TESTING SEASON 2023 – 2024

PART 1 - INDIVIDUALS

EA ACADEMY PH

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Learning Objectives

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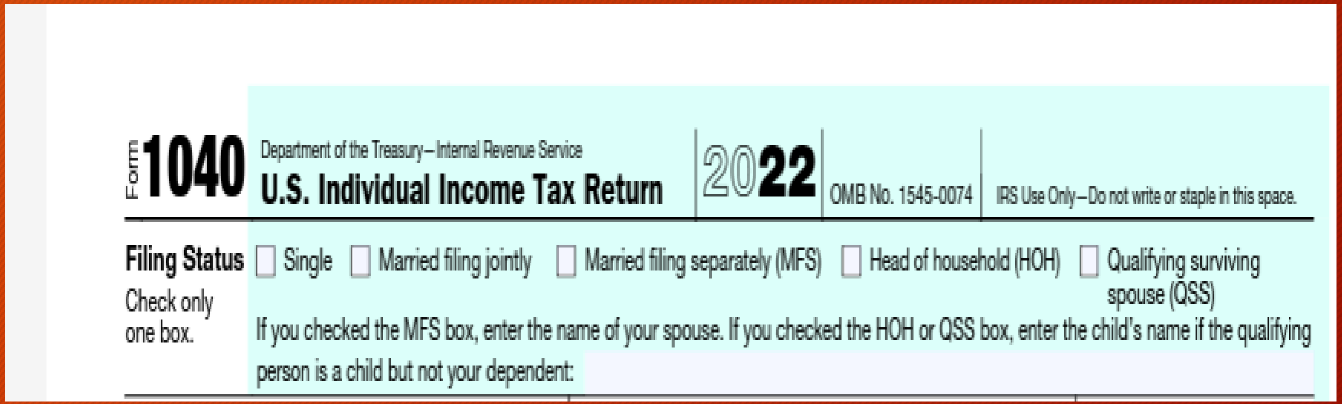
- Be able to determine the correct filing status
- Pre-requisites to qualify for the Head of Household Status (HOH)
- Understand who a qualifying person is

TAXPAYER FILING STATUS

There are five filing statuses:

- Single
- Married Filing Jointly (MFJ)
- Married Filing Separate (MFS)
- Head of Household (HOH)
- Qualifying Surviving Spouse (QSS)



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2022 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Check only one box. ☐ Single ☐ Married filing jointly ☐ Married filing separately (MFS) ☐ Head of household (HOH) ☐ Qualifying surviving spouse (QSS)

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

SINGLE

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- Your filing status is single if you are considered unmarried and you don't qualify for another filing status.
- Legally separated under a decree of divorce or separate maintenance.
- Legally divorced
- Your filing status may be single if your spouse died before January 1, 2022, and you didn't remarry before the end of 2022. You may, however, be able to use another filing status that will give you a lower tax. See Head of Household and Qualifying Surviving Spouse, later, to see if you qualify.

EXAMPLE

John and Jane lived together until June 15 when they separated. John filed for divorce on September 1 and their divorce became final on December 30, 2022. They do not have any dependents. They each must file **SINGLE** for 2022. The fact that the divorce became final before the end of 2022, for tax purposes, they are considered unmarried in 2022

Married Filing Jointly

You can choose married filing jointly as your filing status if you are considered married and both you and your spouse agree to file a joint return. On a joint return, you and your spouse report your combined income and deduct your combined allowable expenses. You can file a joint return even if one of you had no income or deductions.

Study Note: MFJ is an election, both spouses have to agree to file MFJ

Considered Married

You are considered married for the whole year if, on the last day of your tax year, you and your spouse meet any one of the following tests.

- You are married and living together.
- You are living together in a common law marriage recognized in the state where you now live or in the state where the common law marriage began.
- You are married and living apart, but not legally separated under a decree of divorce or separate maintenance.
- You are separated under an interlocutory (not final) decree of divorce.

FILING A JOINT RETURN

Both you and your spouse must include all of your income and deductions on your joint return.

Accounting period. Both of you must use the same accounting period (*Calendar or fiscal*) but you can use different accounting methods (*Cash Method or Accrual Method*)

Accounting Period

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Most individual tax returns cover a **calendar year**—the 12 months from January 1 through December 31. If you don't use a calendar year, your accounting period is a **fiscal year**. A regular fiscal year is a 12-month period that ends on the last day of any month except December. A 52-53-week fiscal year varies from 52 to 53 weeks and always ends on the same day of the week. You choose your accounting period (tax year) when you file your first income tax return. It can’t be longer than 12 months.

Accounting Method

Your accounting method is the way you account for your income and expenses. Most taxpayers use either the cash method or an accrual method. You choose a method when you file your first income tax return. If you want to change your accounting method after that, you must generally get IRS approval. Use Form 3115 to request an accounting method change.

- **Cash method**. If you use this method, report all items of income in the year in which you actually or constructively receive them. Generally, you deduct all expenses in the year you actually pay them. This is the method most individual taxpayers use.
- **Accrual method**. If you use an accrual method, you generally report income when you earn it, rather than when you receive it. You generally deduct your expenses when you incur them, rather than when you pay them.

FILING A JOINT RETURN (cont)

Joint responsibility. Both of you may be held responsible, jointly and individually, for the tax and any interest or penalty due on your joint return. This means that if one spouse doesn't pay the tax due, the other may have to. Or, if one spouse doesn't report the correct tax, both spouses may be responsible for any additional taxes assessed by the IRS. One spouse may be held responsible for all the tax due even if all the income was earned by the other spouse.

- You may want to file separately if:
- You believe your spouse isn't reporting all of their income, or
- You don’t want to be responsible for any taxes due if your spouse doesn't have enough tax withheld or doesn't pay enough estimated tax.

SPOUSE DIED

If your spouse died during the year, you are considered married for the whole year for filing status purposes.

If you didn't remarry before the end of the tax year, you can file a joint return for yourself and your deceased spouse. For the next 2 years, you may be entitled to the special benefits described later under Qualifying Surviving Spouse.

If you remarried before the end of the tax year, you can file a joint return with your new spouse. Your deceased spouse's filing status is married filing separately for that year.

DIVORCED PERSONS

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If you are divorced under a final decree by the last day of the year, you are considered "**unmarried**" for the whole year and you **can't** choose married filing jointly as your filing status.

One spouse does not want to file MFJ

If one spouse does not wish to file MFJ, then both spouses must default to MFS (*unless the other spouse qualifies for a different filing status)*

RELIEF FROM JOINT RESPONSIBILITY

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In some cases, one spouse may be relieved of joint responsibility for tax, interest, and penalties on a joint return for items of the other spouse that were incorrectly reported on the joint return. You can ask for relief no matter how small the liability.

There are three types of relief available.

- Innocent spouse relief
- Separation of liability (available only to joint filers whose spouse has died, or who are divorced, legally separated, or haven't lived together for the 12 months ending on the date the election for this relief is filed).
- Equitable relief

You must file Form **8857**, Request for Innocent Spouse Relief, to request relief from joint responsibility.

Pub. 971, Innocent Spouse Relief, explains these kinds of relief and who may qualify for them.

MARRIED FILING SEPARATELY

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You can choose married filing separately as your filing status if you are married. This filing status may benefit you if you want to be responsible only for your own tax or if it results in less tax than filing a joint return. Taxpayers who are married and either:

- Choose to file separate returns or
- Do not agree to file jointly

Study Note: If one spouse choose to file MFS, the other is forced to do the same.

MFS SPECIAL RULES

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If you choose married filing separately as your filing status, the following special rules apply. Because of these special rules, you usually pay more tax on a separate return than if you use another filing status you qualify for.

- Your tax rate is generally higher than on a joint return.
- Your exemption amount for figuring the alternative minimum tax is half that allowed on a joint return.
- You can’t take the credit for child and de-pendent care expenses in most cases, and the amount you can exclude from in-come under an employer's dependent care assistance program is limited to $2,500 (instead of $5,000 on a joint re-turn). However, if you are legally separated or living apart from your spouse, you may be able to file a separate return and still take the credit. For more information about these expenses, the credit, and the exclusion, see *What’s Your Filing Status?* in Pub. 503, Child and Dependent Care Expenses

MFS SPECIAL RULES (cont)

- You can't take the earned income credit, unless you were separated from your spouse at the end of 2022 and meet certain requirements. For more information about these requirements, see *Rule 3—If Your Filing Status is Married Filing Separately, You Must Meet Certain Rules* in Pub. 596, Earned Income Credit (EIC).
- You can't take the exclusion or credit for adoption expenses in most cases.
- You can't take the education credits (the American opportunity credit and lifetime learning credit), or the deduction for student loan interest.
- You can't exclude any interest income from qualified U.S. savings bonds you used for higher education expenses.

MFS SPECIAL RULES (cont)

- If you lived with your spouse at any time during the tax year:
  - You can't claim the credit for the elderly or the disabled, and
  - You must include in income a greater percentage (up to 85%) of any social security or equivalent railroad retirement benefits you received.
- The following credits and deductions are reduced at income levels half of those for a joint return:
  - The child tax credit and the credit for other dependents, and
  - The retirement savings contributions credit.
- Your capital loss deduction limit is $1,500 (instead of $3,000 on a joint return).
- If your spouse itemizes deductions, you can't claim the standard deduction. If you can claim the standard deduction, your basic standard deduction is half of the amount allowed on a joint return.

HEAD OF HOUSEHOLD (HOH)

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A taxpayer who qualifies to file as Head of Household (HOH) will usually have a lower tax rate than a single or married filing separately and will receive a higher standard deduction. The HOH status is available to taxpayers who meet **ALL** of the following requirements:

- The taxpayer must be single, divorced, legally separated or considered "**unmarried**" on the last day of the year.
- The taxpayer must have paid more than half of the cost of keeping up a home for the year.

HEAD OF HOUSEHOLD (cont)

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- The taxpayer must have a had a qualifying person living in their home for more than half of the year.

EXCEPTIONS:

1. Temporary Absences
2. A qualifying parent who does not have to live with the taxpayer *(including hospitalization and stay in nursing homes)*

A qualifying "**parent**" maybe a step-parent, in-law or grandparent who is related to the taxpayer by Blood, Adoption or Marriage (BAM)

Examples:

Maggie is single but she is financially supporting her mother Annie who lives in her own house. Annie dies on March 15, 2022. Maggie can claim Annie as a dependent and file as head of household even though her mother was not alive the entire year.

Elena is 48 years old and pays for the monthly bill for Elders Haven Nursing Home for her 80 year's old father Tony. Tony has lived in the nursing home for several years and has no income. Since Elena is paying for more than half of the cost of her fathers living expenses, Elena qualifies for head of household filing even though her father lives in a retirement home.

Considered "Unmarried"

To qualify for head of household status, you must be either unmarried or considered unmarried on the last day of the year. You are considered unmarried on the last day of the tax year if you meet **ALL** of the following tests.

- You file a separate return. A separate re-turn includes a return claiming married filing separately, single, or head of house-hold filing status.
- You paid more than half of the cost of keeping up your home for the tax year.
- Your spouse didn't live in your home dur-ing the last 6 months of the tax year. Your spouse is considered to live in your home even if your spouse is temporarily absent due to special circumstances.
- Your home was the **main home** of your child, stepchild, or foster child for more than half the year.
- Be able to claim an exemption for the child

Valid Expenses

Costs you include. Include in the cost of keeping up a home expenses, such as rent, mortgage interest, real estate taxes, insurance on the home, repairs, utilities, and food eaten in the home.

Valid expenses do **NOT** include clothing, education, medical treatment, insurance, vacations or transportation.

Cost of Keeping a Home

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Worksheet 2-1. Cost of Keeping Up a Home

Keep for Your Records

	Amount You Paid	Total Cost
Property taxes	$	$
Mortgage interest expense		
Rent		
Utility charges		
Repairs/Maintenance		
Property insurance		
Food eaten in the home		
Other household expenses		
Totals	$	$
Minus total **amount you paid**		( )
Amount others paid		$

If the total amount you paid is more than the amount others paid, you meet the requirement of paying more than half of the cost of keeping up the home.

WHO IS A QUALIFYING PERSON?

To be considered as a qualifying person for HOH filing status purposes, the person must be generally related to the taxpayer by either Blood, Adoption or Marriage (BAM)

- A qualifying child
- A married child who can be claimed as dependent
- A dependent person
- A qualifying relative who meets certain relationship test

A foster child also qualifies if the child was legally placed in the home by the government or agency.

QUALIFYING PERSON

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Table 2-1. **Who Is a Qualifying Person Qualifying You To File as Head of Household?**[1]

Caution. See the text of this chapter for the other requirements you must meet to claim head of household filing status.

IF the person is your . . .	AND . . .	THEN that person is . . .
qualifying child (such as a son, daughter, or grandchild who lived with you more than half the year and meets certain other tests)[2]	the child is single	a qualifying person, whether or not the child meets the *Citizen or Resident Test* in chapter 3.
	the child is married **and** you can claim the child as a dependent	a qualifying person.
	the child is married **and** you can't claim the child as a dependent	not a qualifying person.[3]
qualifying relative[4] who is your father or mother	you can claim your parent as a dependent[5]	a qualifying person.[6]
	you can't claim your parent as a dependent	not a qualifying person.
qualifying relative[4] other than your father or mother (such as a grandparent, brother, or sister who meets certain tests)	your relative lived with you more than half the year, **and** your relative is related to you in one of the ways listed under *Relatives who don't have to live with you* in chapter 3 **and** you can claim your relative as a dependent[5]	a qualifying person.
	your relative didn't live with you more than half the year	not a qualifying person.
	your relative isn't related to you in one of the ways listed under *Relatives who don't have to live with you* in chapter 3 **and** is your qualifying relative only because your relative lived with you all year as a member of your household	not a qualifying person.
	you can't claim your relative as a dependent	not a qualifying person.

QUALIFYING SURVIVING SPOUSE (QSS)

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If one spouse dies during the tax year, the survivor can file married filing jointly (MFJ) if they otherwise qualify for that status. The year of death is the last year to file jointly with a deceased spouse. In certain cases, ***qualifying surviving spouse* is the filing status for two tax years following the year a spouse died**. The qualifying surviving spouse filing status entitles the surviving spouse to use joint return tax rates and the highest standard deduction amount (if not itemizing deductions). To file as a qualifying surviving spouse the taxpayer must meet ALL of the following tests:

- Must be entitled to file a joint return with the spouse for the year the spouse died.
- Must not remarry before the end of the year
- Must have a child or a step-child (**NOT FOSTER CHILD**) whom they can claim as dependent or could claim as dependent.
- A child lived in the person's home all year except for temporary absences

Qualifying Surviving Spouse (cont)

Example. A's spouse died in 2020. A hasn't remarried. During 2021 and 2022, A continued to keep up a home for A and A's child, who lives with A and whom A can claim as a dependent. For 2020, A was entitled to file a joint return for A and A's deceased spouse. For 2021 and 2022, A can file as qualifying surviving spouse. After 2022, A can file as head of household if A qualifies.

RECAP

Filing Status

- Single
- Married Filing Jointly
- Married Filing Separately
- Head of Household (HOH)
- Qualified Surviving Spouse

Head of Household

- Taxpayer must be single, divorced, legally separated or considered as unmarried at the end of the year
- The taxpayer must have paid more than half of the cost of keeping up the home for the year
- The taxpayer must have a qualifying person living in their home for more than half of the year.

Qualifying Person

Must be generally related to the taxpayer by Blood, Adoption, Marriage (BAM)

Could be:

- Qualifying child
- Married child that can be claimed as dependent
- Dependent Parent
- Qualifying relative that meets certain relationship test

THAT'S ALL FOR NOW, THANK YOU!

See you on the next session