PART THREE - STANDARD DEDUCTION AND FILING REQUIREMENTS

OBJECTIVES

At the end of this session, you should be familiar with

- Annual Inflation Adjustments;
- The Standard Deduction;
- Taxpayers that do not qualify for the Standard Deduction;
- Affordable Care Act in general and Dependents.
- Filing Requirements;
- Important Due Dates.

ANNUAL INFLATION ADJUSTMENTS

Every year taxpayers can take advantage of the adjustment made to some tax benefits due to the inflation. This adjustment is made to help taxpayers deal with changes in the cost of living; many of the values used in computing various tax deductions, deduction thresholds, phase-outs, limitations, etc., are annually adjusted for inflation and are presented here in comparison with 2014 values. The filing requirements for 2015 are also reviewed.

STANDARD DEDUCTION

The standard deduction is a deduction that ensures that all taxpayers have at least some income that is not subject to federal income tax. The Standard deduction increases each year due to the inflation. Taxpayers will have the option of claiming the standard deduction or the itemize deductions but not both.

The 26 U.S. Code section 63 indicates that the standard deduction for purposes of this subtitle is:

(1)In general except as otherwise indicate in the subsection, the term ῝standard deductioǹ means the sum of:

a) The basic standard deduction, and
b) The additional standard deduction.

The standard deduction is a dollar amount, based on filing status, age, and blindness, which is subtracted from income when calculating the amount of tax liability. When completing their return, taxpayers generally have the option of taking their standard deduction or the itemize deduction. One of these two methods has to be selected. Itemized deductions are detailed on Schedule A and include medical expenses, taxes, mortgage interest, charitable contributions, employee business expenses, etc. We will be talking more about itemized deductions later in this course.

Standard Deduction

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Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	
	39a	Check if: ☐ **You** were born before January 2, 1947, ☐ Blind. ☐ **Spouse** was born before January 2, 1947, ☐ Blind. } **Total boxes checked ▶ 39a** ☐		
Standard Deduction for—	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin) . .	40	

Standard and itemized deduction section

- Itemized deduction or standard deduction section. Section of Form 1040

The Standard Deduction is based upon taxpayers’ filing status and it could be:

Single,
Married Filing Jointly,
Married Filing Separate,
Head of Household, and
Qualifying Widow or Widower

Any taxpayer using one of the statuses listed above will receive an adjusted Standard Deduction to help them reduce their taxable income.

See the table below to see the amount available for each status and the extra amount for blind and elderly individuals.

Table 1. Standard Deduction Amounts		
Basic Standard Deduction		
	Year	
Filing Status	**2014** Amount	**2015** Amount
Single / Married Filing Separate	$6,200	$6,300
Head of Household	$9,100	$9,250
Married Filing Jointly	$12,400	$12,600
Qualifying Widow (er)	$12,400	$12,600
Additional Amount for Elderly + Blind Taxpayers		
Married/ Qualifying Widow(er)/ Married Filing Separately.	$1,200	$1,250
Unmarried	$1,550	$1,550
Standard Deduction for a Dependent Claimed on another person’s tax return		
Lower Amount	$1,000	$1,050
Extra Amount added to dependent’s income no to exceed the normal standard deduction	$350	$350

Taxpayers that are age 65 or older qualify for the elderly additional deduction amount. If they are blind they will qualify for the extra deduction for blind taxpayers. Taxpayers may qualify for one or both of the extra deductions. Taxpayer should choose the larger of their standard deduction or their itemized deductions.

<u>Additional Amount.</u> As mentioned above the standard deduction amount is based on the taxpayer’s filing status. This amount may increase if taxpayer is age 65, older, or blind.

Alternatively, the amount may be lower if the taxpayer is claimed as a dependent on another person's return.

Certain individuals are not eligible for the standard deduction.

Their standard deduction is considered to be zero and they should complete Schedule A and itemize their deductions regardless of the amount.

Persons not eligible for the standard deduction include:

- Taxpayers who are married, filing separate returns, and their spouse itemizes deductions;

- Taxpayers who are filing a tax return for a short tax year because of a change in accounting periods; or

- Taxpayers who are nonresidents or dual-status aliens during the year.

Married Filing Separate returns. Taxpayers that file separately will have to make sure that both take the standard deduction or both itemize their deductions. Taxpayers in this situation cannot mix-and-match (where one spouses itemizes and the other takes the standard deduction). As such, it usually makes sense to figure their taxes both ways (each spouse itemizing vs. each spouse taking the standard deduction) to see which will yield the best overall tax savings.

Taxpayers will generally pay more combined tax on separate returns than they would on a joint return. If taxpayers are required to file separately, the computation of taxes should be figured both ways (on a joint return and on separate returns). This way they can make sure they are using the filing status that results in the lowest combined tax

Taxpayers can change their filing status from a separate return to a joint return by filing an amended return. They generally can change to a joint return any time within 3 years from the due date of the separate return or returns. This does not include any extensions. A separate return includes a return filed by taxpayer and the spouse claiming married filing separately, single, or head of household filing status.

Once taxpayers file a joint return, they cannot choose to file separate returns for that year after the due date of the return.

Higher standard deduction for blindness. For the purposes of the higher standard deduction amount, taxpayers will qualify if they are totally or partly blind. If taxpayers are partly blind, they must get a certified statement from an eye doctor or registered optometrist that:

- They cannot see better than 20/200 in the better eye with glasses or contact lenses; or
- Their field of vision is not more than 20 degrees.

If their vision can be correct better than these limits only be wearing contact lenses that cause pain, infection or ulcers, the taxpayer can take the higher standard deduction if they otherwise qualify.

Higher Standard Deduction for Age (65 or Older) and Blindness. If taxpayers do not itemize deductions, they are entitled to a higher standard deduction if they are age 65 or older at the end of the year. They are considered 65 on the day before their 65th birthday. Therefore, they can take a higher standard deduction for 2015 if they were born before January 2, 1951. Taxpayers can also take the higher standard deduction if their spouse is age 65, older, or blind and:

- They file a joint return, or
- They file 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.

Taxpayers cannot claim the higher standard deduction for an individual other than him/herself and his/her spouse.

Decedent's final return. The standard deduction for a decedent's final tax return is the same as it would have been had the decedent continued to live. The higher standard deduction for the elderly can be claimed only if the decedent was 65 or older at the time of death. In this case the special rule for living elders does not apply. Even if the taxpayer was born before January 2, 1951, he or she is not considered 65 or older at the end of 2015 unless he or she was 65 or older at the time of death

Standard Deduction for Dependents. The standard deduction for an individual for whom an exemption can be claimed on another person's tax return is generally limited to the greater of:

- $1,050, or

- The individual's earned income for the year plus $350 (but not more than the regular standard deduction amount, generally $6,300 for 2015). Earned income is salaries, wages, tips, professional fees, and other amounts received as pay for work you actually perform.

For purposes of the standard deduction, earned income also includes any part of a scholarship or fellowship grant that you must include in your gross income. However, if the individual is 65, older, or blind the standard deduction may be higher.

Example 1. *Michael is 16 years old and single. His parents can claim an exemption for him on their 2015 tax return. He has interest income of $780 and wages of $150. He has no itemized deductions. Michael adds $150 (his earned income) plus $350 to get $500. Since he can use the larger of the standard deduction for an individual claimed as dependent on another's income tax return he uses $1050 instead of $500. His standard deduction is $1,050 (in other words the smaller between $1,050 and $6,300).*

Example 2. *Joe, a 22-year-old full-time college student, can be claimed as a dependent on his parents' income tax return. Joe is married and files a separate return. His wife does not itemize deductions on her separate return. Joe has $1,500 in interest income and wages of $3,800. He has no itemized deductions. Joe adds his earned income, $3,800, to $350 to have $4150 as his standard deduction. Because Joe is married filing a separate return, he uses $4,150 as his standard deduction because it is smaller than $6,300.*

Itemize or Standard Deduction? Taxpayers should itemize deductions if their total deductions are more than the standard deduction amount. In addition, they should itemize if they do not qualify for the standard deduction.

A figure of the itemized deductions amount can be done before filing the income tax return and compare that amount to the standard deduction to make sure that taxpayers are getting the amount that give them a greater benefit.

Taxpayers may benefit from itemizing their deductions on Schedule A (Form 1040) if they:

- Do not qualify for the standard deduction, or the amount claimed is limited,
- Had large uninsured medical and dental expenses during the year,
- Paid interest and taxes on their home,
- Had large unreimbursed employee business expenses or other miscellaneous deductions,
- Had large uninsured casualty or theft losses,
- Made large contributions to qualified charities, or
- Have total itemized deductions that are more than the standard deduction to which they otherwise are entitled.

If taxpayers decide the itemize option, complete Schedule A and attach it to Form 1040. Enter the amount from Schedule A, line 29, on Form 1040, line 40.

Who cannot use the Standard deduction? If one of the following apply to taxpayers then they cannot take the standard deduction and they have to use the Itemized deduction instead:	• Taxpayers are married and filing a separate return, and the spouse itemizes deductions • Taxpayers are a nonresident alien or a dual-status alien during the year, or • Taxpayers are filing a tax return for a period of less than 12 months because of a change in their annual accounting method In addition an estate or trust, common trust fund, or partnership cannot use the standard deduction

THE NEW AFFORDABLE CARE ACT (ACA, OBAMACARE) TAX PROVISION AND THE DEPENDENTS.

The Affordable Care Act contains comprehensive health insurance reforms and includes tax provisions that affect individuals, families, businesses, insurers, tax-exempt organizations and government entities. These provisions contain important changes, including how individuals and families file their taxes.

The law requires taxpayers and their dependents to have one of the following:

- Minimum essential health care coverage at work or through the market place.
- An exemption to minimum essential have health coverage, or
- Make a penalty payment with the tax return for not having health insurance coverage.

Many health plans provide coverage for dependent children of the planõs participants. Traditionally, health plans have had significant flexibility in determining which individuals would be eligible to be covered as dependents. This flexibility has been modified by the health care reform, or some states, to extend the requirement to provide coverage for dependents of up to age 26.
Under the Revenue Code an individual can qualify as a dependent being any one of the following:

A child of the employee (until the end of the year in which the child turns 26)
A qualifying child, as defined in Code Section 152
A qualifying relative, as defined in Code Section 152

Before health care reform, an individual had to be either a qualifying child or qualifying relative to be a tax dependent for health plan purposes. Once health care reform was passed, the definition of tax dependent was extended, effective as of March 30, 2010, to include ñany child (son, daughter, stepson, stepdaughter or an eligible foster child of the taxpayer) who as of the end of the taxable year has not attained age 27.ò

Dependent Coverage under Health Care Reform. The Patient Protection and Affordable Care Act (PPACA) requires health plans and issuers that offer dependent coverage to children on their parentsô plans to make the coverage available until the child reaches the age of 26, effective on the first day of the first plan year on or after September 23, 2010. This rule applies to both married and unmarried children.

A childõs eligibility for dependent coverage under this rule is based solely on the childõs age and his or her relationship to the participant. If the child is under age 26 and is the participantõs child, he or she is eligible for dependent coverage. This means that a plan or issuer may not deny or restrict coverage for a child who is under age 26 based on whether the child is financially dependent on the participant, resides with the participant or with any other person, is a student, is employed or any combination of these factors.

The health care reform law also revised the tax code to provide that the coverage under the age 26 rule is tax-free to the employee. However, the tax rules differ slightly from the coverage requirement. Under the tax code, the tax-free coverage is available, effective as of March 30, 2010, to ñany child (son, daughter, stepson, stepdaughter, adopted child or eligible foster child of the taxpayer) who as of the end of the taxable year has not attained age 27.ò If the child has coverage beyond age 26, that coverage will be tax-free until the end of the tax year.

Because of the broad tax exclusion provided by health care reform, this definition may be the only one a plan may need to review to determine if the coverage is tax-free to the employeeõs child. However, there are circumstances where the Code Section 152 definition of dependent may still be necessary. For example, if the dependent is over age 26 and is disabled, or is a grandchild, niece or nephew rather than the employee's child, coverage can still be provided on a tax-free basis.

<u>Code Section 152 Definition of Dependent</u>. Under the Code Section 152 definition of dependent, an individual must be either a "qualifying child" or a "qualifying relative" to be a dependent, as described in the definitions below. However, as outlined in the next section, there are exceptions to these definitions when it comes to eligibility for tax-free, employer-provided health care. Note that these requirements are more restrictive than the broad definition of dependent added by health care reform.

<u>Impact on Employer-Provided Health Coverage</u>. Under the definition of dependent added by the health care reform law, health plans may find it easier to determine whether an individual qualifies for tax-free coverage as a dependent. This is because plans will have to confirm only that the individual is the participant's child who is under age 27 as of the end of the tax year. However, an individual can still qualify as a dependent, and be eligible for tax-free coverage, under Code Section 152.

<u>Differences of Dependents for Tax purposes and for Health Insurance.</u> In using the Code Section 152 dependent definitions, keep in mind that for purposes of determining whether an individual is a dependent eligible for tax-free health benefits, certain portions of the Code Section 152 definition will not apply. Requirements related to married dependents and dependents with children, along with the gross income limitation in the definition of qualifying relative, are not applicable. Specifically, to be a qualifying child, the child can be married, but cannot file a joint return with his or her spouse, unless it is to claim a refund. Also, a qualifying relative can be married and is able to file a joint return with a spouse.

Due to these technical corrections, certain individuals who would otherwise not qualify as dependents under Code Section 152 may still qualify for tax-free health benefits. For example, an employee's child who does not meet the definition of qualifying child may still be a qualifying relative for health coverage purposes, even if he or she earns more than the gross income limit set out in that definition.

<u>Potential Tax Consequences</u>. Some employers may wish, or be required, to cover individuals not considered dependents under either the Code Section 152 definition or the new definition added by health care reform. For example, some states require employers to cover dependents up to a certain age, beyond age 26. In this case, the plan document or health insurance policy could be drafted to provide for the expanded coverage.

<u>Tax benefits for some dependents are eliminated.</u> Coverage for a child who is not a dependent under the tax code will not qualify for exclusion from the employee's income and cannot be paid for on a pretax basis under a cafeteria plan, even if the dependent is eligible for coverage under the terms of the health plan. Therefore, employers should be aware of potential tax consequences of covering these individuals and should communicate those consequences to employees.

Review Questions Section 1

Read and answer the following review questions. The correct answers are found on the next page with an explanation to strengthen up your knowledge. Note: This is not part of your Final Test.

1. The standard deduction is set every year so taxpayers:
   a) Do not file income taxes.
   b) Have all their income exempted from tax.
   c) Have some of their income exempted from tax.
   d) Have more tax credits.

2. In general, the standard deduction is the sum of:
   a) The gross income and the tax credits.
   b) The basic standard deduction and the special standard deduction.
   c) The basic standard deduction plus the taxpayer's own expenses.
   d) The basis standard deduction plus the additional standard deduction.

3. Which of the following is false regarding the standard deduction?
   a) The standard deduction is a dollar amount based on filing status, age and blindness.
   b) A taxpayer has the option of taking a standard deduction or itemizing deductions.
   c) The standard deduction is subtracted from income when calculating tax liability.
   d) All of the above are true regarding the standard deduction.

4. If taxpayer is single and blind then the standard deduction for him/her will be:
   a) $6300 for 2015.
   b) $9250 for 2015
   c) $7550 for 2015
   d) $7850 for 2015

5. If taxpayer earned $4500 but will be claimed as a dependent, his/her standard deduction will be:
   a) Only $1050.
   b) $4500 plus $350, not to exceed the normal standard deduction.
   c) The larger of his/her standard deduction or itemized deduction.
   d) $1050 plus $350.

6. If taxpayers qualify for the Itemized Deduction or the Standard Deduction they should:
   a) They are forced to take the standard deduction.
   b) They are forced to take the itemized deduction.
   c) Take the larger one.
   d) Take the lower one.

7. Taxpayers not eligible for the standard deduction include all of the following, except:
   a) Taxpayers who are married filing separate returns and their spouse itemizes deductions
   b) Dependent taxpayers
   c) Taxpayers who are filing a tax return for a short tax year because of a change in accounting periods
   d) Taxpayers who are nonresidents or dual-status aliens during the year

8. To be considered legally blind for the purposes of the larger standard deduction, the taxpayer must get a certified statement that they cannot see better than __________in the better eye with glasses or contact lenses.
   a) 20/20
   b) 20/50
   c) 20/100
   d) 20/200

9. If both taxpayers are blind they can have the following standard deduction:
   a) They can have an increased standard deduction for one taxpayer but not both.
   b) They can have only the normal standard deduction.
   c) They can have an increased standard deduction for each taxpayer.
   d) None of the above.

10. Which of the following statements is true regarding the higher standard deduction?
   a) Taxpayers can claim the higher standard deduction for another individual that is listed as a dependent.
   b) Taxpayers can claim the higher standard deduction for a period of 2 years.
   c) Taxpayers can claim the higher standard deduction for him/herself and for his/her spouse only.
   d) Taxpayers can claim a higher standard deduction whenever they want.

11. The standard deduction for a decedent taxpayer is:
   a) $0
   b) The standard deduction that the decedent would have been claimed on his/her income tax return.
   c) A reduced standard deduction of $1050 or $350.
   d) Always a higher standard deduction.

Questions Section 1 – Answers and Discussion

1. **Answer c**. The standard deduction is a deduction that ensures that all taxpayers have at least some income that is not subject to federal income tax.

2. **Answer d**. In general except as otherwise indicate in the subsection, the term ”standard deduction" means the sum of: The basic standard deduction, and the additional standard deduction.

3. **Answer d**. The standard deduction is a dollar amount, based on filing status, age, and blindness, which is subtracted from income when calculating the amount of tax liability. When completing their return, taxpayers generally have the option of taking their standard deduction or the itemize deduction.

4. **Answer d**. For single taxpayers the standard deduction is $6300 plus $1550 for blindness for unmarried individuals.

5. **Answer b**. The standard deduction for taxpayers that are claimed as dependents is their own income plus $350 not to exceed the normal standard deduction ($6300 for single). In order to avoid a $0 standard deduction the lowest standard deduction for taxpayers claimed as dependents is $1050.

6. **Answer c**. Taxpayers that are age 65 or older qualify for the elderly additional deduction amount. If they are blind they will qualify for the extra deduction for blind taxpayers. Taxpayers may qualify for one or both of the extra deductions. Taxpayer should choose the larger of their standard deduction or their itemized deductions.

7. **Answer b**. Taxpayers that are not eligible for the standard deduction include:
   - Taxpayers who are married, filing separate returns, and their spouse itemizes deductions;
   - Taxpayers who are filing a tax return for a short tax year because of a change in accounting periods; or
   - Taxpayers who are nonresidents or dual-status aliens during the year.

8. **Answer d**. If taxpayers are partly blind, they must get a certified statement from an eye doctor or registered optometrist that they cannot see better than 20/200 in the better eye with glasses or contact lenses.

9. **Answer c.** Taxpayers can also take the higher standard deduction if their spouse is age 65, older, or blind and they file a joint return.

10. **Answer c.** Taxpayers cannot claim the higher standard deduction for an individual other than him/herself and his/her spouse.

11. **Answer b.** The standard deduction for a decedent's final tax return is the same as it would have been had the decedent continued to live.

Individuals Penalties for being without Health Insurance

2014	2015	2016
Whichever is greater:	Whichever is greater:	Whichever is greater:
$95 Per adult	$325 per adult	$695 per adult
$47.50 per child	$162.50 per child	$347.50 per child
(Up to $285 flat fee for a family)	(Up to $975 flat fee for a family)	(Up to $2085 flat fee for a family)
OR 1% of family income	OR 2% of family income	OR 2.5% of family income

Penalty payment for not having minimum essential health insurance. For any month during the year that taxpayers or any of their dependents do not have minimum essential coverage and do not qualify for a coverage exemption, they will need to make an individual shared responsibility payment with their tax return.

In general, the annual payment amount is the greater of a percentage of your household income or a flat dollar amount, but is capped at the national average premium for a bronze level health plan available through the Marketplace. Taxpayers will owe 1/12th of the annual payment for each month that taxpayers or their dependent(s) do not have either coverage or an exemption.

More about the Affordable Care Act is covered in more detail in the next chapters.

INCOME TAX FILING REQUIREMENTS FOR MOST TAXPAYERS

A filing requirement applies to most individuals based on their gross income. The requirement to file is based on the sum of their standard deduction and additional standard deduction for age (does not include additional amount for blind, because it must be documented) plus the exemption amounts for the taxpayer and spouse (dependents are not included, because they must be documented).

The Gross income means all income received that is not exempt from tax. It also includes the gross proceeds from the sale of assets including the taxpayer's main home before the Sec 121 exclusion. It includes the taxable portion of Social Security benefits and gross income from self-employment (before any deductions for expenses). Generally gross income is before any deductions, exclusions, adjustments, etc.

The requirement applies to individuals that are citizens or residents of the United States or a resident of Puerto Rico and they meet the minimum filing requirements. As mentioned above, most individuals determine their minimum filing requirements based on their filing status and age. However, special rules apply for dependent taxpayers, children under age 18, self-employed persons and aliens.

Table 3. Income Tax Filing Requirements			
Filing Status	Age	2014	2015
Single	Under 65	$10,150	$10,300
	65 or older	$11,700	$11,850
Married Filing Jointly	Under 65 (both spouses)	$20,300	$20,600
	65 or older (one spouse)	$21,500	$21,850
	65 or older (both spouses)	$22,700	$23,100
Married Filing Separately	Any Age	$3,950	$4000
Head of Household	Under 65	$13,050	$13,250
	65 or older	$14,600	$14,800
Qualifying Widow(er)	Under 65	$16,350	$16,600
	65 or older	$17,550	$17,850

If the earned income is below the minimum income for the filing status, taxpayers may not be required to file a Federal Tax Return. However, there are reasons why they may still want to file.

There are several reasons why taxpayers may want to file a tax return even if they do not meet the minimum income requirements:

- They had taxes withheld from their pay; they must file a tax return to receive a tax refund
- If they qualify, they must file a return to receive the refundable Earned Income Tax Credit.
- If they are claiming education credits, they must file to be refunded the American Opportunity Credit.
- If they have a qualifying child but owe no tax, they can file to be refunded the Additional Child Tax Credit.
- If they adopted a qualifying child, they must file to claim the Adoption Tax Credit.
- If they overpaid estimated tax or applied a prior year overpayment to this year, they must file to receive the refund.

Self-employed individuals. An individual who is self-employed must file a return if their gross income is at least as much the filing requirement amount for their filing status and age as shown above. Also, they must file Form 1040 and Schedule SE if their net earnings from self-employment were $400 or more. Self-employed taxpayers and Schedule SE will be discussed in greater detail later in this course.

Filing Requirements for already claimed Dependents, generally. If the individual was already claimed as a dependent on someone else's return, the rules are a little bit different. The requirement will be based on the earned income or the unearned income that the dependent received for the year. The filing requirement will be based on the standard deduction for a single person plus the additional deductions for blind or elderly. If the amount is based on unearned income the filing requirement will be calculated using the lower standard deduction for a dependent that was already claimed on another taxpayer's tax return. Here are some basic guidelines:

Already Claimed Dependent with Earned Income Table.

An already claimed dependent whose gross income is only earned income must file a return if the gross income is more than following table.

Marital Status	Amount
Single	
Under 65 and not blind	$6,300
Either 65 or older or blind	$7,850
65 or older and blind	$9,400
Married*	
Under 65 and not blind	$6,300
Either 65 or older or blind	$7,550
65 or older and blind	$8,800

*If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has $5 or more of gross income (earned and/or unearned).

Example. *Mike is 16. His mother claims an exemption for him on her income tax return. He worked part time on weekends during the school year and full time during the summer. He earned $7,500 in wages. He did not have any unearned income.*

He must file a tax return because he has earned income only and his gross income is more than $6,300. If he is blind, he does not have to file a return because his gross income does not exceeds his standard deduction plus the deduction for blindness.

Already Claimed Dependent with Unearned Income Table.

A dependent whose gross income is only unearned income must file a return if the gross income is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	$1,050
Either 65 or older or blind	$2,600
65 or older and blind	$4,150
Married*	
Under 65 and not blind	$1,050
Either 65 or older or blind	$2,300
65 or older and blind	$3,550

*If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has $5 or more of gross income (earned and/or unearned).

Example. Sarah is 18 and single. Her parents can claim an exemption for her on their income tax return. She received $1,970 of taxable interest and dividend income.
She did not work during the year. She must file a tax return because she has unearned income only and her gross income is more than $1,000.

Claimed Dependent with Both Earned and Unearned Income. A dependent who has both earned and unearned income generally must file a return if the dependent's gross income is more than line 5 of the following worksheet.

Filing Requirement Worksheet for Most Dependents

1. Enter dependent's earned income plus $350	_______
2. Minimum amount	1,050
3. Compare lines 1 and 2. Enter the larger amount	_______
4. Maximum amount	$6,300
5. Compare lines 3 and 4. Enter the smaller amount	_______
6. Enter the dependent's gross income. If line 6 is more than line 5, the dependent must file an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is $5 or more.	_______

Keep in mind that these rules apply to dependents who are also married, not just simply married taxpayers.

Other Filing Requirements for Dependents

Other Filing Requirements Some dependents may have to file a tax return even if their income is less than the amount that would normally require them to file a return. A dependent must file a tax return if he or she owes any other taxes, such as:

- Social security and Medicare taxes on tips not reported to his or her employer or on wages received from an employer who did not withhold these taxes,
- Uncollected social security and Medicare or railroad retirement taxes on tips reported to his or her employer or on group-term life insurance, Alternative minimum tax,
- Additional tax on a health savings account from Form 8889, Part III,
- Recapture taxes, such as the tax from recapture of an education credit, or
- Additional tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account. But if the dependent is filing a return only because of this tax, the dependent can file Form 5329 by itself.

A dependent must also file a tax return if he or she:

- Had wages of $108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes, or
- Had net earnings from self-employment of at least $400.

Benefits of Filing a Dependent's Income Tax Return. Even if a dependent does not meet any of the filing requirements discussed earlier or the dependent was claimed on another taxpayer's income tax return, he or she should file a tax return if any of the following apply:

- Income tax was withheld from his or her income.
- The school may require the dependents to show their filed income tax return for scholarships purposes, like for the FAFSA application. Remember that financial aid used solely for tuition, fees, books, and/or required course equipment and supplies is not taxable. In addition, student loans are not taxable income. We will talk more about

students in the following parts of the course.

IMPORTANT FEDERAL TAX RETURN DUE DATES

June 15, 2015: self- employed individuals and Corporations make their second estimated tax payment using appropriate Form 1040ES and Form 1120W respectively.

Taxpayers Out of the Country - Last day for U.S. citizens or resident aliens living and working (or on military duty) on April 15, 2016 outside the United States and Puerto Rico, to file their 2014 returns and to pay any tax due. If the return has not been completed and additional time is needed to file, file Form 4868 to obtain 4 additional months to file. Then, file Form 1040 by October 15.

For military taxpayers in a combat zone/qualified hazardous duty area, the deadlines for taking actions with the IRS are extended. The extension also applies to service members involved in contingency operations, such as Operation Iraqi Freedom or Enduring Freedom. The extension is for 180 consecutive days after the later of:

- The last day a military taxpayer was in a combat zone/qualified hazardous duty area or served in a qualifying contingency operation, or have qualifying service outside of the combat zone/qualified hazardous duty area (or the last day the area qualifies as a combat zone or qualified hazardous duty area), or
- The last day of any continuous qualified hospitalization for injury from service in the combat zone/qualified hazardous duty area or contingency operation, or while performing qualifying service outside of the combat zone/qualified hazardous duty area.

In addition to the 180 days, the deadline is also extended by the number of days that were left for the individual to take an action with the IRS when they entered a combat zone/qualified hazardous duty area or began serving in a contingency operation.

June 30, 2015: *Taxpayers with Foreign Financial Interests* **-** A U.S. citizen or resident, or a person doing business in the United States, who has a financial interest in or signature or other authority over any foreign financial accounts (bank, securities or other types of financial accounts), in a foreign country, is required to file FinCEN Form 114 with the Department of the Treasury. The form must be electronically filed on the BSA E-filing system by June 30, 2015 for 2014. There are no extensions and substantial penalties. This filing requirement applies only if the aggregate value of these financial accounts exceeds $10,000 at any time during 2014.

July 31, 2015: Self-Employed Individuals with Pension Plans - For self-employed individuals with a pension or profit-sharing plan, this is the final due date for filing Form 5500 or 5500-EZ for calendar year 2014.

September 15, 2015: *Estimated Tax Payment Due (Individuals*) ï Third quarter estimated tax installment payment for the 2015 tax year is due. The estimated tax payments is made using Form

September 15. All extensions for Corporations, S-Corporations, and Partnerships finish. All these entities must file their 2014 calendar year income tax return accordingly. Form 1120 for Corporations; Form 1120S for S-Corporations and Form 1065 for Partnerships. The due date applies only if they requested an extension of time. These entities must pay any tax and interest due.

October 15, 2015:

- *Individual Tax Returns* (Form 1040, 1040A, or 1040EZ) ï Last day to file calendar year 2014 returns if taxpayers requested an extension for their tax return. Any tax, interest, or penalty must be paid in this date.
- *SEP-IRA & Keogh Contributions* **-** Last day to contribute to a SEP-IRA or Keogh retirement plan for calendar year 2014 if the 2014 tax return is on extension through October 15.
- *Open Enrollment Period – Health Care Insurance Marketplaces* ï This is the first day of the open enrollment period to purchase health insurance through a government (federal and state) marketplace for coverage to be effective in 2016. Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

September 15, 2015: *Estimated Tax Payment Due (Individuals*) ï Third quarter estimated tax installment payment for the 2015 tax year is due.

November 15, 2015: This is the first day of the open enrollment period to purchase health insurance through a government (federal and state) marketplace for coverage to be effective in 2016. Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

December 7, 2015: *Open Enrollment Period – Health Care Insurance Marketplaces* ï This is the last day of the open enrollment period to purchase health insurance through a government (federal and state) marketplace for coverage to be effective in 2016.

Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

December 31, 2015:

- *Mandatory IRA Withdrawals* - Last day to withdraw funds from a Traditional IRA Account and avoid a penalty if the taxpayer turned age 70½ before 2015.
- *Last Day to Set Up a Keogh Account for 2015* **-** December 31, is the last day to set up a Keogh Retirement Account for taxpayers who expect to make a 2015 Contribution.

January 15, 2016: Fourth quarter estimated tax installment payment for the 2015 tax year is due.

February 1, 2016: Business owners who paid $600 or more for the services of individuals (other than employees) during 2015 are required to provide Form 1099-MISC to those workers by February 2, 2016. Generally, this due date is January 31, but when the due date falls on a Saturday, Sunday or federal legal holiday it is not due until the next business day. "Services" can mean everything from labor, professional fees and materials, to rents on property. In order to avoid a penalty, copies of the 1099s need to be filed with the IRS by March 2, 2016 (March 31, 2016 if filed electronically). They must be submitted on optically scannable (OCR) forms.

February 15, 2016: This is the last day of the open enrollment period for government health Insurance Marketplaces (state and federal) for coverage to be effective in 2016.

Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

March 2, 2016: Farmers and Fishermen may file their 2015 income tax return (Form 1040) and pay any tax due and avoid any underpayment of estimated tax penalties. If they paid their 2015 estimated tax by January 15, 2016, they have until April 15 to pay any tax due without penalty.

March 15, 2016: S-Corporations file their 2015 income tax return and pay any tax due. Corporations can file Form 2553 to elect to be treated as an S-corporation beginning with calendar year 2016. If Form 2553 is filed late, S corporation treatment will begin with calendar year 2017. These entities can apply for a 6-month extension of time to file their income tax return using Form 7004 checking the appropriate corporation box. Partnerships file their income tax return Form 1065 and pay their estimated tax for the year.

March 31, 2016:

- **Last Day to Acquire Minimum Essential Health Care Insurance -** This is the last day to acquire minimum essential health care insurance or face a possible penalty.

Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

- **Last Day to Withdraw Required Minimum Distribution** - Last day to withdraw 2015's required minimum distribution from Traditional or SEP IRAs for taxpayers who turned 70½ in 2015. Failing to make a timely withdrawal may result in a penalty equal to 50% of the amount that should have been withdrawn. Taxpayers who became 70½ before 2015 were required to make their 2014 IRA withdrawal by December 31, 2015.

April 18, 2016 (normally April 15) some states April 19:

- *Individual Tax Returns* - Individual Tax Returns (Form 1040, 1040A, or 1040EZ) are due and the last day to pay any tax due without penalty. An automatic filing extension applies until October 15, 2016. However there are no extensions of time to pay and taxpayers that owe should file Form 4868 and pay any tax liability before the April 15 due date.
- *Household Employer Return Due* – If the taxpayer paid cash wages of $1,900 or more in 2015 to a household employee, the taxpayer must file Schedule H. If the taxpayer is filing an individual return for the year include the Schedule H with the individual return; otherwise it is filed separately. Schedule H is used to report any household employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if the taxpayer paid total cash wages of $1,000 or more in any calendar quarter of 2015 to household employees. Also, report any income tax that was withheld for the household employees.
- *Estimated Tax Payment Due (Individuals)* - First quarter estimated tax installment payment for the 2016 tax year is due.
- *Last Day to Make IRA Contributions* - Last day to make contributions to Traditional and Roth IRAs for tax year 2015.

April 18, 2016: C corporations file their 2015 calendar year return, Form 1120S, or apply for a 5-month extension of time to file using Form 7004.

Review Questions Section

Read and answer the following review questions. The correct answers are found on the next page with an explanation to strengthen up your knowledge. Note: This is not part of your Final Test.

12. Taxpayers or dependents that do not have health insurance coverage during the year will have to:
    a) Receive a bigger refund.
    b) Call the IRS to request health coverage.
    c) Get health coverage before April 15 to avoid any penalty.
    d) Pay their shared responsibility payment for each month they were not covered.

13. In general, the income tax filing requirement for each individual is based on:
    a) Their time to file their income tax return.
    b) The amount of refund that they will receive.
    c) Their standard deduction plus an additional standard deduction for age.
    d) Their itemized deduction.

14. If taxpayers are not required to file their federal income tax return they should consider file for all the following reasons, except:
    a) They can receive a refund of their federal income tax withheld at work.
    b) They can qualify to get the Earned Income Tax Credit.
    c) They can qualify to get education tax credits.
    d) They can get a bigger refund if they file on time.

15. A single taxpayer was claimed as a dependent on another income tax return, he/she must file an income tax return if their earned income is:
    a) Below his/her standard deduction.
    b) Above $6300 for 2015.
    c) They do not have to file income taxes.
    d) $10,200.

16. If a dependent is not required to file an income tax return base on his/her income, he/she must file for one of the following reasons:
    a) The dependent has Social Security and Medicare taxes on tips not reported to the employer.
    b) Additional tax on a qualified plan.
    c) Additional tax on a health savings account.
    d) All of the above.

17. Taxpayers that are under an income tax filing extension must file their individual income tax return on:
    a) The following year.
    b) The last day of the year.
    c) October 15th
    d) September 15th

18. Aaron is a farmer and sent his estimated tax for Form 1040 by January 15, 2015. He will have until _____ to pay any tax due without penalty.
    a. October 15
    b. March 31
    c. April 15
    d. No extra time is given

Questions Section 2 – Answers and Discussion

12. **Answer d**. For any month during the year that taxpayers or any of their dependents do not have minimum essential coverage and do not qualify for a coverage exemption, they will need to make an individual shared responsibility payment with their tax return.

13. **Answer c**. The requirement to file is based on the sum of their standard deduction and additional standard deduction for age (does not include additional amount for blind, because it must be documented).

14. **Answer d**. There are several reasons why taxpayers may want to file a tax return even if they do not meet the minimum income requirements:

- They had taxes withheld from their pay; they must file a tax return to receive a tax refund
- If they qualify, they must file a return to receive the refundable Earned Income Tax Credit.
- If they are claiming education credits, they must file to be refunded the American Opportunity Credit.

15. **Answer b**. A single taxpayer that is already claimed as dependent, whose gross income is only earned income must file a return if the gross income is more than $6300 for 2015

16. **Answer d**. A dependent must file a tax return if he or she owes any other taxes, such as:
    - Social security and Medicare taxes on tips not reported to his or her employer;
    - Additional tax on a health savings account from Form 8889, Part III;
    - Additional tax on a qualified plan, including an individual retirement arrangement (IRA).

17. **Answer c**. October 15th is the last day to file calendar year 2014 returns if taxpayers requested an extension for their tax return.

18. **Answer c**. Farmers and Fishermen may file their 2015 income tax return (Form 1040) and pay any tax due and avoid any underpayment of estimated tax penalties. If they paid their 2015 estimated tax by January 15, 2016, they have until April 15 to pay any tax due without penalty.