

The Income Tax Return

CHAPTER 1 FILING INFORMATION

CHAPTER 2 FILING STATUS

CHAPTER 3 PERSONAL AND DEPENDENCY EXEMPTIONS

COPYRIGHTED MATERIAL
<http://www.pbookshop.com>

<http://www.pbookshop.com>

Filing Information

Filing an income tax return is a yearly obligation for most U.S. citizens and residents. However, not everyone is required to file a return, and even some who do not have to file may want to do so for various reasons. Tax returns are due by a set date—generally April 15 for most individual taxpayers. It is possible to obtain an automatic six-month extension if action is taken in a timely manner. If not, penalties can apply. There are different versions of Form 1040, *U.S. Individual Income Tax Return*, for individuals. The version to use depends on the taxpayer's income, deductions, credits, and other factors. Special rules apply to individuals who are not U.S. citizens or residents.



ALERT: If the taxpayer's name has changed due to marriage or divorce, the taxpayer should report the change to the Social Security Administration before filing the return.

Personal Information

In order to complete a return, you need to know certain personal information about a taxpayer. You must enter some of the information directly on the tax return; other information is useful to you as a preparer.

Taxpayer's Name The name of the taxpayer and that of his or her spouse (if married and filing jointly) must be included on the return. See Chapter 2 for information on filing status. There is no requirement that the husband's name appear first.

Address Usually the address is a street address. However, a post office box number can be used if the post office does not deliver mail to the home. A foreign address may be used if the taxpayer is located outside of the United States.

Daytime Phone Number The phone number is optional information that can be entered at the end of the return. The IRS may use this phone number to contact the taxpayer to speed up the processing of the return.

Taxpayer Identification Number Enter the taxpayer's Social Security Number (SSN) (and the SSN of the taxpayer's spouse even if filing a separate return). Nonresident and resident aliens who are ineligible for a SSN must include their Individual Taxpayer Identification Number (ITIN).

Date of Birth The taxpayer's date of birth is not entered on the return but is used to determine eligibility for certain tax breaks, such as the additional standard deduction amount for those age 65 and over.



ALERT: If the taxpayer plans to move after the return is filed, the taxpayer should complete Form 8822, *Change of Address*, at the time of the move. This will ensure that refunds and other IRS communications reach the taxpayer at the new address.



ALERT: An ITIN can be obtained by filing Form W-7, *Application for IRS Individual Taxpayer Identification Number*. The taxpayer generally submits Form W-7 to the IRS together with the first income tax return he or she files. See the form's instructions for more details.



TIP: A taxpayer can elect to contribute to the presidential election fund. It does not change the taxpayer's tax liability in any way. If the taxpayer wants to contribute, this is indicated in a check box on Form 1040. Taxpayers using the married filing jointly filing status can each make their own decision.

Disability Disability information is not entered on the return but may alert you to possible tax breaks, such as an additional standard deduction amount for blindness or exemption from an early distribution penalty for IRA withdrawals before age 59½.

Occupation List occupation information at the end of the return near the signature line.

Filing Requirements and Thresholds

Certain taxpayers *must* file a tax return while others *may* want to file even though they aren't required to do so.

A person *must* file a tax return if **gross income** is at least a threshold amount (called the "filing threshold") for the person's filing status (explained in Chapter 2) and age. This is so even if the person is a U.S. citizen or resident living outside of the United States.



DEFINITION: Gross income is all income received that is not specifically tax free, including income from sources outside the United States. Examples of gross income include gain on the sale of a principal residence (even though the gain may be all or partially excluded) and the taxable portion of Social Security benefits (see Chapter 9).

General Filing Thresholds

Table 1.1 lists the filing threshold amounts.

Example

Stan is single, age 45, with interest income of \$1,200 and wages of \$20,000. He must file a return because his gross income ($\$1,200 + \$20,000 = \$21,200$) exceeds the filing threshold of \$9,750 for 2012.

TABLE 1.1 Filing Threshold Amounts

| Filing status | Age at end of 2012 ¹ | 2012 Gross income at least |
|---|---------------------------------|----------------------------|
| Single | Under 65 | \$9,750 |
| | 65 or older | \$11,200 |
| Married filing jointly | Both spouses under 65 | \$19,500 |
| | One spouse 65 or older | \$20,650 |
| | Both spouses 65 or older | \$21,800 |
| Married filing separately | Any age | \$3,800 |
| Head of household | Under 65 | \$12,500 |
| | 65 or older | \$13,950 |
| Qualifying widow(er) with dependent child | Under 65 | \$15,700 |
| | 65 or older | \$16,850 |

¹Those born on January 1 are treated as age 65 on the previous December 31. Thus, a person born on January 1, 1948, is treated as attaining age 65 in 2012.

Example

Sarah is single, age 70, with interest income of \$1,200 and Social Security benefits of \$20,000. She does not have to file a return. Her Social Security benefits are not counted as gross income because they are not taxable. Her gross income of \$1,200 does not exceed the filing threshold for 2012 of \$11,200 for a single taxpayer age 65 and over.

The gross income thresholds reflect the standard deduction amount for each filing status plus the personal exemption amount.

A person *must* also file a tax return if he or she:

- Is self-employed and has net earnings from self-employment of at least \$400.
- Had wages of \$108.28 or more from a church or church-controlled organization that is exempt from employer Social Security and Medicare taxes.
- Owes any special taxes including
 - The alternative minimum tax (AMT).
 - Additional tax (penalties) on individual retirement accounts (IRAs) or other tax-favored accounts.
 - Employment taxes for household employees.
 - Social Security and Medicare tax on tips not reported to an employer or uncollected Social Security and Medicare or Railroad Retirement Tax Act (RRTA) tax on tips reported to an employer.
 - Recapture of the first-time homebuyer credit or other credit.
 - Additional taxes on Health Savings Accounts (HSAs), Archer Medical Savings Accounts, and Coverdell Education Accounts.

Special Rules for Dependents

The usual filing thresholds discussed above do not apply to a person who is treated as a dependent of another taxpayer. A dependent is an individual whose exemption may be claimed on another person's income tax return. The rules for dependents are discussed in Chapter 3. Filing requirements for dependents turn not only on gross income but also on **earned** and **unearned income**.

Table 1.2 shows the filing threshold for dependents.

Example

A taxpayer's dependent child, who is single, age 17, and is not blind, earned \$5,900 from a part-time job throughout the year and also received bank interest of \$500. A tax return for the child must be filed because the child had gross income of \$6,400 (\$5,900 earned income and \$500 unearned income) that exceeded the filing threshold of the larger of (1) \$950, or (2) earned income up to \$5,560, plus \$300.



ALERT: If the only reason for filing a return is to report the additional tax on IRAs or other tax-favored accounts, a taxpayer can file Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, by itself; no income tax return needs to be filed. See Chapter 35 for information on Form 5329.

**DEFINITIONS: Earned**

income is income from the performance of personal services. Examples include salary and wages, earnings from self-employment, tips, and taxable scholarships and grants.

Unearned income is income from investments and other sources not involving personal services. Examples include taxable interest, ordinary dividends, capital gain distributions, unemployment benefits, taxable Social Security benefits, pensions and annuities, and distributions of unearned income from trusts.



ALERT: Even a dependent must file a return if any special taxes are due, such as if he or she had self-employment income of at least \$400 or owed Social Security or Medicare tax on unreported tip income.



ALERT: If a dependent child under age 19 or a full-time student under age 24 at the end of the year has income only from interest, dividends, and capital gain distributions and is subject to the kiddie tax (the kiddie tax is a tax imposed on certain children with investment income of \$1,900 or more), the child's parent may be able to elect to report the income on the parent's return (discussed in Chapter 34). In such a case, the child does not have to file a return.

TABLE 1.2 Filing Threshold for Dependents for 2012

| Marital status | Under 65/not blind | 65 or older or blind |
|-----------------------|--|---|
| Single | Unearned income over \$950, or | Unearned income over \$2,400 (\$3,850 if 65 or older and blind), or |
| | Earned income over \$5,950, or | Earned income over \$7,400 (\$8,850 if 65 or older and blind), or |
| | Gross income more than the larger of (1) \$950, or (2) earned income up to \$5,650, plus \$300 | Gross income more than the larger of (1) \$2,400 (\$3,850 if 65 or older and blind), or (2) earned income up to \$5,650, plus \$1,750 (\$3,200 if 65 or older and blind) |
| Married | Unearned income over \$950, or | Unearned income over \$2,100 (\$3,250 if 65 or older and blind), or |
| | Earned income over \$5,950, or | Earned income over \$7,100 (\$8,250 if 65 or older and blind), or |
| | Gross income of at least \$5 and spouse files a separate return and itemizes deductions, or | Gross income at least \$5 and spouse files a separate return and itemizes deductions, or |
| | Gross income more than the larger of (1) \$950, or (2) earned income up to \$5,650, plus \$300 | Gross income was more than the larger of (1) \$2,100 (\$3,250 if 65 or older and blind) or (2) earned income up to \$5,650, plus \$1,450 (\$2,600 if 65 or older and blind) |

Filing a Return Even If Not Required

Even though a return is not required, there are some situations in which filing may still be a good idea:

- *Requesting a refund.* If the taxpayer overpaid tax (e.g., there was too much withholding from wages), the only way to obtain a refund is to file a return.
- *Obtaining refundable credits.* Some tax credits are refundable, which means they can be paid to the taxpayer in excess of taxes owed. Refundable credits include the earned income credit, the additional child tax credit, and the American Opportunity credit. Refundable credits are explained in Chapters 27 through 31.
- *Establishing a capital loss.* If a taxpayer had an overall capital loss on investments or other property transactions for the year, he or she should file a return, along with Schedule D, *Capital Gains and Losses*, and any other necessary forms or schedules, to show the loss. Doing this enables the taxpayer to establish a capital loss carryforward (explained in Chapter 13).

Deadlines, Extensions, and Penalties

Filing Deadline

The income tax return is due by the fifteenth day of the fourth month after the close of the tax year, which is April 15. However, this date is extended if



ALERT: If a taxpayer is eligible for a refundable credit, a return must be filed to receive the refund. The IRS will not send the refund automatically.

April 15 falls on a weekend or national holiday. Emancipation Day is a holiday in Washington, D.C., that is usually observed on April 16, and this occasionally extends the filing deadline.

U.S. citizens and resident aliens are allowed an automatic two-month extension of time to file (until June 15) if they are living outside the United States or Puerto Rico on the ordinary due date for filing the tax return and either: (1) their main place of business is outside the United States or Puerto Rico, or (2) they are on duty on military or naval service outside of the United States or Puerto Rico.

Requesting an Extension

If, for any reason, a taxpayer cannot meet the filing deadline, he or she must make an extension request by the filing deadline. This request provides an automatic six-month extension. Thus, anyone who timely requests an extension will not be penalized if their return is filed by October 15. This date is extended if October 15 falls on a weekend.

Filing an extension does not extend the time to pay any balance due.

Request an extension by filing Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. Form 4868 may be filed electronically or on paper. Taxpayers who are paying all or part of their taxes due can obtain an extension by paying using a credit or debit card through an IRS-approved processor. Paying by credit or debit card is discussed in Chapter 36.

Penalty for Late Payment

When requesting an extension, estimate the taxes that will be due when the return is filed. It is advisable for taxpayers to pay as much of the amount expected to be owed in order to minimize or avoid a late-payment penalty. The late-payment penalty is usually $\frac{1}{2}$ of 1% of the tax not paid by the due date. It is charged for each month or part of a month that the tax is unpaid; the maximum penalty is 25%.

Example

Edwin obtains a filing extension and files his return on August 1, 2012. He pays the balance of the taxes he owes, \$3,000, when he files his return. The late payment penalty is \$60 ($\$3,000 \times 0.5\% \times 4$ months).

Penalty for Late Filing

A late filing penalty can apply if the return is not filed on time (postmarked or e-filed by midnight of the filing deadline) and no filing extension is obtained. The penalty is usually 5% of the amount due for each month or part of a month that the return is late. The maximum penalty is 25%. If the return is more than 60 days late, the minimum penalty is \$135 or the balance of the tax due on the return, whichever is smaller.



ALERT: Individuals serving in a combat zone have an automatic extension of time to file. This extension lasts at least 180 days after the later of (1) the last day they are in a combat zone, or (2) the last day they were hospitalized due to an injury in a combat zone.



TIP: The taxpayer should pay as much of the tax that is expected to be owed as possible by the original due date, usually April 15, in order to avoid or minimize a late payment penalty (explained in Chapter 36).



TIP: The IRS can waive the late filing penalty if there is reasonable cause for filing late. Attach a personal statement (there is no IRS form for this) to the late-filed tax return explaining the reasonable cause. Common reasonable causes are illness of the taxpayer or an immediate family member and incapacity. Whether the cause stated is reasonable is a subjective determination made by the IRS.

Which Version of Form 1040 to Use

There are three different base income tax returns for individuals: Form 1040EZ, *Income Tax Return for Single and Joint Filers with No Dependents*, Form 1040A, *U.S. Individual Income Tax Return*, and Form 1040. There is also Form 1040NR, *U.S. Nonresident Alien Income Tax Return*, for nonresident aliens (discussed later in this chapter). Use the return that will enable a taxpayer to report all the income and claim all the deductions and credits to which he or she is entitled.

Form 1040EZ

Form 1040EZ is the simplest return that can be filed. However, its utility is very limited.

- Only those who are single or married filing jointly and who are under age 65 and not blind can use this form.
- It cannot be used to claim dependents.
- These are the only types of income that can be reported:
 - ☐ Wages and salary
 - ☐ Interest income
 - ☐ Unemployment benefits
- Taxable income must be less than \$100,000.
- The standard deduction is built into the return; no separate adjustments to gross income or other deductions can be claimed.
- The only credit that can be claimed is the earned income credit.

Form 1040A

Form 1040A is more extensive than Form 1040EZ but not as broad as Form 1040.

- It can be used regardless of filing status, and dependents may be claimed.
- These types of income are reported:
 - ☐ Wages and salary
 - ☐ Interest and ordinary dividends
 - ☐ Capital gain distributions
 - ☐ Unemployment compensation
 - ☐ Income from annuities, pensions, and IRAs
 - ☐ Social Security benefits
- Taxable income must be less than \$100,000.
- These adjustments from gross income can be claimed:
 - ☐ An IRA deduction
 - ☐ Student loan interest deduction

- ☐ Tuition and fees deduction
- ☐ Deduction for educator expenses
- No itemized deductions are allowed.
- Only these credits can be claimed:
 - ☐ Child and dependent care credit
 - ☐ Earned income credit
 - ☐ Credit for the elderly and the disabled
 - ☐ Child tax credit
 - ☐ Adoption credit
 - ☐ Retirement savings contribution credit
 - ☐ Education credits
- Form 1040A can be used to report estimated tax payments and estimated tax penalties, the advance earned income credit, and the inclusion of a child's unearned income on a parent's return (explained in Chapter 34).

Form 1040

Form 1040 is the most comprehensive return. It must be used for anyone who itemizes deductions, reports business income, or has income, deductions, credits, and other taxes not allowed to be reported on either of the other tax return options. Anyone can use Form 1040, even if a simpler return is permissible.



ALERT: If a taxpayer files an amended return, he or she must use Form 1040X, *Amended U.S. Individual Income Tax Return*, regardless of whether he or she filed a 1040EZ, 1040A, 1040, or 1040NR originally.

Special Filing Rules for Aliens

The type of tax return to file depends on an alien taxpayer's status. There are three types of aliens: **resident aliens**, **nonresident aliens**, and **dual-status taxpayers**.

See IRS Pub. 519, *U.S. Tax Guide for Aliens*, for a complete discussion on determining status. Figure 1.1 provides an overview.

Resident Aliens

Resident aliens generally are taxed the same as U.S. citizens. They follow the rules explained earlier in this chapter and can file Form 1040EZ, 1040A, or 1040 as appropriate.

Nonresident Aliens

Nonresident aliens with income that must be reported to the United States, including income effectively connected with a U.S. trade or business, file Form 1040NR, or Form 1040NR-EZ, *U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents*.



DEFINITIONS:

Resident aliens are non-U.S. citizens who have met either the green card test or the substantial presence test for the calendar year. This is explained in Figure 1.1.

Nonresident aliens are aliens who did not meet the green card test or the substantial presence test at any time during the calendar year.

Dual-status taxpayers are aliens (non-U.S. citizens) who are residents for part of the year.

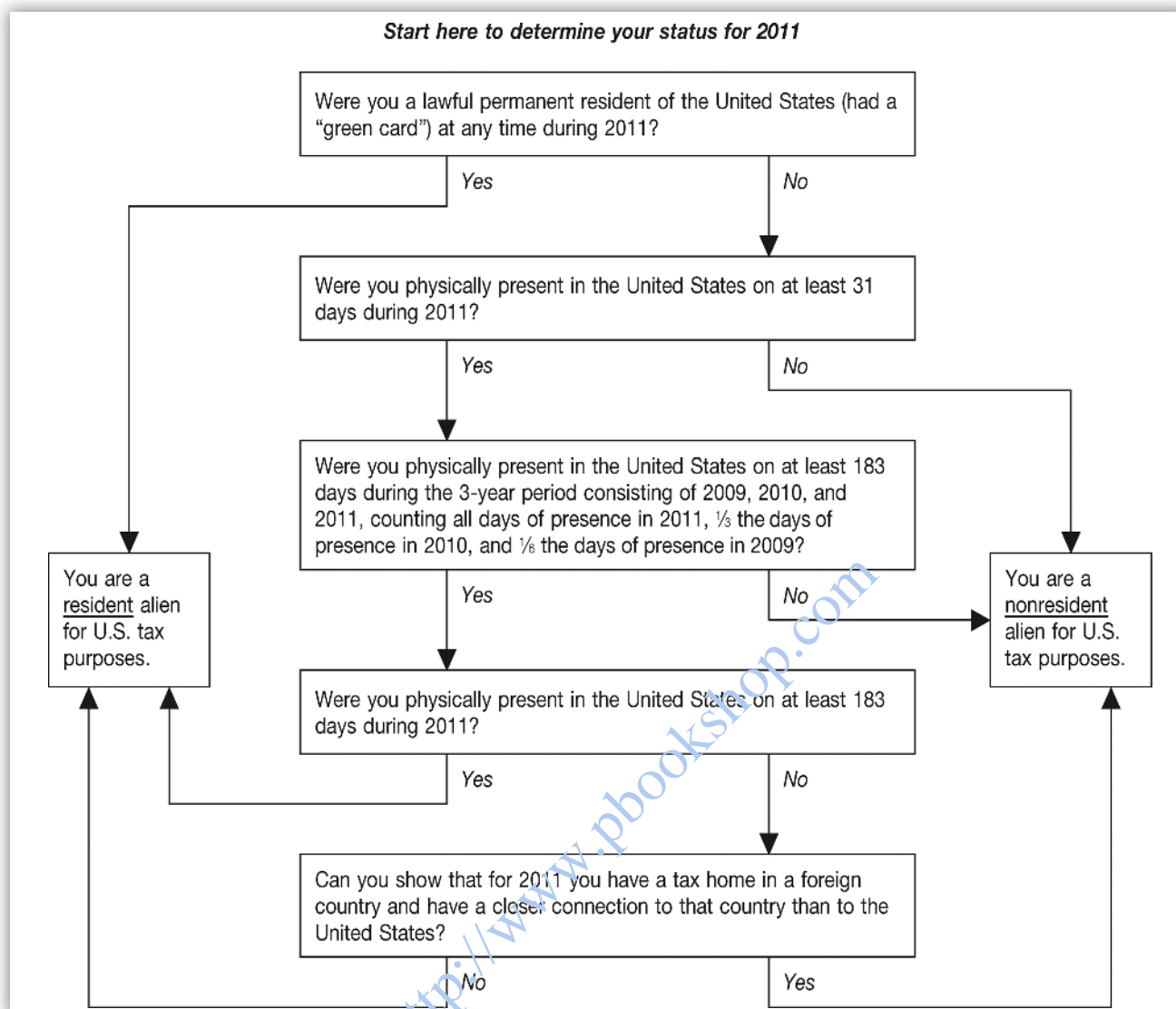


FIGURE 1.1 Nonresident Alien or Resident Alien?

Dual-Status Aliens

Dual status occurs most frequently in the year an alien taxpayer arrives or departs from the United States. Dual-status aliens are subject to different rules for the part of the year they are residents and the part of the year they are nonresidents. The rules for dual-status aliens are complex but are explained more thoroughly in IRS Pub. 519.

The base tax form a dual-status alien should file depends on residency status at the end of the year. A dual-status alien who is a resident at the end of the year must file Form 1040 (dual-status aliens are not allowed to file Form 1040A or 1040-EZ) and attach Form 1040NR or 1040NR-EZ as a statement. A dual-status taxpayer who is a nonresident at the end of the year may file either Form 1040NR or Form 1040NR-EZ, as appropriate, and attach Form 1040 as a statement.

Special Elections

First-Year Choice In some cases, a taxpayer who does not meet either the green card test or the substantial presence test in the current year, but who meets the substantial presence test in the following year, may elect to be treated as a resident for part of the current year.

Election for Nonresident Alien or Dual-Status Taxpayer Married to a U.S. Citizen or Resident Alien to Choose Resident Alien Status Normally, both spouses must be U.S. citizens and/or residents to file a joint U.S. income tax return. However, if married on the last day of the year, the nonresident alien spouse or dual-status taxpayer-spouse can elect to be treated as a resident alien and file a joint return. Doing this requires the nonresident alien/dual-status taxpayer to include his or her worldwide income for the entire year on the joint return. Refer to IRS Pub. 519 for more information.

<http://www.pbookshop.com>

Review Questions

1. Sara, who is single, has gross income of \$7,000 and self-employment income of \$500. Which statement **best** describes her filing situation? Sara:
 - a. Must file a tax return.
 - b. May file a tax return.
 - c. Is not required to file a tax return.
 - d. Should not file a tax return.
2. Carlos, who is required to file a tax return, wants to obtain a filing extension. Which of the following actions is required?
 - a. Paying all of the taxes due.
 - b. Giving a good reason for wanting the extension.
 - c. Having a paid preparer submit the extension request.
 - d. Requesting the extension no later than the filing deadline.
3. Harrison, an employee earning \$75,000, does not file his return on time and does not obtain a filing extension. He files his return on August 15 and pays his balance due, \$4,000 at that time. The \$4,000 is 25% of his total tax liability. Harrison is:
 - a. Subject to a late filing penalty.
 - b. Subject to a late payment penalty.
 - c. Subject to both a late filing penalty and late payment penalty.
 - d. Not subject to any penalty because the return was filed and payment made before October 15.
4. Ed is a U.S. citizen who is single, age 70, and has gross income of \$65,000 (including Social Security benefits of \$20,000). He owns his home on which he pays mortgage interest and property taxes. He also makes charitable contributions. Because of these payments, it is beneficial for him to itemize his deductions. Which tax return should he use?
 - a. Form 1040EZ
 - b. Form 1040A
 - c. Form 1040
 - d. Form 1040NR
5. Madeline and Owen are U.S. residents who are married, with one dependent child. They do not have enough deductions to itemize. Based on these facts alone, which is the simplest tax return they can file?
 - a. Form 1040EZ
 - b. Form 1040A
 - c. Form 1040
 - d. Form 1040NR
6. Louisa, who is 42 years old and files as a head of household, has gross income in 2012 of \$12,000. Assuming Louisa is eligible for the earned income tax credit, which of the following statements **best** describes her filing options?
 - a. She must file a tax return because her gross income exceeds the filing threshold for her filing status.
 - b. She should file a tax return in order to claim the earned income tax credit.
 - c. She need not file a tax return to obtain the earned income credit; it will be sent to her automatically.
 - d. She must file a tax return because she is claiming head of household status.