Introduction
This is the first of eight lessons that cover the Tax and Credits section of the return. This lesson teaches students how to subtract the appropriate standard deduction from taxpayers' adjusted gross income to figure their taxable income.

Objectives
Determine the standard deduction amount for most taxpayers.

Determine the standard deduction amount for taxpayers claimed as dependents.

Identify how taxable income and income tax are computed and reported.

Topics
Deductions

Age and Blindness

Taxpayers who can be Claimed as Dependents

Standard Deduction vs. Itemizing

Determining Taxable Income and Tax

Key Terms

Adjusted Gross Income (AGI): The taxpayer's total adjusted gross income (AGI) is the amount that is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

Exemptions (Personal or Dependency): Amount that taxpayers can claim for themselves, their spouses, and eligible dependents. The total is subtracted from adjusted gross income before tax is figured on the remaining income (taxable income).

Itemized Deduction: Itemized deductions allow taxpayers to reduce their taxable income based on specific personal expenses. If the total itemized deductions are greater than the standard deduction, it will result in a lower taxable income and lower tax.

Married Filing Jointly: Filing status for taxpayers who are married to each other or live together in a common law marriage and combine their income and deductions on the same tax return. The status also applies to taxpayers who are separated but not divorced and to taxpayers whose spouse died during the tax year and has not remarried, as long as one tax return is used for both individuals.

Married Filing Separately: Filing status for taxpayers who are married to each other or live together in a common law marriage and report their own incomes and deductions on separate returns.

Standard Deduction: An amount, provided by law and based on filing status, age, blindness, and dependency that taxpayers can deduct from their adjusted gross income before tax is determined.
Teacher Tips
Guidelines for Lesson

<table>
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<tr>
<th>Guideline</th>
<th>Instructor Notes</th>
<th>Presentation Aids</th>
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<tbody>
<tr>
<td>Lesson background info</td>
<td><strong>Review</strong> the online demo of TaxWise on applying the standard deduction.</td>
<td><strong>TaxWise</strong>® <strong>Demo:</strong> From the Practice Lab, select: • TaxWise IRS training • Click the appropriate demo</td>
</tr>
<tr>
<td>Provide details and engage the students</td>
<td><strong>Discuss</strong> all tips and cautions in detail.</td>
<td><strong>Visuals:</strong></td>
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<td></td>
<td><strong>Ask</strong> students to read and/or role-play examples.</td>
<td><strong>Pub 4491: Standard Deduction and Tax Computation</strong></td>
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<td></td>
<td><strong>Review</strong> answers to each exercise; ask students how they arrived at their answers.</td>
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Topic-specific Tips

<table>
<thead>
<tr>
<th>Topic Name</th>
<th>Instructor Notes</th>
<th>Presentation Aids</th>
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<tbody>
<tr>
<td>Introduction</td>
<td><strong>Review</strong> lesson objectives. <strong>State</strong> that this lesson covers the standard deduction; itemized deductions are covered in the next lesson.</td>
<td><strong>Visuals:</strong> <strong>Form 13614-C</strong>, Page 1, Part I and II <strong>Form 1040</strong>, Page 2, Tax and Credits section</td>
</tr>
<tr>
<td></td>
<td><strong>Review</strong> list of references. <strong>State</strong> the presentation time. <strong>Review</strong> Key Terms for the lesson.</td>
<td><strong>Pub 17</strong>, Chapter 20, Standard Deduction <strong>Pub 4012</strong>, Deductions tab</td>
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</table>
Deductions

Refer students to Pub 4012, Standard Deduction for Most People, during the exercises. Point out the footnote below chart.

Refer to Pub 4012, Interview Tips and discuss the steps for persons not eligible for the standard deduction.

Ask: What are the factors that determine the amount of the standard deduction for a taxpayer? Answer: Filing status, whether the person is 65 or older or blind, and if the person can be claimed as a dependent.

Point out that TaxWise automatically calculates the standard deduction based on information collected on the Main Information Screen.

Review the Tax Topics and Tax Map.

Display Standard Deduction Worksheet – Line 40 from either Pub 17 or Form 1040 Instructions.

Go through the ITA multiple times with different answers.

Age and Blindness

Point out that Single or Head of Household taxpayers are entitled to a higher standard deduction of up to $1,550 if they are 65 or older or blind at the end of the year.

Display TaxWise Form 1040, page 2 and point out which boxes are automatically checked, based on entries in the Main Information screen.

Refer students to Pub 4012, Standard Deduction Chart for People 65 or Older or Who Are Blind Chart; point out the footnote.

Visually:

Pub 4012, Deductions tab:
- Standard Deduction for Most People
- Persons Not Eligible for the Standard Deduction Interview Tips
- Form 1040, Page 2 – Deductions

Pub 17, Chapter 20, Standard Deduction

Form 1040 Instructions, Standard Deduction Worksheet – Line 40

Internet:

Tax Topics: Standard Deduction

Tax Map: Persons not eligible for the standard deduction

Interactive Tax Assistant: How Much is My Standard Deduction?

TaxWise Demo:

Main Information Screen
Form 1040, line 39
Taxpayers who can be Claimed as Dependents

**Display** Form 13614-C and point out the check box for a dependent being claimed by another taxpayer.

**Point out** that TaxWise will automatically calculate a dependent’s standard deduction, as long as the box indicating that the taxpayer can be claimed as a dependent on another person’s tax return has been checked on the Main Information Sheet.

**Ask:** What is the upper limit of the standard deduction for someone who can be claimed as a dependent by another taxpayer? **Answer:** Either $1,050 or the person’s earned income plus $350 (not to exceed the regular standard deduction amount).

**Review** the FAQ.

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<tr>
<th>Standard Deduction vs. Itemizing</th>
<th>Visual:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prompt</strong> students to give examples of the types of expenses that would warrant itemizing deductions, such as:</td>
<td><strong>Form 13614-C</strong>, Page 1, Part I</td>
</tr>
<tr>
<td>• Large out-of-pocket medical and dental expenses</td>
<td><strong>Form 1040 Instructions</strong>, Standard Deduction Worksheet – Line 40</td>
</tr>
<tr>
<td>• State and local income taxes, sales tax, real estate taxes, and/or personal property taxes</td>
<td>Pub 4012, Preparing the Return tab, <em>Main Information Screen</em></td>
</tr>
<tr>
<td>• Mortgage interest</td>
<td>Internet:</td>
</tr>
<tr>
<td>• Gifts to charity</td>
<td><strong>FAQ:</strong> If I claim my daughter as a dependent because she is a full-time college student, can she claim herself as a dependent when she files her return?</td>
</tr>
<tr>
<td>• Certain other miscellaneous deductions</td>
<td><strong>TaxWise Demo:</strong></td>
</tr>
<tr>
<td><strong>Emphasize</strong> that TaxWise calculates both types of deductions and automatically selects the method with the lower tax.</td>
<td>Show Main Information Screen check box for being claimed as a dependent.</td>
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</table>

**Review** the Tax Map.
### Determining Taxable Income and Tax

**Emphasize** that the amounts for taxable income, AGI, exemption amount, and standard or itemized deductions play an important role in determining the taxpayer's tax liability, and diligent care should be taken to ensure that they be figured correctly.

**Point out** that, for taxpayers with certain types of income (e.g., capital gains, qualifying dividends, or foreign earned income), a separate worksheet is used to calculate the tax (instead of the tax tables).

**Demo** the tax software using an example with Form 1040 entries.

### Skills Workout

**Review** the Skills Workout exercises with the class.

### Practice

**Ask** students to select the problem based on their certification course of study.

**Verify** they have correctly completed the Tax and Credits section of Form 1040.

### Visuals:

- **Pub 4012**, Deductions tab, *Form 1040, Page 2 – Deductions*

- **TaxWise Demo:**
  
  Show Form 1040 entries for income, deduction, and credit information that affect the calculation of the final tax amount.

- **Visuals:**
  
  - Link & Learn Taxes: Standard Deduction and Tax Computation lesson Skills Workout click the Certification Warm Up exercises

### References

- **Form 13614-C**
  
  *Form 13614-C*, Intake/Interview & Quality Review Sheet, Page 1, Part I

- **Form 1040**
  
  *Form 1040*, Page 2, Tax and Credits section

- **Pub 4012**
  
  Pub 4012, Volunteer Resource Guide, Deductions tab

  - **Persons Not Eligible for the Standard Deduction**
    
    *Interview Tips*

  - **Standard Deduction for Most People**

  - **Standard Deduction Chart for People 65 or Older or Who Are Blind**
### Form 1040, Page 2 – Deductions

<table>
<thead>
<tr>
<th>Pub 4491-W</th>
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#### Optional

| Pub 501    | Exemptions, Standard Deduction, and Filing Information, Standard Deduction chapter |

### Recommended Classroom Activities

- **Skills Workout:** Link & Learn Taxes Standard Deduction and Tax Computation
  
  Click on Skills Workout to access Link & Learn Taxes Standard Deduction and Tax Computation.

- **Certification Warm Up – Exercises**
  
  Click on Certification Warm Up to access the exercises in Link & Learn taxes Standard Deduction and Tax Computation.

- **Media: Video & Audio for Lesson**
  
  There is no media associated with this lesson.

- **TaxWise Tips and Resources for Lesson**

  **TaxWise screens**
  
  Main Information Screen
  
  Form 1040, Page 2 – Deductions
  
  Schedule A for Itemized Deductions

  **Practice Lab Tutorial**
  
  From the Practice Lab, select:
  
  1. TaxWise IRS training
  2. Click the appropriate demo
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<th>How Much is My Standard Deduction?</th>
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<td>ITA and FAQs for Lesson</td>
<td><a href="http://www.irs.gov/uac/How-Much-is-My-Standard-Deduction%3F">http://www.irs.gov/uac/How-Much-is-My-Standard-Deduction%3F</a></td>
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<td>Persons not eligible for the standard deduction</td>
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<td><a href="http://taxmap.ntis.gov/taxmap/ts0/personsnoteeligible_o_67bd84b3.htm">http://taxmap.ntis.gov/taxmap/ts0/personsnoteeligible_o_67bd84b3.htm</a></td>
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<td>Electing to Itemize</td>
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<td><a href="http://www.voltaxprep.com/">http://www.voltaxprep.com/</a></td>
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