Standard Deduction and Tax Computation
About Standard Deduction and Tax Computation

- TaxSlayer: Basic Information section
- Additional resources listed in L&LT “References” tab
- Review all tips and cautions
- Read all examples and sample interviews
- We will review answers to each exercise in the lesson
Objectives – Standard Deduction and Tax Computation

- Determine the standard deduction for most taxpayers
- Determine the standard deduction for taxpayers claimed as dependents
- Identify how taxable income and income tax are computed and reported
- Time Required: 20 minutes
Topics

• Deductions
• Age and Blindness
• Taxpayers who can be Claimed as Dependents
• Standard Deduction vs. Itemizing
• Determining Taxable Income and Tax
Key Terms

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

- Adjusted Gross Income (AGI)
- Exemptions (Personal or Dependency)
- Itemized Deduction
- Married Filing Jointly
- Married Filing Separately
- Standard Deduction
Deductions

• Use interview techniques and other tools to determine if the standard deduction or itemizing will result in the largest possible deduction for the taxpayer

• Pub 4012, Deductions tab
  • Standard Deduction for Most People chart
  • Interview Tips for persons not eligible for the Standard Deduction

Exhibit 1 – Standard Deduction for Most People*

<table>
<thead>
<tr>
<th>If the taxpayer’s filing status is...</th>
<th>Your standard deduction is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or married filing separate return</td>
<td>$6,350</td>
</tr>
<tr>
<td>Married filing joint return or qualifying widow(er) with dependent child</td>
<td>$12,700</td>
</tr>
<tr>
<td>Head of household</td>
<td>$9,350</td>
</tr>
</tbody>
</table>

*Don’t use this chart if the taxpayer was born before January 2, 1953, or is blind, or if someone else can claim an exemption for the taxpayer (or their spouse if married filing jointly).
Deductions

• Taxpayers who cannot take standard deduction and must itemize:
  • Filing as Married Filing Separately and the spouse itemizes
  • Nonresident or dual-status alien (not married to U.S. citizen at the end of the year)

• Refer to the Standard Deduction Worksheet – Line 40 from either Pub 17 or Form 1040 Instructions
Age and Blindness

- Standard deduction is higher for a taxpayer or spouse 65 or older, or if one or both spouses are blind.
- Use Pub 4012, Adjustments tab, [Standard Deduction Chart for People 65 or Older or Who Are Blind Chart](#), as a guide to computing the standard deduction.
- Taxpayers can take the higher standard deduction if one spouse is 65 or older, or is blind, and if:
  - Taxpayer files a joint return.
  - Taxpayer files a separate return and can claim an exemption for the spouse.
Taxpayers Who Can be Claimed as Dependents

- A lower standard deduction is offered for an individual who can be claimed as a dependent on another person’s tax return.
- Form 13614-C has a check box for a dependent being claimed by another taxpayer.
- Use **Form 1040 Instructions**, Standard Deduction Worksheet – Line 40 to calculate the deduction.

![Standard Deduction Worksheet for Dependents](image)
Examples of types of expenses that generally warrant itemizing deductions:

- Large out-of-pocket medical and dental expenses
- State and local income taxes, sales tax, real estate taxes, and/or personal property taxes
- Mortgage interest
- Gifts to charity
- Certain other miscellaneous deductions
**Determining Taxable Income and Tax**

- Taxable income is determined by taking the adjusted gross income (AGI) and subtracting:
  - Personal and dependency exemptions
  - Standard or itemized deductions

- A separate worksheet is used to calculate tax for taxpayers with:
  - Capital gains
  - Qualifying dividends
  - Foreign earned income
Summary

This lesson covered:

• How to identify those who can take the standard deduction and how the deduction is affected by filing status, age, blindness, and status as a dependent

• Tax computation is based on taxable income