



NYS Training for Tax Preparers

Federal Adjustments to Income

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Federal Adjustments to Income

Adjustments to Income on 1040

To identify the correct adjustments to income, you will need to ask taxpayers if they had the types of expenses listed on the Adjusted Gross Income section of the tax return.

Ask if, during the tax year, the taxpayer or spouse:

- Had any expenses as an educator
- Received income from self-employment
- Paid a penalty for early withdrawal of savings
- Paid alimony
- Made contributions to a traditional IRA
- Paid student loan interest
- Paid college tuition
- Received income from jury duty that was turned over to an employer



Federal Adjustments to Income

Adjustments to Income on 1040

There are other adjustments to income on [Form 1040](#) that are beyond the scope of this training, such as:

- Self-employed health insurance deduction
- Self-employed Simplified Employee Pensions (SEP), Savings Incentive Match Plan for Individuals (SIMPLE), and qualified plans
- Deductions for domestic production activities



Federal Adjustments to Income

Section 1: Educator Expenses

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SECTION 1

Educator Expenses





Federal Adjustments to Income

Eligibility

Eligible educators can deduct up to \$250 of qualified expenses paid during the tax year. If the taxpayer and spouse are both eligible educators, they can deduct up to \$500, but neither can deduct more than their own expenses up to \$250. Any expenses exceeding \$250 for either spouse may be treated as an itemized employment-related deduction on Schedule A.

During your discussion with the taxpayer, you will know if the taxpayer or spouse are educators.

Probe a little deeper to see if they qualify for this adjustment. Ask questions such as:

- Are you or your spouse a teacher, instructor, counselor, principal, or aide in a school? (cannot be a home school)
- What grade or grades do you teach? (must be K-12)
- Were you employed for at least 900 hours during the school year? (this is the required minimum)



Federal Adjustments to Income

Documentation

If the taxpayer or spouse is an eligible educator, ask for documentation of qualified expenses.

Advise taxpayers who do not have receipts with them that they must have receipts for verification if they get audited.



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Section 1: Educator Expenses

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Qualifying Expenses

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
- Health courses





Federal Adjustments to Income

Educator Expenses - Example A

Gloria is a 5th and 6th grade teacher who works full-time in a year-round school.

She had 1800 hours of employment during the tax year. She spent \$262 on supplies for her students. Of that amount, \$212 was for educational software. The other \$50 was for supplies for a unit she teaches sixth graders on health. Only the \$212 is a qualified expense.

She can deduct \$212.



Federal Adjustments to Income

Educator Expenses - Example B

Debbie is a part-time art teacher at an elementary school. She spent \$185 on qualified expenses for her students.

Because she has only 440 hours of documented employment as an educator during the tax year, she cannot deduct her educator expenses.



Federal Adjustments to Income

Other Rules

Continue to probe to learn if the taxpayer or spouse received reimbursement that would reduce the amount of their educator expenses.

For example, ask:

- Did you receive reimbursement that is not listed on Form W-2?
- Did you redeem tax-free interest on U.S. Series EE and I Savings Bonds, such as redeeming savings bonds to pay educational expenses?
- Did you receive excludable payments from a Qualified Tuition Program (QTP) or Coverdell Education Savings Account (ESA)?
- These reimbursements will reduce the amount of education expenses that can be deducted.



Federal Adjustments to Income

Educator Expenses - Example C

Evelyn managed to work 1000 hours as an educator during the tax year while completing graduate studies. She spent \$200 to buy qualified school supplies for her students. She covered \$400 of her own educational expenses from her Coverdell Education Savings Account (ESA).

She cannot take the deduction for educator expenses.



Federal Adjustments to Income

Here's a Tip

Educator expenses are reported in the adjusted gross income section of Form 1040. Don't forget to reduce the total educator expenses by the amount of any:

- Reimbursements
- Non-taxable savings bond interest, or
- Non-taxable distributions from an Education Savings Account (ESA) or Qualified Tuition Program (QTP).



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Section 2: Early Withdrawals

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SECTION 2

Early Withdrawals



Federal Adjustments to Income

Penalties

Taxpayers can adjust their income by deducting penalties they paid for withdrawing funds from a deferred interest account before maturity.

Ask if the taxpayer or spouse made any early withdrawals during the tax year.

If so, ask to see Form [1099-INT](#), *Interest Income* or [Form 1099-OID](#), *Original Issue Discount*, documenting the penalty.



Federal Adjustments to Income

Penalties - Example A

Gloria withdrew \$5,000 from a one-year, deferred-interest certificate of deposit in the current tax year. She had to pay a penalty of three months' interest and can claim the penalty amount as an adjustment to income.



Federal Adjustments to Income

Penalties - Example B

Trudy has one [Form W-2](#) and one [Form 1099-INT](#) and no other income.

Her [Form 1099-INT](#) shows both interest income and a penalty paid for an early savings withdrawal. Trudy does not pay alimony, and she did not make a contribution to a traditional IRA.

Trudy can claim the adjustment for the penalty on early withdrawal of savings on [Form 1040](#).



Federal Adjustments to Income

Knowledge Check

A penalty for early withdrawal of funds from a savings account may be charged when the depositor withdraws funds _____.

- from an ordinary savings account
- before a certain amount of interest accumulates
- before the maturity date for a time deposit
- any of the above



Federal Adjustments to Income

Knowledge Check



A penalty for early withdrawal of funds from a savings account may be charged when the depositor withdraws funds _____.

- from an ordinary savings account
- before a certain amount of interest accumulates
- before the maturity date for a time deposit
- any of the above



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Section 3: Alimony

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SECTION 3

Alimony





Federal Adjustments to Income

Who is Eligible?

Alimony is a payment to a spouse or former spouse under a divorce or separation instrument. The payments do not have to be made directly to the ex-spouse. For example, payments made on behalf of the ex-spouse for expenses specified in the instrument, such as medical bills, housing costs, and other expenses can qualify as alimony.

Alimony does not include child support or voluntary payments outside the instrument. The person paying alimony can subtract it as an adjustment to income; the person receiving alimony must treat it as income.



Federal Adjustments to Income

Obtaining the Information

Ask the taxpayers if they paid alimony under a divorce or separation instrument. If so, ask the taxpayer for the exact amount, as well as the social security number of the recipient. The recipient must report the payment to the IRS as income and the two amounts must agree.



Federal Adjustments to Income

Alimony - Example A

Anthony has been divorced for three years. According to his divorce documents, he paid his ex-wife \$8,000 during the tax year. As a favor, he also made \$4,000 in payments for her vehicle lease so she could keep steady employment.

Anthony can take the \$8,000 as an adjustment to income, but not the vehicle lease payments, which were not part of the divorce.



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For More Information

To learn more about alimony, refer to the *Alimony* chapter in [Publication 17](#) and [Publication 504, Divorced or Separated Individuals](#).



Federal Adjustments to Income

Knowledge Check

Victoria divorced in 2007. Her settlement agreement states that she must pay her ex-husband \$12,000 per year. She is also required to pay his ongoing medical expenses for a condition he acquired during their marriage. During the tax year, the medical expenses were \$11,400. How much can she deduct as an adjustment to income?

- \$12,000
- \$11,400
- \$23,400
- \$600



Federal Adjustments to Income

Knowledge Check



Victoria divorced in 2007. Her settlement agreement states that she must pay her ex-husband \$12,000 per year. She is also required to pay his ongoing medical expenses for a condition he acquired during their marriage. During the tax year, the medical expenses were \$11,400. How much can she deduct as an adjustment to income?

- \$12,000
- \$11,400
- \$23,400
- \$600



Federal Adjustments to Income

Individual Retirement Arrangements (IRAs)

An individual retirement arrangement (IRA) is a personal savings plan that gives you tax advantages for setting aside money for your retirement. The following are two advantages of a traditional IRA:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances.
- Generally, amounts in your IRA, including earnings and gains, are not taxed until they are distributed.

You can open and make contributions to a traditional IRA if:

- You (or, if you file a joint return, your spouse) received taxable compensation (Generally, compensation is what you earn from working) during the year, and
- You were not age 70 ½ by the end of the year.



Federal Adjustments to Income

Individual Retirement Arrangements (IRAs)

Contributions must be made by due date.

- Contributions can be made to your traditional IRA for a year at any time during the year or by the due date for filing your return for that year, not including extensions.
- For most people, this means that contributions for 2014 must be made by April 15, 2015.

General limit.

- The most that can be contributed to your traditional IRA generally is the smaller of either:
 - \$5,500 (\$6,500 if you are 50 or older); or
 - your taxable compensation for the year.



Federal Adjustments to Income

Individual Retirement Arrangements (IRAs)

For 2014, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- more than \$96,000 but less than \$116,000 for a married couple filing a joint return or a qualifying widow(er),
- more than \$60,000 but less than \$70,000 for a single individual or head of household, or
- less than \$10,000 for a married individual filing a separate return.



Federal Adjustments to Income

Individual Retirement Arrangements (IRAs)

An IRA is a trust or custodial account set up in the United States for the exclusive benefit of you or your beneficiaries. The account is created by a written document. The document must show that the account meets all of the following requirements:

- The trustee or custodian must be a bank, a federally insured credit union, a savings and loan association, or an entity approved by the IRS to act as trustee or custodian.
- The trustee or custodian generally cannot accept contributions of more than the deductible amount for the year. However, rollover contributions can be more than this amount.
- Contributions, except for rollover contributions, must be in cash. You must have a non-forfeitable right to the amount at all times.
- You must start receiving distributions by April 1 of the year following the year in which you reach age 70½.



Federal Adjustments to Income

Examples

- George, who is 34 years old and single, earns \$24,000 in 2014. His IRA contributions for 2014 are limited to \$5,500.
- Danny, an unmarried college student working part time, earns \$3,500 in 2014. His IRA contributions for 2014 are limited to \$3,500, the amount of his compensation.

More than one IRA

If you have more than one IRA, the limit applies to the total contributions made on your behalf to all your traditional IRAs for the year.



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Section 4: Student Loan Interest

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SECTION 4

Student Loan Interest





Federal Adjustments to Income

What is the Deduction?

The student loan interest deduction is generally the smaller of \$2,500 or the interest paid that year on a qualified student loan. The amount is gradually reduced (phased out) or eliminated, based on the taxpayer's filing status and Modified Adjusted Gross Income (MAGI).



Federal Adjustments to Income

Interest Deduction - Example A

Robert has taken his first job after completing law school. His filing status is Single. He paid \$3,000 in interest on his student loans during the tax year. With all adjustments to income (except student loan interest adjustment), his MAGI is below the MAGI limits allowed for claiming interest paid on a student loan.

Robert can deduct \$2,500 of his student loan interest as an adjustment to income.



Federal Adjustments to Income

Interest Deduction - Example B

Veronica and her husband are filing jointly. Their MAGI is above the fully deductible income limits. She completed her doctoral degree last year and paid \$2,400 in student loan interest during the tax year.

Due to their high MAGI, their deduction must be calculated; it will be less than the full amount of interest that she paid.



Federal Adjustments to Income

Qualified Student Loan Interest

Generally, student loan interest is the interest paid during the year on a loan for qualified higher education expenses that were:

- for the taxpayer, the taxpayer's spouse (if Married Filing Jointly), or a person who was the taxpayer's dependent when the loan was obtained, and
- paid within a reasonable period of time before or after obtaining the loan, and
- for an eligible student.



Federal Adjustments to Income

Loan Qualifications

To qualify, a student loan:

- must be solely to pay qualified education expenses, and
- cannot be from a related person or made under a qualified employer plan.

Generally, qualified higher education expenses include:

- Tuition
- Fees
- Room and board
- Books
- Transportation
- Supplies, equipment, and other necessary expenses



Federal Adjustments to Income

Student Eligibility

An eligible student is one enrolled in and carrying at least one-half the normal load for a qualified program.





Federal Adjustments to Income

Knowledge Check



Todd and Janet have a MAGI below the MAGI limits. They are married and file a joint return. Two years ago, they took out a loan so Todd's mother could earn her RN degree at night school. Todd could not claim her as a dependent on his return. This year, they paid \$1,000 in interest on the loan.

- Todd's mother meets the student qualifications.
- Todd's mother does not meet the student qualifications.



Federal Adjustments to Income

Who Can Claim the Deduction?

Generally, a taxpayer who paid qualified student loan interest for an eligible student under ALL of the following conditions:

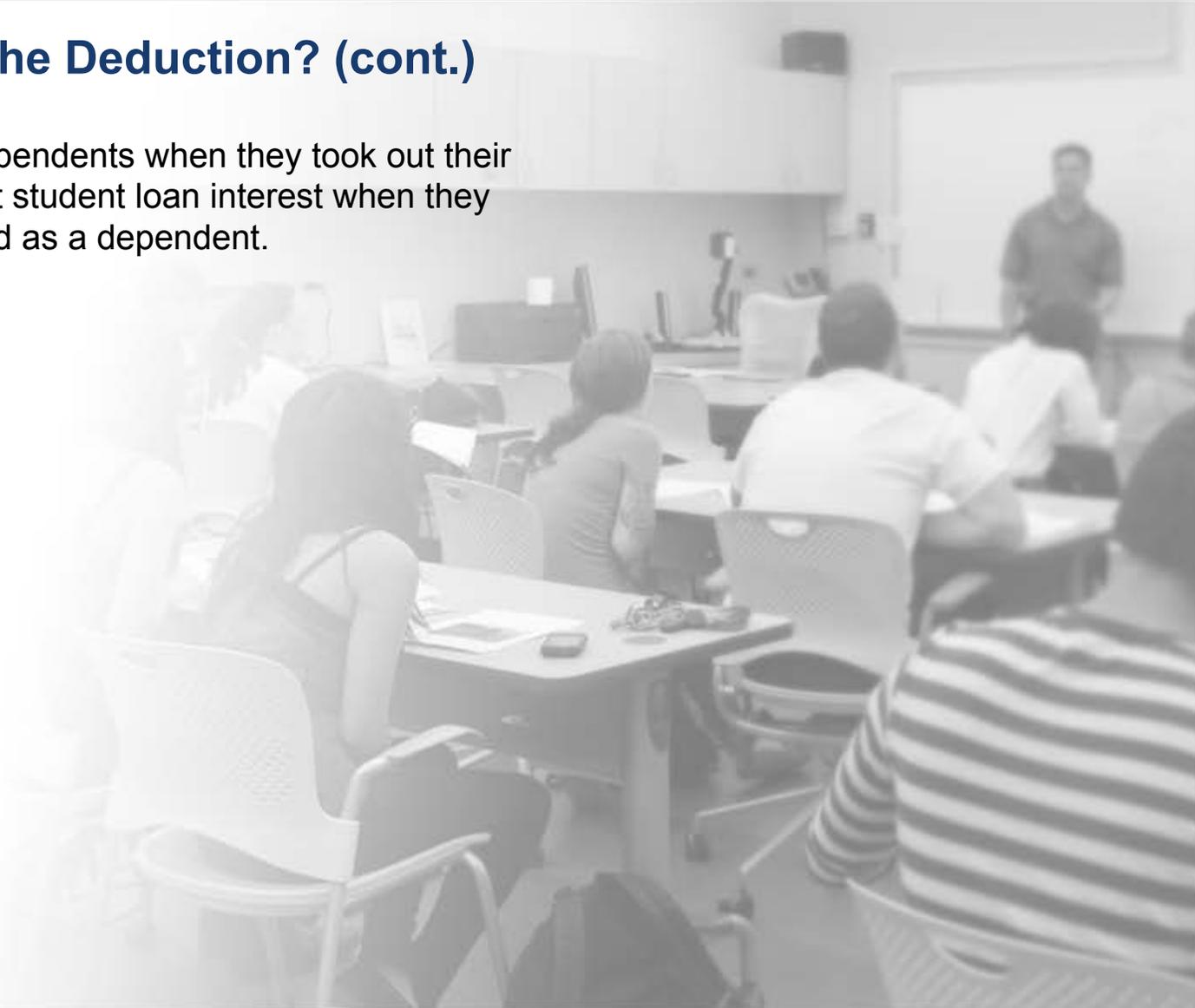
- The taxpayer cannot use married filing separately status; married taxpayers must file a joint return with their spouse.
- The taxpayer cannot be claimed as a dependent on someone else's return.
- The taxpayer must be legally obligated to pay interest on a qualified student loan.
- The taxpayer paid interest on the qualified student loan.
- The interest is on a loan used to pay tuition and other qualified higher education expenses for the taxpayer, the taxpayer's spouse, or someone whom the taxpayer claimed as a dependent when the loan was taken out.
- The education expenses were paid or incurred within a reasonable period of time before or after the loan was taken out.
- The person for whom the expenses were paid or incurred was an eligible student.



Federal Adjustments to Income

Who Can Claim the Deduction? (cont.)

Taxpayers who were dependents when they took out their student loan may deduct student loan interest when they can no longer be claimed as a dependent.





Federal Adjustments to Income

Student Loan Interest - Example A

Darla obtained a qualified student loan to attend college. After Darla's graduation from college, she worked as an intern for a nonprofit organization.

As part of the internship program, the nonprofit organization made an interest payment on behalf of Darla. This payment was treated as additional compensation and reported in box 1 of her W-2.

Assuming all other qualifications are met, Darla can deduct this payment of interest on her tax return.



Federal Adjustments to Income

Student Loan Interest - Example B

Ethan obtained a qualified student loan to attend college. After graduating from college, his first monthly payment was due in December.

As a gift, Ethan's mother made this payment for him. No one is claiming the dependency exemption for Ethan on his or her tax return.

Assuming all other qualifications are met, Ethan can deduct this payment of interest on his tax return.



Federal Adjustments to Income

Knowledge Check

Cassandra's mother obtained a loan for her daughter's qualified educational expenses. Cassandra, who is her mother's dependent, has agreed to pay the interest on the loan. Who can claim the deduction for student loan interest?

- Cassandra's mother, who is legally liable for the loan
- Cassandra, who is paying the interest on the loan
- either person, as long as they do not both claim the deduction
- neither Cassandra nor her mother



Federal Adjustments to Income

Knowledge Check



Cassandra's mother obtained a loan for her daughter's qualified educational expenses. Cassandra, who is her mother's dependent, has agreed to pay the interest on the loan. Who can claim the deduction for student loan interest?

- Cassandra's mother, who is legally liable for the loan
- Cassandra, who is paying the interest on the loan
- either person, as long as they do not both claim the deduction
- neither Cassandra nor her mother



Federal Adjustments to Income

Reductions to Qualified Expenses

Before calculating qualified expenses on a tax return, the following tax-free income amounts must be subtracted:

- Employer-provided educational assistance benefits
- Tax-free withdrawals from a Coverdell ESA or from a qualified tuition program
- U.S. savings bond interest excluded from income because it is used to pay qualified higher education expenses
- Veteran's educational assistance benefits
- Any other nontaxable payments (other than gifts, bequests, or inheritances) received for educational expenses

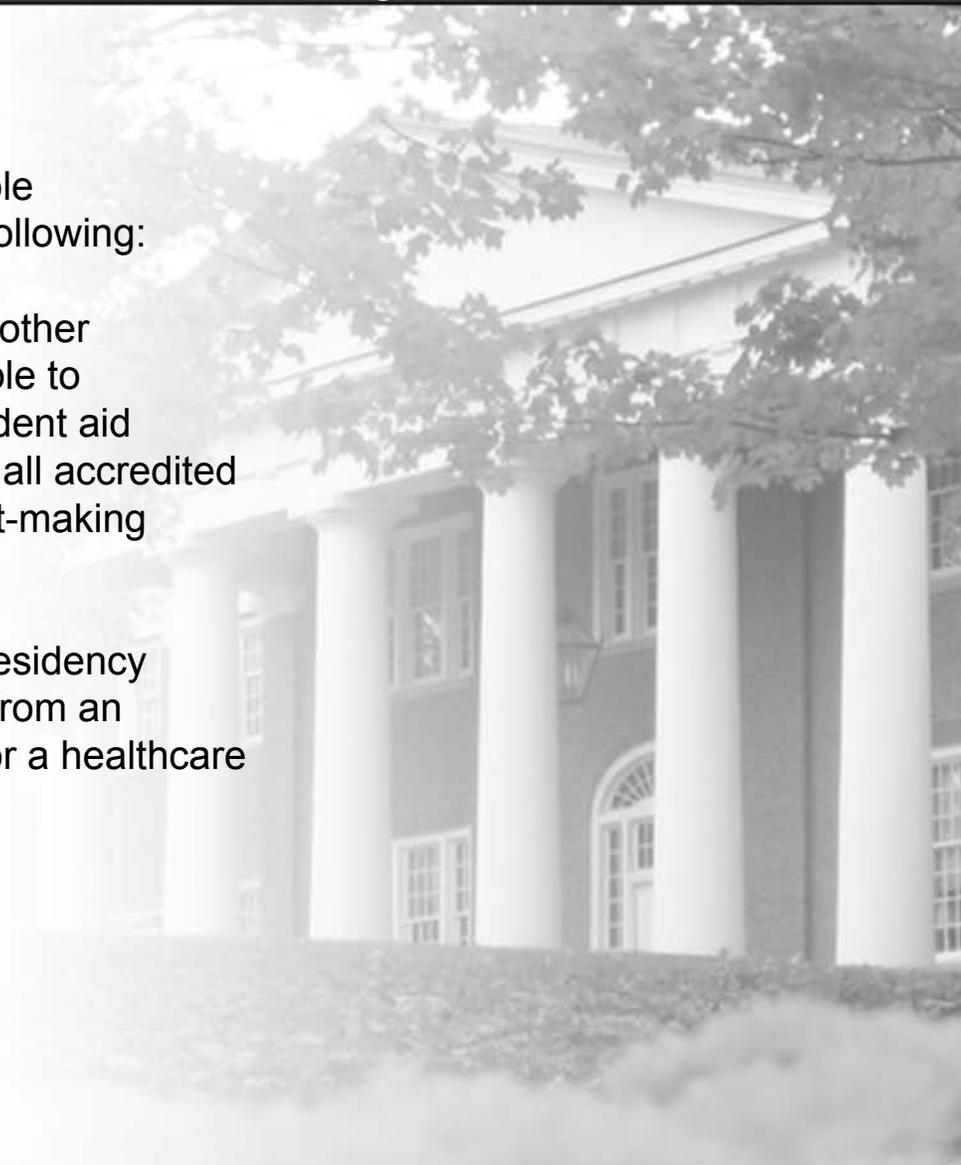


Federal Adjustments to Income

Eligible Educational Institution

For the student loan interest deduction, an eligible educational institution is generally either of the following:

- A college, university, vocational school, or other postsecondary educational institution eligible to participate in Department of Education student aid programs. This category includes virtually all accredited public, nonprofit, and privately owned profit-making postsecondary institutions.
- An institution conducting an internship or residency program leading to a degree or certificate from an institution of higher education, a hospital, or a healthcare facility that offers postgraduate training.



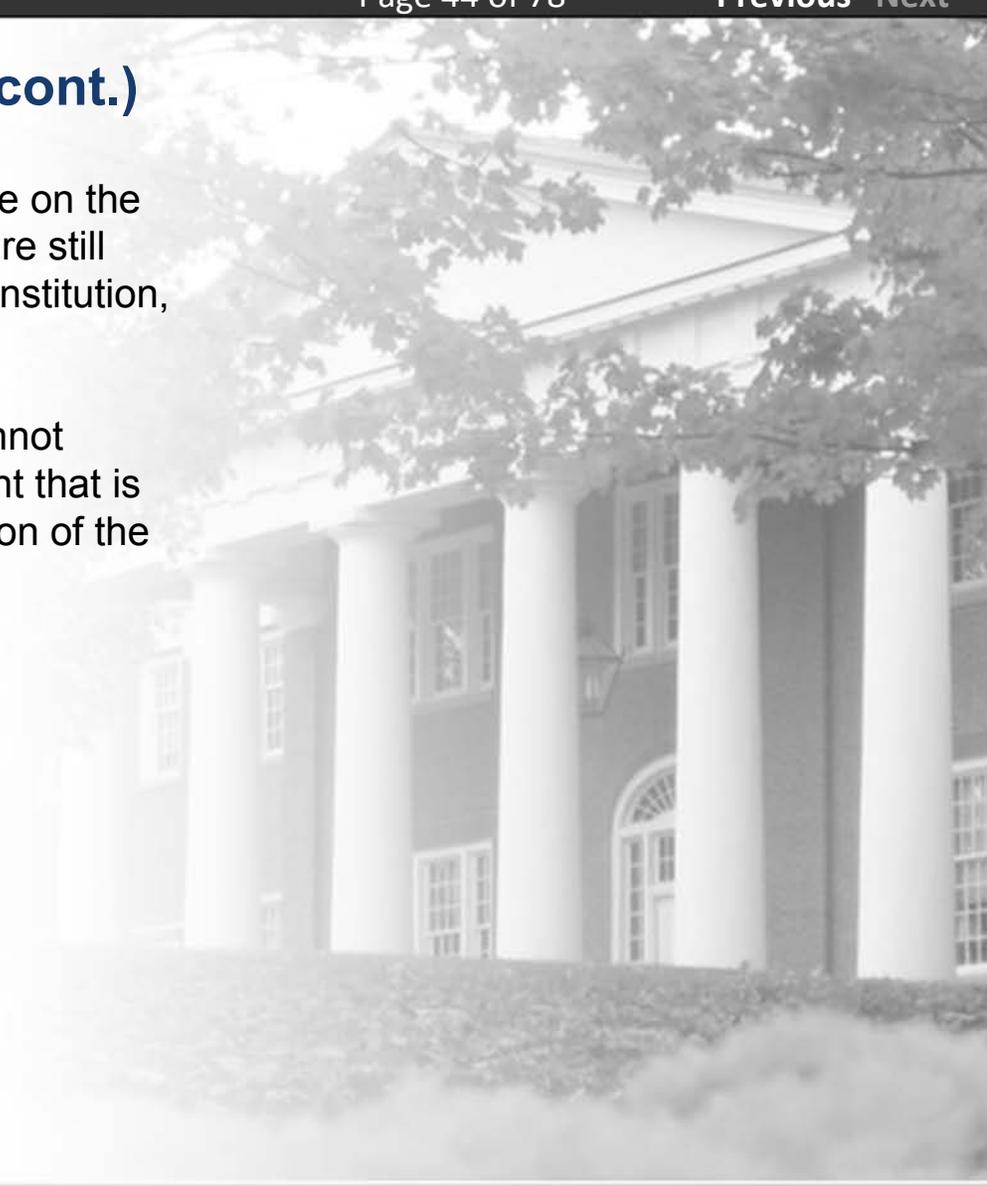


Federal Adjustments to Income

Eligible Educational Institution (cont.)

A database of all accredited schools is available on the [U.S. Department of Education website](#). If you are still unable to determine if the school is an eligible institution, the taxpayer should contact the school.

No double-benefit is allowed. Taxpayers cannot deduct as interest on a student loan any amount that is an allowable deduction under any other provision of the tax law (e.g., as home mortgage interest).





Federal Adjustments to Income

Eligible Student

An eligible student is someone who is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

The standard for what is half the normal full-time work load is determined by each school.





Federal Adjustments to Income

Eligible Program

An eligible program may include study abroad that is approved for credit by the school where the student is enrolled.





Federal Adjustments to Income

Student Loan Interest - Example C

Last year, Jeremy paid interest on a loan that allowed his 21-year-old daughter, Kate, to complete a program in holistic medicine. Kate, who qualifies as Jeremy's dependent, is a full-time student at Southwestern College of Synergistic Therapy and the loan paid for books, supplies, and equipment. The college, however, is not accredited.

Jeremy cannot deduct the interest on the student loan.



Federal Adjustments to Income

Reporting Student Loan Interest

If the taxpayer paid \$600 or more in interest to a single lender, the taxpayer should receive [Form 1098-E](#), *Student Loan Interest Statement*, or another statement from the lender showing the amount of interest paid. This information will assist you in completing the student loan interest deduction.

Student loan interest is reported to the taxpayer on Form 1098-E, box 1. The deductible amount is calculated using the Student Loan Interest Deduction Worksheet.



Federal Adjustments to Income

Determining the Deduction

The taxpayer should keep documentation of all qualified student loan interest paid during the tax year. See [Publication 970](#), *Tax Benefits for Education*, for more information on the student loan interest deduction.



Federal Adjustments to Income

Student Loan Interest - Example D

Rick, who files as Head of Household, paid \$2,650 in qualified interest on his student loan. His total income, Form 1040, line 22, is \$35,000. He has no other adjustments on lines 23 through 35.

Rick is entitled to deduct \$2,500 in interest paid on student loans. Rick's MAGI is below the phase-out range, so he is entitled to the maximum \$2,500 deduction.

Click [here](#) to see Rick's Student Loan Interest Deduction Worksheet.



Federal Adjustments to Income

Knowledge Check

The maximum student loan interest deduction allowed for a taxpayer is _____.

- \$2650
- \$2500
- \$1250
- \$0



Federal Adjustments to Income

Knowledge Check

✓ The maximum student loan interest deduction allowed for a taxpayer is _____.

- \$2650
- \$2500
- \$1250
- \$0

Of the following, who may be able to claim the student loan interest deduction for his qualified education expenses?

- Ted, who is a dependent on his mother's tax return
- Greg, who files under the Married Filing Separately status
- Ron, who files jointly with his wife and claims his daughter as a dependent
- Steve, who obtained the loan from his older brother



Federal Adjustments to Income

Knowledge Check

✓ The maximum student loan interest deduction allowed for a taxpayer is _____.

- \$2650
- \$2500
- \$1250
- \$0

✓ Of the following, who may be able to claim the student loan interest deduction for his qualified education expenses?

- Ted, who is a dependent on his mother's tax return
- Greg, who files under the Married Filing Separately status
- Ron, who files jointly with his wife and claims his daughter as a dependent
- Steve, who obtained the loan from his older brother

All of the following may be considered qualified educational expenses for the student loan interest deduction EXCEPT _____.

- cost of rent and groceries
- graduate school tuition
- fees for a non-accredited computer course offered at the community center
- monthly fee for bus pass to campus



Federal Adjustments to Income

Knowledge Check



- ✓ The maximum student loan interest deduction allowed for a taxpayer is _____.
- \$2650
 - \$2500
 - \$1250
 - \$0
- ✓ Of the following, who may be able to claim the student loan interest deduction for his qualified education expenses?
- Ted, who is a dependent on his mother's tax return
 - Greg, who files under the Married Filing Separately status
 - Ron, who files jointly with his wife and claims his daughter as a dependent
 - Steve, who obtained the loan from his older brother
- ✓ All of the following may be considered qualified educational expenses for the student loan interest deduction EXCEPT _____.
- cost of rent and groceries
 - graduate school tuition
 - fees for a non-accredited computer course offered at the community center
 - monthly fee for bus pass to campus



Federal Adjustments to Income

Knowledge Check

Donna's qualified expenses for her student loan interest deduction came to a total of \$7,200 for the year. The same year, she received a gift of \$1,000 from her aunt, and \$1,000 in veteran's educational assistance. What amount of qualified expenses should Donna's use to figure her student loan interest deductions?

- \$7,200
- \$6,200
- \$5,200
- \$0



Federal Adjustments to Income

Knowledge Check

✓ Donna's qualified expenses for her student loan interest deduction came to a total of \$7,200 for the year. The same year, she received a gift of \$1,000 from her aunt, and \$1,000 in veteran's educational assistance. What amount of qualified expenses should Donna's use to figure her student loan interest deductions?

- \$7,200
- \$6,200
- \$5,200
- \$0

Donna's MAGI for the year was \$46,900 (line 4 of the Student Loan Interest Deduction Worksheet*). The amount of student loan interest she paid as reported on her form 1098-E was \$653. Can Donna report the entire \$653 as her student loan interest deductible?

- Yes
- No

[*Click here to view the Worksheet](#)



Federal Adjustments to Income

Knowledge Check



✓ Donna's qualified expenses for her student loan interest deduction came to a total of \$7,200 for the year. The same year, she received a gift of \$1,000 from her aunt, and \$1,000 in veteran's educational assistance. What amount of qualified expenses should Donna's use to figure her student loan interest deductions?

- \$7,200
- \$6,200
- \$5,200
- \$0

✓ Donna's MAGI for the year was \$46,900 (line 4 of the Student Loan Interest Deduction Worksheet*). The amount of student loan interest she paid as reported on her form 1098-E was \$653. Can Donna report the entire \$653 as her student loan interest deductible?

- Yes
- No

[*Click here to view the Worksheet](#)



Federal Adjustments to Income

Tuition and Fees Deduction

For tax year 2013 and prior, taxpayers can deduct up to \$4,000 in qualified tuition and related expenses paid during the tax year. The amount of the deduction is determined by the taxpayer's filing status, MAGI, and other factors. This deduction has expired and cannot be used for tax year 2014 and later.

| Filing Status | MAGI | Maximum Tuition and Fees Deduction |
|---|---|------------------------------------|
| Single, Head of Household, or Qualifying Widow(er) | Less than \$65,000 | \$4,000 |
| | More than \$65,000, but less than \$80,000 | \$2,000 |
| | More than \$80,000 | \$0 |
| Married Filing Jointly | Less than \$130,000 | \$4,000 |
| | More than \$130,000, but less than \$160,000 | \$2,000 |
| | More than \$160,000 | \$0 |



Federal Adjustments to Income

Tuition and Fees - Example A

Leonard, a single taxpayer who had total income of \$24,000, meets all the requirements to take the deduction. He paid \$4,427 in tuition and fees.

Because his gross income is well below the MAGI limit, he would be able to deduct the maximum amount (\$4,000) for his tuition and fees payments.



Federal Adjustments to Income

Eligibility

The tuition and fees deduction can be claimed for the taxpayer, the taxpayer's spouse (if filing a joint return), and any dependent (for whom the taxpayer claims a dependency exemption) who attended an eligible educational institution during the tax year.

The tuition and fees deduction cannot be claimed by married taxpayers who file separately or by an individual who is claimed as a dependent on another taxpayer's return.



Federal Adjustments to Income

Eligibility

To claim a deduction for expenses paid for a dependent who is the eligible student, the taxpayer must have paid the qualified expenses and claim an exemption for the dependent on their tax return. Students who do not qualify as a dependent can claim the deduction, even if tuition and fees were paid by someone else. The amount paid for tuition and fees can be treated as a gift.

If the student can be claimed as a dependent (even if not actually claimed) and paid their own expenses, no one can take the adjustment. Taxpayers ineligible for the tuition and fees adjustment because of the dependency issue may be eligible for an education tax credit (covered in another lesson).



Federal Adjustments to Income

Eligibility - Example A

Juanita is married but uses the Married Filing Separately status.

She cannot deduct tuition and fees.





Federal Adjustments to Income

Eligibility - Example B

Joseph is 30. Although he lives at home and goes to school full-time, he earns about \$5,000 each year, so his parents cannot claim him as a dependent.

Only Joseph can take the tuition and fees adjustment.





Federal Adjustments to Income

Eligibility - Example C

Carly is 18 and is claimed by her parents as a dependent. She took out student loans and paid all of her own tuition and fees. Carly cannot take the deduction because she is a dependent. Carly's parents cannot claim the deduction either because they did not pay the education expenses.

Carly's parents may be eligible for one of the education credits.





Federal Adjustments to Income

Qualified Tuition and Expenses

Qualified education expenses do not include payments for:

- insurance, room and board, medical expenses (including health fees), transportation, or similar personal, living, or family expenses
- course-related books, supplies, nonacademic activities and equipment unless it is paid as a condition of enrollment or attendance
- any course or other education involving sports, games, hobbies, and noncredit courses unless the course or other education is part of the student's degree program



Federal Adjustments to Income

Qualified Tuition and Expenses

Ask the taxpayer if the qualified tuition and expenses were offset by distributions from qualified state tuition programs, Coverdell ESAs, or interest from savings bonds used for higher education expenses. Subtract these from the total amount of payments for tuition and fees.

To help you figure the tuition and fees deduction, the taxpayer should have received [Form 1098-T](#), *Tuition Statement*. Generally, an eligible education institution must send Form 1098-T or a substitute to each enrolled student by January 31. However, the form only reports "amount billed" or "payments received."



Federal Adjustments to Income

CAUTION!

[Form 1098-T](#) may have incomplete information. Question the taxpayer to determine the amount of qualified expenses actually paid and adjust this amount by any nontaxable items, such as scholarships or tuition program distributions.



Federal Adjustments to Income

Knowledge Check

The maximum tuition and fees deduction allowed for a taxpayer is:

- \$5,000
- \$2500
- \$3,000
- \$4,000



Federal Adjustments to Income

Knowledge Check

The maximum tuition and fees deduction allowed for a taxpayer is:

- \$5,000
- \$2500
- \$3,000
- \$4,000

Jackson is a university sophomore who is studying to be a dentist. In addition to tuition, he was required to pay a fee to the university for the rental of dental equipment he used in the program. Can the fee be claimed as a deduction?

- Yes
- No



Federal Adjustments to Income

Knowledge Check

The maximum tuition and fees deduction allowed for a taxpayer is:

- \$5,000
- \$2500
- \$3,000
- \$4,000

Jackson is a university sophomore who is studying to be a dentist. In addition to tuition, he was required to pay a fee to the university for the rental of dental equipment he used in the program. Can the fee be claimed as a deduction?

- Yes
- No

All of the following may be considered qualified educational expenses for the tuition and fees deduction EXCEPT _____.

- course-related books and supplies that are a condition of enrollment
- fees for student activities that are required by enrollment
- tuition for classes at an accredited community college
- monthly fee for bus pass to campus



Federal Adjustments to Income

Knowledge Check



The maximum tuition and fees deduction allowed for a taxpayer is:

- \$5,000
- \$2500
- \$3,000
- \$4,000



Jackson is a university sophomore who is studying to be a dentist. In addition to tuition, he was required to pay a fee to the university for the rental of dental equipment he used in the program. Can the fee be claimed as a deduction?

- Yes
- No



All of the following may be considered qualified educational expenses for the tuition and fees deduction EXCEPT ____.

- course-related books and supplies that are a condition of enrollment
- fees for student activities that are required by enrollment
- tuition for classes at an accredited community college
- monthly fee for bus pass to campus





Federal Adjustments to Income

Eligible Educational Institutions

An eligible educational institution is generally any accredited public, nonprofit, or private post-secondary institution eligible to participate in the student aid programs administered by the Department of Education. This includes virtually all accredited public, nonprofit, and privately owned profit-making post-secondary institutions.

Taxpayers should contact the educational institution or the [U.S. Department of Education](#) website if they do not know if a school is an eligible institution.



Federal Adjustments to Income

Determining the Amount of the Deduction

Use [Form 8917](#), *Tuition and Fees Deduction*, to figure the MAGI and the resulting deduction amount.

The image shows a portion of Form 8917, 'Tuition and Fees Deduction'. The form is tilted and includes the following elements:

- Form Number:** 8917
- Title:** Tuition and Fees Deduction
- Department:** Department of the Treasury, Internal Revenue Service
- Instructions:** Attach to Form 1040 or Form 1040A. Information about Form 8917 and its instructions is at www.irs.gov/form8917.
- CAUTION:** You cannot take both an education credit from Form 8863 and the tuition and fees deduction from this same student for the same tax year. To see if you qualify for this deduction, see Who Can Take the Deduction in the instructions.
- Before you begin:** Checkboxes for:
 - If you file Form 1040, figure any write-in adjustments to be entered on the dotted line on Form 1040, line 36. See the 2013 Form 1040 instructions for line 36.
 - To see if you qualify for this deduction, see Who Can Take the Deduction in the instructions.
- Form Fields:**
 - Line 1: (a) Student's name (as shown on page 1 of your tax return). Fields for First name and Last name.
 - Line 2: (b) Student's social security number (as shown on page 1 of your tax return).
 - Line 3: (c) [Field for entering information from line 1, column (c), and enter the total from Form 1040A, line 15].



Federal Adjustments to Income

Determining the Best Benefit

If taxpayers claim the tuition and fees adjustment to income, they cannot claim an education credit. The education credits include the American opportunity and lifetime learning credits, [form 8863](#). For most taxpayers, the tax credit is more beneficial than the adjustment.

However, it is important to calculate and compare the education benefits to determine which credit is better for the taxpayer.

Complete the entire tax return first using the tuition and fees deduction, then claiming the education credit. Compare the returns and choose the best credit for the taxpayer.



Federal Adjustments to Income

Section 5: Jury Pay and other situations

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SECTION 5

Jury Pay and other situations





Federal Adjustments to Income

Jury Duty Pay

Jury duty pay is reported as taxable income in *Other income* on [Form 1040](#). However, some employees continue to receive their regular wages when they serve on jury duty even though they are not at work. Most often, their jury pay is turned over to their employers. In this case, the employees still have to report the entire amount of jury duty pay as taxable income, but may claim the amount of jury duty pay given to the employer as an adjustment to income.

Employees who turn jury duty pay over to their employers can claim the deduction on Form 1040 as an adjustment to income. The amount is shown as a write-in adjustment in the total on line 36. See Form 1040 Instructions for more information.



Federal Adjustments to Income

Jury Duty Pay

Taxpayers should report their jury duty pay as income - even if it is turned over to their employer. Remember that the taxpayer can report the entire amount as an adjustment to income (which will be subtracted from gross income), so taxpayer's AGI will not include the jury duty pay.



Federal Adjustments to Income

Other Situations

There may be other adjustments to income on [Form 1040](#), such as:

- self-employed health insurance deduction
- self-employed Simplified Employee Pensions (SEP), Savings Incentive Match Plan for Individuals (SIMPLE), and qualified plans
- domestic production activities deduction
- nondeductible IRAs (Form 8606)



Federal Adjustments to Income

Other Situations

If you believe your clients could benefit from an adjustment or deduction that was not covered in this lesson, visit the following resources.

- [IRS.gov](https://www.irs.gov)
- [Publication 17](#), *Tax Guide for Individuals*
- [SEP Plans](#)
- [SIMPLE IRA Plans](#)
- [How much salary can you defer if you're in more than one retirement plan?](#)
- [Publication 560](#), *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)*
- [Publication 590](#), *Individual Retirement Arrangements (IRAs)*



Federal Adjustments to Income

Knowledge Check

During the tax year, Max, who files as head of household, paid interest of \$2,800 on a qualified student loan. His modified AGI is \$49,000 (line 4 of the Student Loan Interest Deduction Worksheet). How much can Max claim for the student loan interest deduction?

- \$2,800
- \$3,000
- \$2,500
- \$4,000



Federal Adjustments to Income

Knowledge Check

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David files as a qualified widower with a dependent child. His modified AGI for the year was \$85,300. The amount of student loan interest he paid as reported on his Form 1098-E was \$2,700 for the year. How much can David claim for the student loan interest deduction?*

- \$2,700
- \$2,500
- \$1,500
- \$0

[*Click here to view David's Student Loan Interest Deduction Worksheet](#)



Federal Adjustments to Income

Knowledge Check



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[*Click here to view David's Student Loan Interest Deduction Worksheet](#)



Federal Adjustments to Income

Knowledge Check

A penalty for early withdrawal of funds from a savings account may be charged when the depositor withdraws funds _____.

- from an ordinary savings account
- before the maturity date for a time deposit
- before a certain amount of interest accumulates
- any of the above



Federal Adjustments to Income

Knowledge Check

A penalty for early withdrawal of funds from a savings account may be charged when the depositor withdraws funds _____.

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Tom is separated from his wife but does not have a legal separation agreement. He has paid \$3,000 during the tax year for the support of his son, who lives with his wife. Which of the following is true?

- child support is an adjustment to income
- the entire \$3,000 may be considered alimony and an adjustment to income
- child support is not an adjustment to income until there is a legal separation or divorce
- child support is never an adjustment to income



Federal Adjustments to Income

Knowledge Check



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Federal Adjustments to Income

Summary

In this lesson, you learned how to identify and work with these adjustments to income:

- Educator expenses
- Deductible portion of self-employment tax
- Penalty on early withdrawal of savings
- Alimony paid
- IRA deduction
- Student loan interest deduction
- Tuition and fees deductions
- Jury duty pay turned over to the taxpayer's employer



Federal Adjustments to Income

Conclusion

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