prison.
- **Form 8938 - Statement of Specified Foreign Financial Assets for Foreign Account Tax Compliance Act (FATCA):** *Detailed* foreign account info. Only if filing a tax return. Assets include: foreign financial accounts, stock/securities (not held in a US brokerage), pensions, deferred compensation plans, interests in an estate, partnership interest, insurance contract/annuity with a cash-surrender value. **Not:** real estate, unless held through a foreign entity (trust, corp, etc.). Not bullion, cash, collectibles, etc if held directly.
 - TP **inside the US:** Unmarried/MFS total foreign assets > \$50k on 12/31 or > \$75k at any time. MFJ \$100k/\$150k.
 - TP living **abroad:** Unmarried/MFS total foreign assets > \$200k on 12/31 or > \$300k at any time. MFJ \$400k/\$600k.
- **Schedule B Part III:** Financial interest or signature authority over *any* foreign financial account. If filing a return, have to report any they have.
- **Form 5471 Information Return of US Persons with Receipt to Certain Foreign Corporations:** Ownership of a foreign corporation > 10%, or is officer/director. Required to file even if not filing a return. \$10k per entity penalty for not filing.
- **Form 3520 - Annual Return to Report Transactions with Foreign Trusts/Gifts:** > \$100k from NR alien person/estate. Must aggregate gifts from related parties. Not if for qualified tuition or medical payments made directly to the college/hospital/etc on behalf of a US person. Due at same time as tax return, but filed separately. No taxes due, just an information return.