



ADJUSTMENTS TO INCOME

Adjusted Gross Income (AGI)

- **Adjustments** are deductions that **decrease** a taxpayer's gross income.

$$\text{Total Income} - \text{Adjustments} = \text{Adjusted Gross Income (AGI)}$$

- Any increases to adjustments lower taxable income and **reduce income tax**.
- Adjustments to income lower the adjusted gross income dollar for dollar.
- Adjustments **do not lower other taxes**, such as self-employment tax.
- Adjustments are reported on Schedule 1, Part II and carried to Form 1040, Line 10.

9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your adjusted gross income	11	

Educator Expense Deductions

- An eligible educator is allowed to deduct up to \$300 (Single) or \$600 (Married Filing Joint if both are eligible educators) as **Adjustments to Income**
 - An eligible educator is a kindergarten through 12th grade teacher, instructor, counselor, principal, or aide in school for at least **900 hours** during the school year
- Qualified Expenses include:
 - *Ordinary and necessary* expenses purchased, such as books, equipment, supplies, and other materials. Expenses **do not have to be required**.
 - Amounts for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus. Additionally, professional development expenses are allowed unless reimbursement is offered by the school but not accepted. Professional development expenses include courses related to the curriculum in which the educator provides instruction.

Penalty on Early Withdrawal of Savings

- The taxpayer may have paid a penalty for an early withdrawal from their savings account (usually a certificate of deposit)
 - This penalty can be identified on **Form 1099-INT Box 2** or **Form 1099 – OID Box 2**
 - The taxpayer will receive these forms from their bank

Example: The taxpayer says they have about \$100 early withdrawal penalty from their bank. After asking them if they have their Form 1099-INT, they give you their paperwork. Box 2 lists \$75. How much is **deductible as an Adjustment to Income**?

Answer: **\$75** is deductible as an adjustment to income. Tax Preparers can only utilize the amount listed on Form 1099-INT or 1099-OID.

The Adjustment to Income deduction will appear on Schedule 1, line 18.

Whenever the documentation does not agree with what the taxpayer says, discuss the discrepancy with the taxpayer. Maybe he forgot to bring a second Form 1099-INT or other reasonable explanation.

When in doubt, talk to the taxpayer!

Alimony Paid Deduction

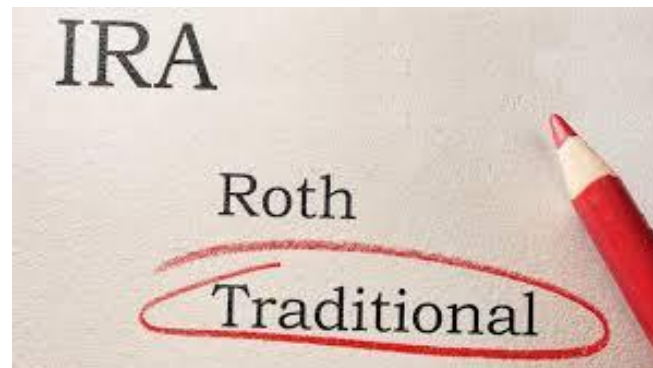
- Alimony paid to a divorced spouse may be deductible as an Adjustment to Income and included in the recipient spouse's taxable income.
- **A divorce before 1985 with alimony is out of scope.**
- **Note:** Alimony is not deductible for any divorce decree executed or modified after 2018.
 - Also, Alimony is not reported as income for the other party after December 31, 2018
- Requirements for payments to be considered alimony paid:
 - The ex-spouses do not file married filing jointly
 - The payment was in cash (includes checks and money orders)
 - The divorce does not designate the payment as "not alimony"
 - The ex-spouses were not members of the same household when the payment was made
 - The alimony payment was designated in a divorce/separation document and ordered by a judge
 - There is no liability to continue alimony payments after the death of the spouse that receives the payment
 - The payment is not treated as child support or a property settlement

Alimony Paid Deduction

- Alimony Paid is reported on the taxpayer's Schedule 1, line 19a.
- The taxpayer must have the Social Security Number of the ex-spouse they are making payments to. This is reported on the Schedule 1, line 19b.
- Report the date of the original divorce or separation agreement on Schedule 1, line 19c.
- Example: The taxpayer made alimony payments totaling \$2,500 in the past year. They also made child support payments totaling \$1,000 in the past year. How much can the taxpayer claim as an Adjustment to Income deduction?
- Answer: **\$2,500**. Child support payments are not considered Alimony.

IRA Deduction

- Only contributions to **traditional** IRAs are deductible
- For 2025, the maximum combined traditional IRA deduction or Roth contribution is \$7,000 (\$8,000 if age 50 or older)
 - Contributions cannot be more than taxpayer's yearly compensation
- Contributions can also be made for a non-working spouse as long as the totals contributed do not exceed the yearly compensation of the working spouse.
- The IRA deduction is listed on Schedule 1, line 20.



Student Loan Interest Deduction

- Interest on qualified student loans can be deducted up to \$2,500 for the year in which the taxpayer paid interest
- A taxpayer must be legally liable for the loan.
- The taxpayer cannot be Married Filing Separate.
- Taxpayer or their Spouse cannot be claimed as dependents on someone else's return.
- Taxpayer may have a form from the lending institution or will be able to look up their account.
- The Student Loan Deduction is listed on Schedule 1, line 21.

Health Savings Account (HSA)

- An HSA is a medical savings account designed to pay for qualified medical expenses and save for future expenses on a tax-free basis.
- To be eligible to have an HSA, individuals must meet the following requirements:
 1. Be covered by a high-deductible health plan
 2. Not be covered by other insurance
 3. Not be enrolled in Medicare
 4. Not be eligible to be claimed as a dependent on another return
- A taxpayer has a family plan if their insurance covers themselves and a spouse or dependent. A self-only plan covers only the taxpayer.
- Contributions to an HSA have an annual limit based on the type of plan.
 - Self only plans: \$4,300 or \$5,300 for people age 55+
 - Family plans: \$8,550 or \$9,550 for people age 55+
- Contributions to an HSA may be made to the tax filing deadline.



HSA Contribution Deduction

- Taxpayers with an HSA may qualify for an adjustment to income for their personal contributions to the account.
- Contributions made through a payroll deduction plan or by the taxpayer's employer do not qualify for the adjustment.
 - These contributions will be shown on Form W-2 in box 12 with code W.
 - **Most taxpayers do not make contributions beyond payroll deductions or employer contributions and will not qualify for the adjustment.**
- Use Form 8889 to collect information about a taxpayer's HSA contributions and figure any adjustment.
 - Form 8889 also collects information about a taxpayer's HSA distributions. Distributions used for non-qualified medical expenses are taxable and subject to an additional 20% tax.
 - **Be sure to question the taxpayer about the distribution document if you see the code W on their W2. Many do not know to bring that information.**

Contributions to an HSA may be made to the tax filing deadline.

Self Employment Tax Deduction

- $\frac{1}{2}$ of self-employment tax can be deducted from income.
- Self-Employment tax is based on income reported on Schedule C and figured on Schedule SE.
 - SE tax covers the Social Security and Medicare Tax for self-employed taxpayers.
 - W-2 employees have half of their Social Security and Medicare Tax taken out of their paychecks automatically and the employer pays the other half.

Self-Employed Health Insurance Deduction

- Health insurance premiums paid by a self-employed taxpayer can be an adjustment to income
- The cost of all out-of-pocket, unreimbursed **Medicare**, supplemental, private and long-term care premiums paid for the taxpayer, spouse or dependent children can be used for the deduction
 - The deduction is limited to the Schedule C net profit minus the deductible part of the self-employment tax
 - **If the taxpayer is itemizing and meets the medical deduction threshold, do not allow any expenses entered as an adjustment also be entered on Schedule A**

Knowledge Check - scenario

- Pat and Chris are married and wish to file a joint return.
- Pat and Chris are each 27 years old. They have no children.
- Pat teaches third grade at a private elementary school and spent 1,400 hours in the classroom during the tax year.
- Chris is a social service case manager for a nonprofit.
- Their combined income from work was \$60,000, and they had \$2,000 investment income from a certificate of deposit, which they cashed in six months early to pay for a new air conditioner for their home.

Pat and Chris bring you the following expenses, which they hope to deduct:

- \$600 classroom expenses for Pat.
- \$2,300 student loan interest for Pat.
- \$1,700 student loan interest for Chris.
- Chris is covered by a high deductible health plan (HDHP) at work all year. Chris' W-2 shows \$1,200 in Box 12 with code W.
- Pat contributed \$1,000 to a Roth IRA.
- \$200 early withdrawal penalty for cashing in their certificate of deposit before its maturity date (they provide Form 1099-INT with \$200 in Box 2).

Knowledge Check - question

Pat and Chris bring you the following expenses, which they hope to deduct:

- \$600 classroom expenses for Pat.
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- Pat contributed \$1,000 to a Roth IRA.
- \$200 early withdrawal penalty for cashing in their certificate of deposit before its maturity date (they provide Form 1099-INT with \$200 in Box 2).

Question: What is the total amount of adjustments that Pat and Chris can report on their tax return?

- A. \$2,500
- B. \$3,000
- C. \$4,200
- D. \$7,000

Answer on the next slide.

Knowledge Check - answer

Answer: B. \$3,000

What they can claim:

- Pat is allowed to claim \$300 in classroom expenses as an educator. Chris is not an educator, so \$300 is the maximum educator expense deduction allowed.
- Pat and Chris can claim \$2,500 student loan interest combined--not per person.
- Pat and Chris can claim the \$200 early withdrawal penalty on their certificate of deposit.

What they cannot claim:

- The excess classroom expenses and student loan interest amounts are not allowed.
- Code W in Box 12 of Form W-2 represents nondeductible HSA contributions, so the \$1,200 HSA contribution is not allowed.
- Only traditional IRA contributions are eligible for the IRA deduction, so Pat's \$1,000 contribution to a Roth IRA is not allowed.