

## TAX LEVEL 1 EXAM RESOURCE GUIDE

Tax Year 2023

<p><b>Form 1040</b></p> <p>Official document US Taxpayers file federal income tax return (Calculates AGI, Tax Income and Tax)</p> <p><b>Individual Federal Income Tax Formula:</b></p> <p><b>Gross Income</b> (Wages, Interest, Dividends, IRA Distributions, Pensions, Social Security Benefits, Capital Gains/Losses)</p> <p>+ Schedule 1 Adjustments Income (Above the Line) = Total Income</p> <p>- Schedule 1 Adjustments (Above the Line) = <b>Adjusted Gross Income</b> (AGI)</p> <p>- Greater of Standard or Itemize Deductions (Below the Line) and QBI Deduction = <b>Taxable Income</b></p> <p>Tax Liability - Non Refundable Tax Credits = <b>Total Tax</b></p> <p>Withholding + Estimated Tax Payments + Refundable Tax Credits = <b>Total Payments</b></p> <p>Total Tax - Total Payments = <b>Refund</b> or <b>Payment Due</b></p>	<p><b>Filing Status</b></p> <p><i>Based on the last day of the year:</i></p> <p><b>Single:</b> Unmarried; divorced or legally separated</p> <p><b>Married Filing Jointly:</b> Married or spouse passed away during the year</p> <p><b>Married Filing Separately:</b> Married and do not wish to file jointly</p> <p><b>Head of Household:</b> Unmarried or considered unmarried for tax purposes and paid more than half of living expenses for yourself and qualifying dependent</p> <p><b>Qualifying Surviving Spouse:</b> Spouse passed during the past 2 years and you have a dependent child</p>	<p><b>General Rules for Dependents</b></p> <ul style="list-style-type: none"> <li>• Must be US Citizen, resident alien/national or resident of Mexico or Canada</li> <li>• Cannot be claimed as dependent by another taxpayer, including the dependent's own return</li> <li>• Must be a <a href="#">qualifying child or relative</a></li> <li>• <b>Children as dependent:</b> must pass relationship, age, residency, support, and joint return tests. (<a href="#">See full qualifications</a>)</li> <li>• <b>Relative as dependent:</b> cannot be a qualifying child; must pass member of household or relationship, gross income, and support tests. (<a href="#">See full qualifications</a>)</li> </ul>
<p><b>Schedule 1 Adjustments</b> (Above the Line)</p> <p>(+) Alimony (before 2019)</p> <p>(+) Business Income (Sole Prop = Schedule C)</p> <p>(+) Farm Income (Schedule F)</p> <p>(+) Rental Real Estate, Pships, S Corps</p> <p>(+) Unemployment Compensation</p> <p>(+) Gambling Winnings</p> <p>(+) Prized &amp; Awards</p> <p>(+) Hobby Income</p> <p>(-) Educator Expenses (\$300 in 2023)</p> <p>(-) HSA Deduction</p> <p>(-) Deductible part of Self Employment Tax</p> <p>(-) Self Employed SEP, Simple</p> <p>(-) Self Employed Health Insurance Deduction</p> <p>(-) IRA Contribution</p> <p>(-) Penalty on early withdrawal of savings</p> <p>(-) Alimony paid (before 2019)</p> <p>(-) Student Loan interest deduction (limit \$2500)</p>	<p><b>Refundable Tax Credits</b></p> <p>Credits you can get as a refund even if you don't owe any tax. If Modified AGI exceeds income limit for filing status, tax credits may be smaller or ineligible.</p> <ul style="list-style-type: none"> <li>• <b>Earned Income Credit:</b> must meet income level qualifications</li> <li>• <b>Premium Tax Credit:</b> helps the taxpayer pay for health insurance premiums. Based on income, household size and cost of Health Insurance Marketplace plan</li> <li>• <b>Child Tax Credit:</b> Up to \$2000 credit per qualifying child (2023); refundable credit up to 40% or \$1600 (Also Additional Child Tax Credit)</li> <li>• <b>American Opportunity Tax Credit:</b> Partially Refundable (see next box)</li> </ul>	<p><b>Non-Refundable Tax Credits</b></p> <p>Can lower tax liability to zero but cannot be used to increase tax refund.</p> <ul style="list-style-type: none"> <li>• <b>Amer Opp Tax Credit:</b> first 4 yrs of higher education; receive up to \$2500 qualified expenses (tuition and other expenses required for course); 40% refundable</li> <li>• <b>Lifetime Learning Credit:</b> 20% of qualified expenses for higher education, up to \$2000 per return</li> <li>• <b>Child &amp; Dependent Care Expenses Credit:</b> daycare for under age 13 or disabled family member; 20%-35% of expenses depending on income; \$3000 for 1 person, or \$6000 for 2+ people</li> <li>• <b>Retirement Savings Credit:</b> up to \$1000 Single; \$2000 Married Filing Jointly</li> </ul>
<p><b>Schedule 3: Nonrefundable tax credits</b></p> <ul style="list-style-type: none"> <li>• Foreign Tax Credit (<a href="#">Form 1116</a>)</li> <li>• Child &amp; Dependent Care Exp. Credit (<a href="#">Form 2441</a>)</li> <li>• Education Credits (<a href="#">Form 8863</a>)</li> <li>• Retirement Savings Credit (<a href="#">Form 8880</a>)</li> <li>• Residential Energy Credit (<a href="#">Form 5695</a>)</li> <li>• Clean Vehicle Credit (<a href="#">Form 8936</a>)</li> </ul>	<p><b>Tax Residency Status</b></p> <p><b>Nonresident:</b> Not a US citizen unless meet one of the two following tests:</p> <p><b>Resident:</b></p> <ol style="list-style-type: none"> <li>1. Green Card Test</li> </ol> <p><b>OR</b></p> <ol style="list-style-type: none"> <li>2. Substantial Presence Test (physically present in US at least 31 days during current year and 183 days during the 3 year period including current year and 2 preceding years (see IRS rules)</li> </ol> <p><b>Dual Status Alien:</b> Both US resident and nonresident in same tax year</p>	<p><b>Foreign Earned Income</b></p> <ul style="list-style-type: none"> <li>• Eligible to exclude up to \$120K (2023) of foreign earned income</li> <li>• Must be US citizen or US resident alien who is either a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year or physically present in a foreign country for 330 days during any period of 12 consecutive months</li> </ul>

<p><b>Schedule A: Below the Line Deductions</b></p> <p><b>Total Itemized Deductions:</b></p> <ul style="list-style-type: none"> <li>(+) Medical (in excess of 7.5% of AGI)</li> <li>(+) State &amp; Local Taxes; Real Estate Tax (max \$10K total)</li> <li>(+) Mortgage Interest (max \$750K)</li> <li>(+) Charitable Contributions (max 30-60% AGI)</li> <li>(+) Casualty &amp; Theft losses (fed declared disaster)</li> <li>(+) Other (gambling losses to extent of winnings)</li> </ul> <p><b>Standard Deductions (2023):</b></p> <p>Single/Married filing separate: \$13,850</p> <p>Head of Household: \$20,800</p> <p>Married Filing Jointly: \$27,700</p>	<p><b>Business Income</b></p> <p>Income earned through entity operations. Entities can be Sole Proprietor (<a href="#">Schedule C</a>); Partnership (<a href="#">Form 1065</a>); LLC; C Corp (<a href="#">Form 1120</a>); S Corp (<a href="#">Form 1120-S</a>)</p> <p><b>Expenses:</b> cost of ordinary &amp; necessary business operations</p> <p><b>Business income - Expenses = Profit (+) or Loss (-)</b></p> <p>Example of Expenses: Advertising, utilities, insurance premiums, salaries, shipping, business travel, depreciation, gifts (up to \$25); business meals (50% but see rules).</p>	<p><b>Business Auto Expense</b></p> <p>Calculate using actual expenses <b>OR</b> the IRS' standard mileage rate.</p> <p><b>Standard Mileage = Miles used for business × \$0.655 (2023)</b></p> <p><b>Actual Expenses = Gas + maintenance + insurance + depreciation</b></p>
<p><b>Gambling Winnings vs. Gambling Losses</b></p> <ul style="list-style-type: none"> <li>• Gambling winnings (from lotteries, raffles, horse races, casinos) are fully taxable on <a href="#">Form 1040, Schedule 1</a>.</li> <li>• Gambling losses can be deducted only if the taxpayer itemizes deductions. Amount of losses deducted on Schedule A cannot be more than the amount of gambling winnings.</li> </ul>	<p><b>Qualified Business Income (QBI) deduction</b></p> <ul style="list-style-type: none"> <li>• This deduction allows eligible taxpayers to deduct up to 20% of Qualified Business Income against their AGI.</li> <li>• See rules for qualifying business eligibility and real estate dividends. (<a href="#">Section 199A of Internal Revenue Code</a>)</li> </ul>	<p><b>State Taxation</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Reciprocal State Agreements</a> allow taxpayer wages to be taxed by resident state only; State must have an agreement with other states. Not all states participate.</li> <li>• Taxpayer may need to submit paperwork to employer to exempt withholding</li> </ul>
<p><b>Capital Gains/Losses</b></p> <ul style="list-style-type: none"> <li>• Short term capital gains are taxed at ordinary rates. Long term capital gains taxed at 0%, 15%, or 20%, depending on taxable income. Capital losses can offset capital gains.</li> <li>• Remaining losses can be deducted up to \$3000 per year. Capital gains on collectibles are taxed at 28%.</li> </ul>	<p><b>IRA / 401K Distributions</b></p> <ul style="list-style-type: none"> <li>• Can withdraw penalty-free at age 59.5; must pay tax on distribution.</li> <li>• Early withdrawal penalty of 10% if under age 59.5; can avoid penalty if withdrawal is for first time home purchase, medical expenses, death / disability, educational and more (<a href="#">see rules</a>).</li> </ul>	<p><b>Partnerships</b></p> <ul style="list-style-type: none"> <li>• Partners issued K-1. Business/Real Estate Income (or losses) can be considered active or passive income (or losses).</li> <li>• General partnership income and guaranteed payments are considered self-employment income.</li> <li>• Interest/Dividend income flows through to individuals.</li> </ul>
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