

Adjustments to Income

As an AARP Foundation Tax-Aide Counselor, you should help the taxpayer identify adjustments to income that determines the Adjusted Gross Income (AGI) section of Form 1040, Schedule 1. Taxpayers can subtract certain expenses, payments, contributions, fees, etc. from their total income. The adjustments, subtracted from total income on Form 1040, establish the AGI.

Resources:

Volunteer Training Guide – Pub 4491

Volunteer Resource Guide – Pub 4012

[Publication 17, Your Federal Income Tax \(For Individuals\)](#)

Learning Objectives

- Identify which adjustments are in scope for VITA/TCE
- Calculate and accurately report the adjustments to income that are in scope for VITA/TCE

Feedback:

Please email: selfstudy@aarpdfntaxaide.org.
Appreciate suggestions and comments.

Getting Started:



Study the associated IRS VITA/TCE Training Guide Chapter 18



Open [Pub 4012 Volunteer Resource Guide Tab E](#)

- Educator Expenses E-3
- Self-Employment Health Insurance Deduction E-4
- Alimony Requirements..... E-6
- IRA Deduction E-7
- Student Loan Interest..... E-8

Hints from NTTC Modifications to the IRS Training Guide

TIP: The Self-Employment health deduction is in scope for 2018 and any open year. Review prior year returns to see if claiming the adjustment would benefit the taxpayer.

Self-Employment Health Insurance:

Coverage can be in the name of the taxpayer or spouse, if MFJ. Include health, dental, vision, supplemental, limited coverage, and long-term care (LTC) premiums. LTC is limited to the deduction cap for Schedule A – based on age.

The spouse's Medicare premiums qualify for the deduction when filing MFJ even though paid from the spouse's benefits.

Student interest adjustment to gross income

Clarify that the taxpayer can deduct interest on a student loan for a dependent or an individual that *would have been* a dependent except that the taxpayer was a dependent of another taxpayer, the student filed a joint return, or the student's income exceeded the personal exemption amount.

Other adjustment to gross income – out of scope but listed for awareness:

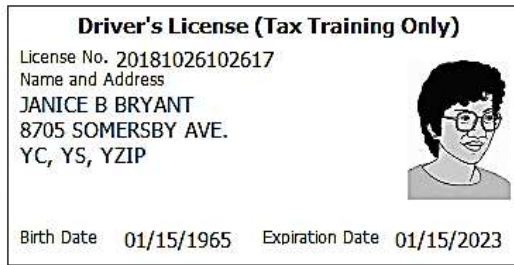
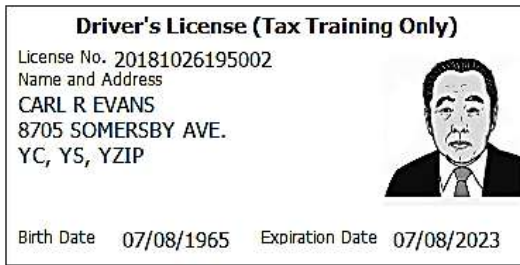
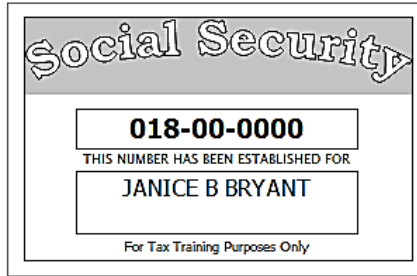
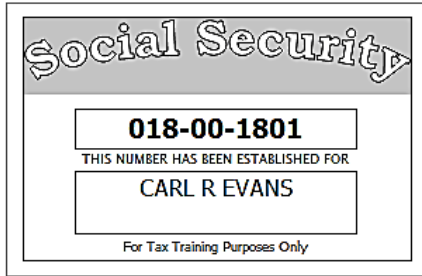
- Archer MSA deduction
- Expenses related to personal property rentals
- Nontaxable Olympic and Paralympic medals and USOC prize money included as other income
- Reforestation amortization and expenses
- Repay of supplemental unemployment
- Contributions to Sec. 501(c)(18)(D) pension plans
- Attorney fees or court costs for certain discrimination cases
- Attorney fees or court costs in connection with IRS awards for information

Adjustments to Income

Practice Lab

Open TaxSlayer Practice Lab and login.

Evans/Bryant Scenario 1: Educator Expenses



- Carl and Janice are married and file Married Filing Jointly with no dependents
- Both have Minimum Essential Coverage through Janice's family plan from work
- They claim the Standard Deduction
- They would like a refund mailed to them

Janice is a full-time 6th grade teacher. Her W-2 is shown below. Janice spent \$418 for classroom supplies during the year and has those receipts. They have no other income. Enter Janice's W-2.

Adjustments to Income

a. Employee's social security number 018-00-0000						
b. Employer identification number (EIN) 24-1234567		1. Wages, tips, other compensation \$65,000.00		2. Federal income tax withheld \$6,000.00		
c. Employer's name, address, City, State and ZIP Code LOCAL SCHOOL DISTRICT 123 MAIN ST YC, YS, YZIP		3. Social security wages \$65,000.00		4. Social security tax withheld \$4,030.00		
		5. Medicare wages and tips \$65,000.00		6. Medicare tax withheld \$942.50		
		7. Social security tips		8. Allocated tips		
d. Control number		9. Verification code		10. Dependant care benefits		
e. Employee's first name and initial last name f. Employee's address and ZIP code JANICE BRYANT 8705 SOMERSBY AVE YC, YS, YZIP		11. Nonqualified plans		12a. See instructions for box 12 DD \$4,500.00		
		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b.		
		14. Other		12c.		
				12d.		
15. State YS	Employer's state ID number 24-1234567	16. State wages, tips, etc. \$65,000.00	17. State income tax 650.00	18. Local wages, tips, etc.	19. Local income tax	20. Locality name

Form **W-2 Wage and Tax Statement 2018**
Copy B - To Be Filed With Employee's FEDERAL Tax Return.
 This information is being furnished to the Internal Revenue Service.

Does Janice have deductible Educator Expenses? _____

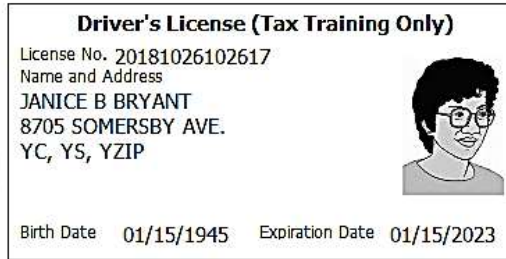
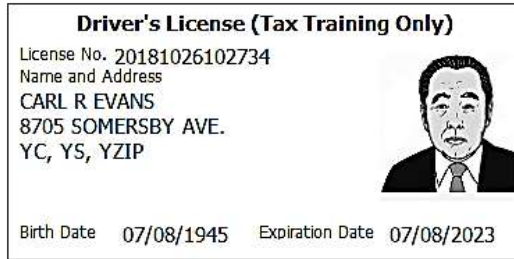
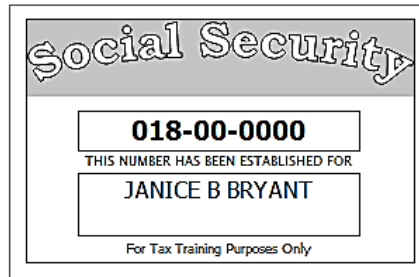
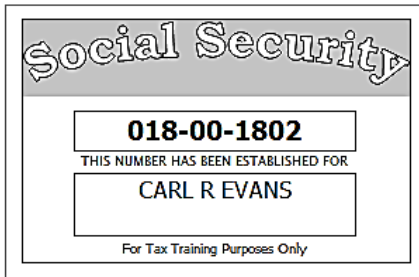
What amount is on Schedule 1 Line 23? _____

What is their Adjusted Gross Income? _____

Find answers in the file: *Answers to Practice Lab Self-Study Exercises*
in the Self-Study 2018>H. Answers, etc. Module.

Adjustments to Income

Evans/Bryant Scenario 2: Self-Employed Health Insurance



- Carl and Janice are married and file Married Filing Jointly with no dependents
- Both have Medicare
- They claim the Standard Deduction
- They would like a refund mailed to them

Carl is a self-employed janitor, paid on a 1099-MISC. He has no expenses except health insurance. Both Janice and Carl receive Social Security income.

<input type="checkbox"/> CORRECTED (if checked)		2018 Form 1099-MISC		Miscellaneous Income	
PAYER'S name, address, city, state, ZIP code METRO OFFICE 123 MAIN ST YC, YS, YZIP		1 Rents	Copy B For Recipient		
		2 Royalties			
		3 Other Income			
PAYER'S Federal identification number 15-9876543	RECIPIENT'S identification number 018-00-1802	4 Federal income tax withheld	5 Fishing boat proceeds		
RECIPIENT'S name, address, city, state, ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		6 Medical and health care payments	7 Nonemployee Compensation \$15,000.00		
		8 Substitute payments in lieu of dividends or interest	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale > <input type="checkbox"/>		
		10 Crop Insurance proceeds	11		
		12	13 Excess golden parachute payments		
Account number (see instructions)		14 Gross proceeds paid to an attorney	15a Section 409A deferrals		
FATCA filing requirement <input type="checkbox"/>		16 State tax withheld		17 State/Payer's state no.	
15b Section 409A income		17 State/Payer's state no.		18 State income	
Form 1099-MISC					

Adjustments to Income

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

2018 <input type="checkbox"/> PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. <input type="checkbox"/> SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name CARL R EVANS		Box 2. Beneficiary's Social Security 018-00-1802
Box 3. Benefits Paid in 2018 \$19,000.00	Box 4. Benefits Repaid to SSA in 2018	Box 5. Net Benefits Paid for 2018 (Box 3 minus Box 4) \$19,000.00
DESCRIPTION OF AMOUNT IN BOX 3 Paid by check or direct deposit \$16,203.00 Medicare Part B premiums deducted from your benefits \$1,608.00 Medicare Prescription Drug premiums (Part D) deducted from your benefits \$189.00 Total Additions \$19,000.00 Benefits for 2018 \$19,000.00 Benefits for 2017 Benefits for 2016 Benefits for 2015		DESCRIPTION OF AMOUNT IN BOX 4 Box 6. Voluntary Federal Income Tax Withheld \$1,000.00 Box 7. Address CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP Box 8. Claim Number (use this number if you need to contact SSA) 018-00-1802A

Form **SSA-1099-SM**

FORM SSA-1099 - SOCIAL SECURITY BENEFIT STATEMENT

2018 <input type="checkbox"/> PART OF YOUR SOCIAL SECURITY BENEFITS SHOWN IN BOX 5 MAY BE TAXABLE INCOME. <input type="checkbox"/> SEE THE REVERSE FOR MORE INFORMATION.		
Box 1. Name JANICE B BRYANT		Box 2. Beneficiary's Social Security 018-00-0000
Box 3. Benefits Paid in 2018 \$7,800.00	Box 4. Benefits Repaid to SSA in 2018	Box 5. Net Benefits Paid for 2018 (Box 3 minus Box 4) \$7,800.00
DESCRIPTION OF AMOUNT IN BOX 3 Paid by check or direct deposit \$6,003.00 Medicare Part B premiums deducted from your benefits \$1,608.00 Medicare Prescription Drug premiums (Part D) deducted from your benefits \$189.00 Total Additions \$7,800.00 Benefits for 2018 \$7,800.00 Benefits for 2017 Benefits for 2016 Benefits for 2015		DESCRIPTION OF AMOUNT IN BOX 4 Box 6. Voluntary Federal Income Tax Withheld Box 7. Address JANICE B BRYANT 8705 SOMERSBY AVE YC, YS, YZIP Box 8. Claim Number (use this number if you need to contact SSA) 018-00-0000A

Form **SSA-1099-SM**

Do Carl and Janice have a deduction for Self-Employed Health Insurance? _____

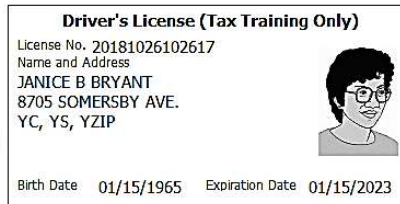
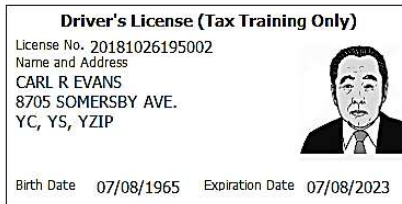
What amount is on Schedule 1 Line 27? _____

What amount is on Schedule 1 Line 29? _____

What is their Adjusted Gross Income? _____

Adjustments to Income

Evans/Bryant Scenario 3: Alimony



- Carl and Janice are married and file Married Filing Jointly with no dependents
- Both have Minimum Essential Coverage through Carl's family plan from work
- They claim the Standard Deduction
- They would like a refund mailed to them

Carl has a W-2 and pays his ex-wife, Beth Evans - SSN 015-11-7012, \$500 a month in alimony. Janice receives \$1,000 a month in alimony from her ex-husband. They have no other income. Enter their information in Practice Lab.

a. Employee's social security number		018-00-1803							
b. Employer identification number (EIN)		1. Wages, tips, other compensation		2. Federal income tax withheld					
21-6543210		\$60,000.00		\$7,000.00					
c. Employer's name, address, City, State and ZIP Code		3. Social security wages		4. Social security tax withheld					
WALMART 200 SIXTH STREET WILMINGTON, DE 19805		\$60,000.00		\$3,720.00					
		5. Medicare wages and tips		6. Medicare tax withheld					
		\$60,000.00		\$870.00					
		7. Social security tips		8. Allocated tips					
d. Control number		9. Verification code		10. Dependant care benefits					
e. Employee's first name and initial last name		11. Nonqualified plans		12a. See instructions for box 12					
f. Employee's address and ZIP code				DD \$5,600.00					
CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP		13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b.					
		14. Other		12c.					
				12d.					
15. State	Employer's state ID number	16. State wages, tips, etc.	17. State income tax	18. Local wages, tips, etc.	19. Local income tax	20. Locality name			
Form W-2 Wage and Tax Statement 2018 Copy B - To Be Filed With Employee's FEDERAL Tax Return. This information is being furnished to the Internal Revenue Service.									

What amount is on Schedule 1 Line 11? _____

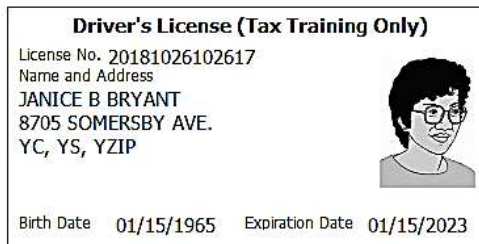
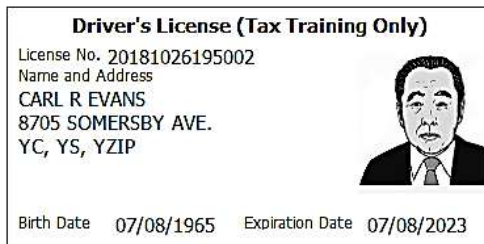
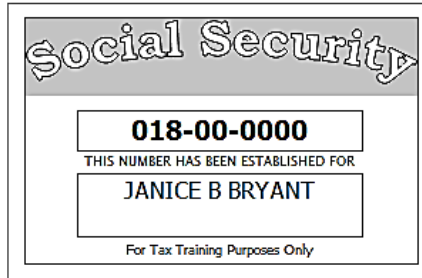
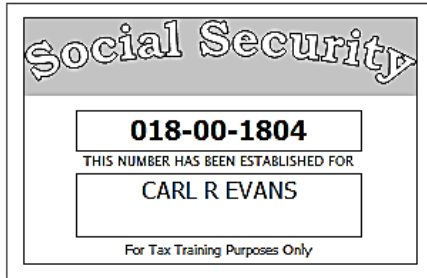
Adjustments to Income

What amount is on Schedule 1 Line 31a? _____

What is their Adjusted Gross Income? _____

Find answers in the file: *Answers to Practice Lab Self-Study Exercises* in the Self-Study 2018>H. Answers, etc. Module.

Evans/Bryant Scenario 4: Traditional IRA Contribution



- Carl and Janice are married and file Married Filing Jointly with no dependents
- Both have Minimum Essential Coverage through Carl's family plan from work
- They claim the Standard Deduction
- They would like a refund mailed to them

Carl and Janice both contributed \$2,000 each to a Traditional IRA during 2018. Janice also contributed \$1,000 to a Roth IRA in 2018. Janice has no income. Carl's W-2 is shown below. Enter their information into Practice Lab.

Adjustments to Income

a. Employee's social security number 018-00-1804									
b. Employer identification number (EIN) 21-6543210			1. Wages, tips, other compensation \$59,000.00			2. Federal income tax withheld \$7,000.00			
			3. Social security wages \$60,000.00			4. Social security tax withheld 3,720.00			
			5. Medicare wages and tips \$60,000.00			6. Medicare tax withheld \$870.00			
			7. Social security tips			8. Allocated tips			
c. Employer's name, address, City, State and ZIP Code WALMART 200 SIXTH STREET WILMINGTON, DE 19805			9. Verification code			10. Dependant care benefits			
d. Control number			11. Nonqualified plans			12a. See instructions for box 12 DD \$5,600.00			
e. Employee's first name and initial last name f. Employee's address and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP			13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>			12b. D \$1,000.00			
			14. Other			12c.			
						12d.			
15. State	Employer's state ID number	16. State wages, tips, etc.	17. State income tax	18. Local wages, tips, etc.	19. Local income tax	20. Locality name			
<div style="display: flex; justify-content: space-between; align-items: center;"> <div>Form W-2 Wage and Tax Statement</div> <div style="font-size: 2em; font-weight: bold;">2018</div> </div> <div style="display: flex; justify-content: space-between; align-items: center; margin-top: 5px;"> <div>Copy B - To Be Filed With Employee's FEDERAL Tax Return.</div> <div>This information is being furnished to the Internal Revenue Service.</div> </div>									

Can Carl and Janice contribute to a Traditional IRA? _____

Is Janice eligible to contribute to a Roth IRA? _____

Is the amount Janice contributed to the Roth IRA deductible? _____

What is the amount on Schedule 1 Line 32? _____

What is their Adjusted Gross Income? _____

If Carl's W-2 Box 1 amount was \$300,000, would Carl and Janice be eligible to contribute to a Traditional IRA? _____

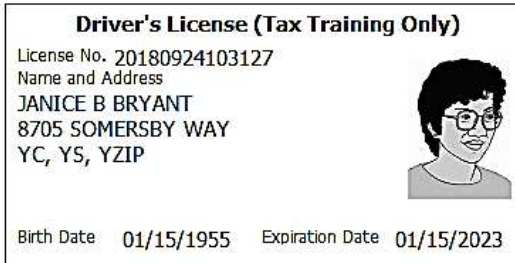
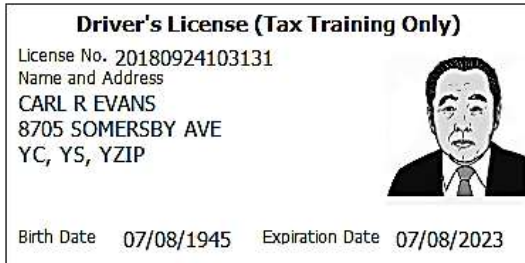
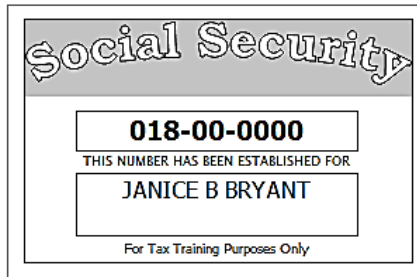
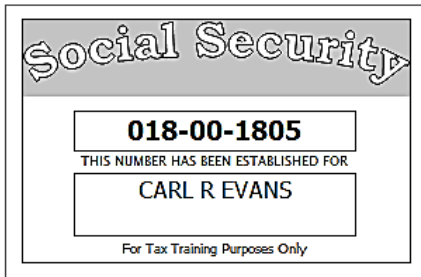
Could they contribute to a Roth IRA? _____

Would their contributions to the Traditional IRA be deductible? _____

Find answers in the file: *Answers to Practice Lab Self-Study Exercises*
in the Self-Study 2018>H. Answers, etc. Module.

Adjustments to Income

Evans/Bryant Scenario 5: Student Loan Interest



- Carl and Janice are married and file Married Filing Jointly with no dependents
- Both have Minimum Essential Coverage through Carl's family plan from work
- They claim the Standard Deduction
- They would like a refund mailed to them

Carl graduated last year and is paying back a student loan for which he is liable. He paid \$2,900 in student loan interest in 2018. He was an eligible student at an eligible university when the loan was incurred. Janice receives a W-2 shown below. Carl did not receive a Form 1098-E.

Adjustments to Income

a. Employee's social security number 018-00-1805										
b. Employer identification number (EIN) 21-6543210			1. Wages, tips, other compensation \$60,000.00			2. Federal income tax withheld \$7,000.00				
c. Employer's name, address, City, State and ZIP Code WALMART 200 SIXTH STREET WILMINGTON, DE 19805			3. Social security wages \$60,000.00			4. Social security tax withheld \$3,720.00				
			5. Medicare wages and tips \$60,000.00			6. Medicare tax withheld \$870.00				
			7. Social security tips			8. Allocated tips				
d. Control number			9. Verification code			10. Dependant care benefits				
e. Employee's first name and initial last name f. Employee's address and ZIP code CARL R EVANS 8705 SOMERSBY AVE YC, YS, YZIP			11. Nonqualified plans			12a. See instructions for box 12 DD \$5,600.00				
			13. Statutory Retirement Third-party Employee Plan sickpay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			12b.				
			14. Other			12c.				
			-----			12d.				

15. State	Employer's state ID number	16. State wages, tips, etc.	17. State income tax	18. Local wages, tips, etc.	19. Local income tax	20. Locality name				
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Form W-2 Wage and Tax Statement 2018 Copy B - To Be Filed With Employee's FEDERAL Tax Return. This information is being furnished to the Internal Revenue Service.										

Is Carl able to deduct his student loan interest in full? _____

What is the amount on Schedule 1 Line 33? _____

What is their Adjusted Gross Income? _____

If Carl filed Married Filing Separately, would he be able to deduct his student loan interest?

Find answers in the file: *Answers to Practice Lab Self-Study Exercises*
in the Self-Study 2018>H. Answers, etc. Module.

Adjustments to Income

Learning Review

Adjustments to Income

1. Mary is a dependent on her father's tax return. Can Mary claim the student loan interest deduction for her qualified education expense?	
2. Tom is separated from his wife but does not have a legal separation agreement. He paid \$3,000 during the year for the support of his son. True or False: Half of the \$3,000 may be considered alimony and an adjustment to income.	True or False
3. True or False: Taxpayers may subtract the deductible portion of their self-employment tax from their taxable income.	True or False
4. David files as a qualified widower with a dependent child. His modified AGI for the year was \$83,000. The amount of student loan interest he paid as reported on his Form 1098-E was \$2,700 for the year. True or False: David can claim \$2,500 for the student loan interest deduction.	True or False
5. Pat is an unmarried college student making \$2,800 a year. She receives \$100 a month in alimony. What is the maximum amount she can contribute to an IRA?	
6. Jack and Ruth took out a student loan so they son, Jeff, could go to culinary school. Jeff was 27 and not a dependent on their return. Jack and Ruth have a MAGI below the threshold limits for student loan interest deduction. Jack and Ruth are liable for the student loan and received a Form 1098-E in the amount of \$739. How much of the \$739 will be an adjustment on their tax return this year?	
7. Joan, 53, and John, 62, are married. Joan earned \$75,000 and John is retired and had no income during the year. How much can Joan contribute to an IRA? What is the maximum amount John can contribute, if anything?	
8. True or False: A penalty for early withdrawal of funds from a savings account may be charged when the depositor withdraws from an ordinary savings account.	True or False

Answers to Learning Review

- | |
|--|
| 1. No. To claim the deduction, taxpayers must not be dependents, must not have obtained the loan from a relative, and must file jointly with their spouse if they are married. |
| 2. False. Unlike alimony and separate maintenance payments, child support is not taxable to the recipient and cannot be claimed as an adjustment by the payer. |
| 3. True. Self-employed taxpayers can subtract a deductible portion of their self-employment tax from their income. The deductible portion of the self-employment tax is automatically calculated from Schedule SE. |
| 4. False. To claim the student loan interest deduction, taxpayers who filed as a qualified widower must have a modified AGI less than \$65,000. |
| 5. Pat's contributions are limited to \$4,000, the amount of her compensation. |
| 6. Jack and Ruth are not eligible to take a deduction for the student loan interest paid. Jeff was not their dependent at the time they took out the loan. |
| 7. Joan and John can both contribute up to \$6,500 each to an IRA. |
| 8. False. The penalty applies when a depositor withdraws funds before a time deposit account matures. |