



# Adjustments to Income

<b>Part II Adjustments to Income</b>	
<b>10</b> Educator expenses . . . . .	<b>10</b>
<b>11</b> Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 . . . . .	<b>11</b>
<b>12</b> Health savings account deduction. Attach Form 8889 . . . . .	<b>12</b>
<b>13</b> Moving expenses for members of the Armed Forces. Attach Form 3903 . . . . .	<b>13</b>
<b>14</b> Deductible part of self-employment tax. Attach Schedule SE . . . . .	<b>14</b>
<b>15</b> Self-employed SEP, SIMPLE, and qualified plans . . . . .	<b>15</b>
<b>16</b> Self-employed health insurance deduction . . . . .	<b>16</b>
<b>17</b> Penalty on early withdrawal of savings . . . . .	<b>17</b>
<b>18a</b> Alimony paid . . . . .	<b>18a</b>
<b>b</b> Recipient's SSN . . . . . ▶	
<b>c</b> Date of original divorce or separation agreement (see instructions) ▶	
<b>19</b> IRA deduction . . . . .	<b>19</b>
<b>20</b> Student loan interest deduction . . . . .	<b>20</b>
<b>21</b> Tuition and fees deduction. Attach Form 8917 . . . . .	<b>21</b>
<b>22</b> Add lines 10 through 21. These are your <b>adjustments to income</b> . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a . . . . .	<b>22</b>

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# About Adjustments to Income

- Additional resources listed in L&LT “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

## Objectives – Adjustments to Income

- Identify which adjustments are in scope for VITA/TCE
- Calculate and accurately report the adjustments to income that are in scope for VITA/TCE
- Time Required: 30 minutes

# Topics



- Educator Expenses
- Self-Employment Tax
- IRA Contributions
- Health Savings Account
- Self Employed Health Insurance Deduction



- Penalties for Early Withdrawal
- Alimony Paid
- Student Loan Interest
- Jury Duty
- Other Adjustments to Income

# Key Terms

Definitions are always available in the L&LT online Glossary.

- Adjusted Gross Income (AGI)
- Alimony
- Coverdell ESA
- Modified Adjusted Gross Income (MAGI)
- Nondeductible Traditional IRA Contributions
- Traditional IRA

# Adjustments to Income

- What are some common adjustments to income you should ask taxpayers about?
  - Self-employment income and tax
  - Self-employed health insurance
  - Penalties on early withdrawal of savings
  - Alimony
  - Contribution to an IRA or HSA
  - Student loan interest
  - Jury duty income repaid to employer
- Total income – adjustments = adjusted gross income (AGI)
- Review Pub 4012, Tab E, Adjustments

# Educator Expenses



- Eligible educators can deduct up to \$300 of qualified expenses
- K-12 teachers who work a minimum of 900 hours during the school year may take the deduction
- Expenses that qualify include:
  - Books
  - Supplies
  - Equipment (including computer equipment, software, and services)
  - Other materials used in the classroom
- Expenses that do not qualify include:
  - Home schooling
  - Nonathletic supplies for physical education
  - Supplies for health courses

# Self-Employment Tax



- A portion of self-employment tax can be subtracted from total income
- The self-employment tax is automatically calculated from Schedule SE
- Self employed health insurance deduction is in scope for returns without Premium Tax Calculations

<b>Standard Deduction for—</b> • Single or Married filing separately, \$12,950 • Married filing jointly or Qualifying widow(er), \$25,900 • Head of household, \$19,400 • If you checked any box under <i>Standard Deduction</i> , see instructions.	<b>5a</b>	Pensions and annuities . . . . .	<b>5a</b>		<b>b</b>	Taxable amount . . . . .	<b>5b</b>			
	<b>6a</b>	Social security benefits . . . . .	<b>6a</b>		<b>b</b>	Taxable amount . . . . .	<b>6b</b>			
		<b>c</b>	If you elect to use the lump-sum election method, check here (see instructions) . . . . .		<input type="checkbox"/>					
		<b>7</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here . . . . .		<input type="checkbox"/>			<b>7</b>		
		<b>8</b>	Other income from Schedule 1, line 10 . . . . .					<b>8</b>		
		<b>9</b>	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b> . . . . .						<b>9</b>	
		<b>10</b>	Adjustments to income from Schedule 1, line 26 . . . . .						<b>10</b>	
		<b>11</b>	Subtract line 10 from line 9. This is your <b>adjusted gross income</b> . . . . .						<b>11</b>	
		<b>12</b>	<b>Standard deduction or itemized deductions</b> (from Schedule A) . . . . .						<b>12</b>	
		<b>13</b>	Qualified business income deduction from Form 8995 or Form 8995-A . . . . .						<b>13</b>	
		<b>14</b>	Add lines 12 and 13 . . . . .						<b>14</b>	
		<b>15</b>	Subtract line 14 from line 11. If zero or less, enter -0-. This is your <b>taxable income</b> . . . . .						<b>15</b>	

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Cat. No. 11320B

Form **1040** (2022)



# Penalties for Early Withdrawal



- Form 1099-INT, Interest Income, or Form 1099-OID, Original Issue Discount, document this penalty
- The penalty amount is entered on the interest statement in TaxSlayer

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112	<b>Interest Income</b>
		1 Interest income	<b>2019</b>	
		\$	Form <b>1099-INT</b>	
PAYER'S TIN		RECIPIENT'S TIN	2 Early withdrawal penalty	<b>Copy B</b>
			\$	<b>For Recipient</b>
			3 Interest on U.S. Savings Bonds and Treas. obligations	

# Alimony Paid



- Alimony paid pursuant to a divorce or separation instrument executed on or before December 31, 2018, is deductible.
- Can be direct payments to the ex-spouse, or payments to cover expenses for the ex-spouse (such as medical bills, housing costs)
- Do not confuse alimony payments with child support payments, which are not deductible (and are not taxable for the recipient)
- See Pub 4012, Tab E, Adjustments, [Alimony Requirements](#), the Alimony chapter in [Pub 17](#), and [Pub 504](#), Divorced or Separated Individuals

## Alimony Requirements (Instruments Executed After 1984)

Payments **ARE** defined as alimony if **all** of the following are true:

Payments are required by a divorce or separation instrument.

Payer and recipient spouse don't file a joint return with each other.

Payment is in cash or cash equivalents (including checks or money orders).

Payments **AREN'T** alimony if **any** of the following are true:

Payments aren't required by a divorce or separation instrument.

Payer and recipient spouse file a joint return with each other.

Payment is:  
• Not in cash,  
• A payment made as a settlement



# IRA Contributions

- Only contributions to traditional IRAs are deductible
- Taxpayers may contribute and deduct up to \$6,000 (\$7,000 if age 50+)
  - Contributions cannot be more than taxpayer's yearly compensation
- Deductions can be "phased out" depending on income (MAGI), filing status, and availability of employer-provided retirement plan
- Find the IRA Deduction Worksheet in the Form 1040 Instructions
- To add IRA contributions, go to the adjustments tab and click begin on the IRA deduction line.

**IRA Deduction Worksheet—Schedule 1, Line 32**

**Warning:** If you were age 70½ or older at the end of 2018, you can't deduct any contributions made to your traditional IRA or treat them as nondeductible contributions. Don't complete this worksheet for anyone age 70½ or older at the end of 2018. If you are married filing jointly and only one spouse was under age 70½ at the end of 2018, complete this worksheet only for that spouse.

**Before you begin:**  Be sure you have read the 11-item list in the instructions for this line. You may not be able to use this worksheet.  Figure any write-in adjustments to be entered on the dotted line next to Schedule 1, line 36 (see the instructions for Schedule 1, line 36).  If you are married filing separately and you lived apart from your spouse for all of 2018, enter "D" on the dotted line next to Schedule 1, line 32. If you don't, you may get a math error notice from the IRS.

		Your IRA	Spouse's IRA
1a.	Were you covered by a retirement plan (see <i>Were You Covered by a Retirement Plan?</i> )? .....	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
b.	If married filing jointly, was your spouse covered by a retirement plan? .....		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
<p><b>Next:</b> If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6; enter the applicable amount below on line 7a (and line 7b if applicable), and go to line 8.</p> <ul style="list-style-type: none"> <li>• \$5,500, if under age 50 at the end of 2018.</li> <li>• \$6,500, if age 50 or older but under age 70½ at the end of 2018.</li> </ul> <p>Otherwise, go to line 2.</p>			
2.	Enter the amount shown below that applies to you. <ul style="list-style-type: none"> <li>• Single, head of household, or married filing separately and you lived apart from your spouse for all of 2018, enter \$121,000.</li> <li>• Qualifying widow(er), enter \$121,000.</li> <li>• Married filing jointly, enter \$121,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$199,000 for the person who wasn't covered by a plan.</li> <li>• Married filing separately and you lived with your spouse at any time in 2018, enter \$10,000.</li> </ul>	2a. _____	2b. _____
3.	Enter the amount from Form 1040, line 6 .....	3. _____	
4.	Enter the total of the amounts from Schedule 1, lines 23 through 31a, plus any write-in adjustments you entered on the dotted line next to Schedule 1, line 36 other than any amounts identified as "DPAD" .....	4. _____	
5.	Subtract line 4 from line 3. If married filing jointly, enter the result in both columns .....	5a. _____	5b. _____
6.	Is the amount on line 5 less than the amount on line 2? <input type="checkbox"/> No. <input checked="" type="checkbox"/> Yes. None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.  <input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. Follow the instruction below that applies to you. <ul style="list-style-type: none"> <li>• If single, head of household, or married filing separately, and the result is \$10,000 or more, enter the applicable amount below on line 7 for that column and go to line 8.               <ul style="list-style-type: none"> <li>i. \$5,500, if under age 50 at the end of 2018.</li> <li>ii. \$6,500, if age 50 or older but under age 70½ at the end of 2018.</li> </ul> </li> <li>• If the result is less than \$10,000, go to line 7.</li> <li>• If married filing jointly or qualifying widow(er), and the result is \$20,000 or more (\$10,000 or more in the column for the IRA of a person who wasn't covered by a retirement plan), enter the applicable amount below on line 7 for that column and go to line 8.               <ul style="list-style-type: none"> <li>i. \$5,500, if under age 50 at the end of 2018.</li> <li>ii. \$6,500, if age 50 or older but under age 70½ at the end of 2018.</li> </ul> </li> </ul>	6a. _____	6b. _____

# Health Savings Accounts (H.S.A)



- Review the taxpayer's intake/interview & quality review sheet to see if the Yes or Unsure H.S.A box is checked
- The taxpayer (or spouse's) Form W-2 will contain code W in box 12 for employer contributions
- The taxpayer (or spouse) should have a Form 1099-SA with an x in the box showing distributions from an H.S.A
- See Publication 4012, Tab E, Health Savings Accounts for contribution limits

# Student Loan Interest



- Generally the smaller of \$2,500 or the interest paid that year on a qualified student loan
- Gradually phased out or eliminated based on the taxpayer's filing status and MAGI
- Reported to the taxpayer on Form 1098-E, box 1
- See Pub 4012, Tab E, Adjustments:
  - [Student Loan Interest Deduction at a Glance](#)
- See [Pub 970](#), Tax Benefits for Education
- Refer to the [Student Loan Deduction Worksheet](#) from Form 1040 Instructions

# Summary

- This lesson explained how to identify and claim adjustments to income:
  - Educator Expenses
  - Deductible portion of self-employment tax
  - Self employed health insurance deduction
  - Penalty on early withdrawal of savings
  - Alimony paid
  - IRA deduction
  - Health Savings Account
  - Student loan interest deduction
  - Jury duty pay turned over to the taxpayer's employer
- Check your understanding of this lesson by going to Certification Warm Up on your student landing page

## Out of Scope for this Lesson:

- Other adjustments to income on Form 1040, such as:
  - Self-employed health insurance deduction with premium tax credit calculations
  - Self-employed SEP, SIMPLE, and qualified plans
  - Certain business expenses of performing artists
  - Domestic production activities deduction
- Form 8606, Nondeductible IRAs