



Standard Deduction and Tax Computation



Introduction

This is the first of eight lessons covering computing taxable income, tax, and allowable credits. After completing this lesson on standard deductions and the Itemized Deductions lesson, you will be able to subtract the appropriate deduction, and if the taxpayer qualifies, the qualified business income deduction from the taxpayer's adjusted gross income (AGI) to figure their taxable income.

Some taxpayers may need to use the standard deduction worksheet in the Form 1040 Instructions.

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine the standard deduction amount for most taxpayers
- Determine the standard deduction amount for taxpayers claimed as dependents
- Identify how taxable income and income tax are computed and reported

What do I need?

- Form 13614-C
- Publication 4012
- Publication 17
- Form 1040
- Form 8995 and instructions

Optional:

- Publication 501
- Form 1040-SR

What are deductions?

Deductions are subtractions from a taxpayer's AGI. They reduce the amount of income that is taxed. Most taxpayers have a choice of taking a standard deduction or itemizing their deductions. When taxpayers have a choice, they should use the type of deduction that results in the lower tax. Use the interview techniques and tools discussed in earlier lessons to assist you in determining if the standard deduction will result in the largest possible deduction for the taxpayer.

What is a standard deduction?

A standard deduction for most taxpayers is a set dollar amount based on the taxpayer's filing status. An increased standard deduction is available to taxpayers who are 65 or older or blind. There are limitations on the standard deduction for taxpayers who can be claimed as a dependent on someone else's return. The Volunteer Resource Guide, Tab F, Deductions, includes references for calculating the standard deduction.

example

James, 44, and Sara, 39, are filing a joint return. Neither is blind, and neither can be claimed as a dependent. They decided not to itemize their deductions. They will use the Married Filing Jointly standard deduction amount. The standard deduction amount can be found in the Standard Deduction Chart in the Volunteer Resource Guide.

What is an itemized deduction?

Itemized deductions allow taxpayers to reduce their taxable income based on specific personal expenses. If the total itemized deductions are greater than the standard deduction, it will result in a lower taxable income and lower tax. In general, taxpayers benefit from itemizing deductions if they have mortgage interest, very large unreimbursed medical or dental expenses when compared to their income, or other large expenses such as charitable contributions. Itemized deductions will be covered in the next lesson.

Who cannot take the standard deduction?

Some taxpayers cannot take the standard deduction and must itemize. During the interview, find out if the taxpayer is:

- Filing as Married Filing Separately and the spouse itemizes
- A nonresident or dual-status alien during the year (and not married to a U.S. citizen or resident at the end of the year) – both are out of scope for the VITA/TCE programs
- Filing a return for a short tax year due to a change in the annual accounting period - out of scope for the VITA/TCE programs

If any of these situations apply, the taxpayer must itemize personal deductions and complete Schedule A.

example

Chase files as Married Filing Separately. Her spouse, Grant, will be itemizing his deductions. Chase cannot use the standard deduction; she will have to itemize her deductions.



Tax Software Hint: The standard deduction is automatically calculated based on entries in the Basic Information section.

How does age or blindness affect the standard deduction?

The standard deduction is higher if the taxpayer or spouse is 65 or older, and if one or both are blind. This information is reported in the check boxes located on Form 1040 or Form 1040-SR. The more check boxes marked, the higher the standard deduction. Be sure to verify the taxpayer's and spouse's age and level of blindness as described below.



Tax Software Hint: The Age 65 or older boxes are automatically checked. For software entries, go to the Volunteer Resource Guide, Tab B, Starting a Return and Filing Status.

example

Sherman is 73 years old and blind. He files as Single using Form 1040. Because Sherman is over 65 and blind, check the appropriate boxes in the software.

Who qualifies as 65 or older?

Taxpayers are entitled to a higher standard deduction if they are 65 or older at the end of the year. They are considered to be 65 on the day before their 65th birthday. In other words, a person born on January 1 is considered to be 65 on December 31 of the previous year.

The standard deduction for decedents is the same as if they had lived the entire year; however, if taxpayers die before their 65th birthday, the higher standard deduction does not apply.

example

Armando died on November 24. He would have been 65 if he had reached his birthday on December 12 of that same year. He does not qualify for a higher standard deduction for being 65 because he died before reaching his 65th birthday.

Who qualifies as blind?

Taxpayers are entitled to a higher standard deduction if they are considered blind on the last day of the year and they do not itemize their deductions. A taxpayer who is not totally blind must have a certified statement from an eye doctor (ophthalmologist or optometrist) that:

- The taxpayer cannot see better than 20/200 in the better eye with glasses or contact lenses or
- The field of vision is not more than 20 degrees

If the eye condition is not likely to improve beyond these limits, the statement should include that fact. Taxpayers should keep the statement for their records.



If vision can be corrected beyond those limits only by contact lenses *and* the taxpayer can only wear the lenses briefly because of pain, infection, or ulcers, the taxpayer can take the higher standard deduction for blindness.

What if only one spouse is over 65 or blind?

Taxpayers can take the higher standard deduction if one spouse is 65 or older, or blind, and if:

- The taxpayer files a joint return, or
- The taxpayer files a separate return and can claim an exemption for the spouse because the spouse had no gross income and an exemption for the spouse could not be claimed by another taxpayer

What is the standard deduction based on age or blindness?

The standard deduction for taxpayers who are 65 or older or are blind increases for each box checked for age or blindness. This amount can be found in the Standard Deduction Chart in the Volunteer Resource Guide, Tab F, Deductions.



These amounts do not apply if the taxpayer (or spouse if Married Filing Jointly) can be claimed as a dependent on someone else's return.

example

Tim is 67 and is filing as Single. He is not blind and he cannot be claimed as a dependent on someone else's return. He is able to check one box and his standard deduction is computed using the chart in the Volunteer Resource Guide, Tab F, Deductions.

example

Kevin and Jane are both 60, and Jane is blind. They are filing as Married Filing Jointly. Neither can be claimed as a dependent on someone else's return. They are entitled to the regular standard deduction for married filing jointly plus an additional amount for being blind.



EXERCISES

Use the Standard Deduction Chart in the Volunteer Resource Guide, Tab F, Deductions to complete the following exercises. Answers are at the end of the lesson summary.

Question 1: Roderick is 64 and blind. Can he claim an additional deduction? Yes No

Question 2: Leticia died in May just before reaching her 65th birthday. Does she qualify as age 65?
 Yes No



The deduction for Charitable Contributions by taxpayers who do not itemize was modified by the Taxpayer Certainty and Disaster Relief Act of 2020. For tax year 2021, married couples filing a joint return may deduct up to \$600 (all others are limited to \$300) in cash contributions. This amount is in addition to their standard deduction.

What about individuals who can be claimed as dependents?

The standard deduction is generally lower for an individual who can be claimed as a dependent by another taxpayer. Taxpayers who can be claimed as a dependent must use the Standard Deduction Worksheet for Dependents to determine their standard deduction. The worksheet can be found in the Volunteer Resource Guide, Tab F, Deductions.



Tax Software Hint: A dependent's standard deduction will be automatically calculated, as long as the box indicating they can be claimed as a dependent by another taxpayer has been checked. For software entries, go to the Volunteer Resource Guide, Tab B, Starting a Return and Filing Status.

example

Janet is single, 22, a full-time student, and not blind. Her parents claimed her as a dependent on their current year tax return. She has no itemized deductions, so she will compute her standard deduction using the Standard Deduction Worksheets for Dependents.

How do I determine which deduction is best for the taxpayer?

If taxpayers are not required to itemize, they should take the higher of the standard deduction or the itemized expenses deduction. In general, taxpayers will benefit from itemizing their deductions if they have mortgage interest, qualified charitable contributions, or if unreimbursed medical/dental expenses are large compared to their income. During the interview, ask the taxpayer if any of the following were applicable during the tax year:

- Large out-of-pocket medical and dental expenses
- State and local income taxes, real estate taxes, personal property taxes, and/or state and local general sales tax
- Mortgage interest
- Gifts to charity
- Certain other miscellaneous deductions

If the taxpayer's expenses qualify, itemizing may be a better choice.



Tax Software Hint: The taxpayer's standard deduction is automatically calculated and displayed on page 1 of the Form 1040 screen. The software automatically selects the deduction method that gives the taxpayer the best result, but only if Schedule A information is entered. For software entries, go to the Volunteer Resource Guide, Tab F, Deductions.

What is the deduction for qualified business income (QBI)?

For taxable years beginning after December 31, 2017 and before January 1, 2026, there is a deduction for "pass through" businesses. Sole proprietors are categorized as "pass through" businesses.

- A sole proprietor will be able to take up to 20% of qualified business income (QBI) as a deduction on the tax return
- The calculations on Schedule C and Schedule SE are not affected by the deduction
- Taxable income is not reduced below zero by the 20% deduction
- The 20% deduction is limited for higher incomes
- The deduction will also be limited for specified service trades or businesses when the applicable threshold is exceeded

For taxable income that does not exceed the applicable threshold amount the QBI deduction is the lesser of:

- 20% of qualified business income (for example, it is the net profit reported on a Schedule C) plus 20% of qualified REIT (Sec. 199A) dividends or
- 20% of taxable income (equals adjusted gross income minus the applicable standard or itemized deduction) minus net capital gains and qualified dividends. See Form 1040 instructions for details.

Qualified business income is reduced by the deductible part of the self-employment tax, the self-employment health insurance deduction, and by contributions to certain qualified retirement plans (not traditional IRA deductions).

Taxpayers with income over the threshold amount should be referred to a professional tax preparer. Refer the Volunteer Resource Guide, Tab F for the threshold amounts.

How are taxable income and tax determined?

Tax is based on the amount of taxable income, which is determined by subtracting from the AGI:

- Standard or itemized deductions
- Deduction for qualified business income (QBI)

How is tax computed?

Tax on taxable income is figured using the tax tables or the tax rate schedule for higher incomes. A separate worksheet is used to calculate the tax (instead of the tax tables) for taxpayers with certain types of income, such as capital gains, qualifying dividends, or foreign earned income for in-scope returns. There are other computations as listed in the instructions to Form 1040, which are out of scope for the VITA/TCE programs.

The software automatically calculates tax based on previous entries. It is important to enter all income, deduction, and credit information correctly for the tax to be computed accurately.



Please see the Premium Tax Credit lesson contained in this publication for additional information on calculating the Excess Advance Premium Tax Credit Repayment.

What is the tax for certain children who have unearned income (Kiddie Tax)?

For children under age 18 and certain older children, unearned income over a certain amount is taxed using their parent(s) the tax rates. For this purpose, “unearned income” includes all taxable income other than earned income, such as taxable interest, ordinary dividends, capital gains, rents, royalties, etc. It also includes taxable Social Security benefits, pension and annuity income, taxable scholarship and fellowship grants not reported on Form W-2, unemployment compensation, alimony, and income received as the beneficiary of a trust.

Form 8615, Tax for Certain Children who have Unearned Income, is in scope for Native Americans receiving per capita payments and Alaska residents receiving permanent fund dividends. Form 8814, Parent’s Election to Report Child’s Interest and Dividends, is in scope for Alaska residents receiving permanent fund dividends. In all other circumstances, tax returns for children subject to the Kiddie Tax or a parent’s election to include their child’s income are out of scope for the VITA/TCE programs. The following information is presented for awareness.

The Kiddie Tax might apply if all the following are true:

1. The child's unearned income was more than the ceiling amount.
2. The child is required to file a return for the tax year.
3. The child either:
 - Was under age 18 at the end of the year,
 - Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or
 - Was a full-time student at least age 19 and under age 24 at the end of the tax year and did not have earned income that was more than half of the child's support.
 - At least one of the child's parents was alive at the end of the tax year.
 - The child does not file a joint return for the tax year.

Summary

You should be able to identify those who can take the standard deduction, and how the deduction is affected by their filing status, age, blindness and status as a dependent. All of this will make it easier for you to help taxpayers understand how their deduction is computed and how it affects their tax.

You should also understand that the tax computation is based on taxable income and may be computed using a worksheet if the taxpayer has qualifying dividends, capital gains, or foreign earned income. The tax may be further reduced by tax credits to be covered in an upcoming lesson.

Students that opt to include scholarships in income that exceed the unearned income ceiling amount may be subject to the Kiddie Tax, in which case the return is out of scope.

Taxpayers who are considered sole proprietors may take up to 20% of their qualified business income as a deduction on the return. Taxpayers with qualifying REIT dividends may also be eligible for the QBI deduction.

You are now ready to work with itemized deductions in the next lesson.



TAX LAW APPLICATION

To gain a better understanding of the tax law, complete the practice return(s) for your course of study using the Practice Lab on L<.



EXERCISE ANSWERS

Answer 1: *Yes. Roderick is entitled to an additional standard deduction amount for blindness.*

Answer 2: *No*

