



## Adjustments to Income

# Adjustments to Income

- Adjustments are deductions that decrease a taxpayer's gross income.
  - Adjustments to income lower your adjusted gross income dollar for dollar.
- Any increases to adjustments will ultimately lower taxable income and reduce income tax.
- Note that adjustments do not lower other taxes, such as self-employment tax.
- Adjustments are reported on Schedule 1, Part II and carried to Form 1040, Line 10.

# Adjustments to Income

- Educator Expenses
- Health Savings Account
- Deductible Part of Self-Employment Tax
- Penalty on Early Withdrawal of Savings
- Alimony Paid
- IRA Deduction (Contributions to traditional IRA)
- Student Loan Interest Deduction



## **Educator Expenses**

# Educator Expenses

- Eligible educators can deduct up to \$300 of qualified expenses paid during the tax year. If the taxpayer and spouse are both eligible educators, they can deduct up to \$600, but neither can deduct more than their own expenses up to \$300.
- An eligible educator is a kindergarten through 12<sup>th</sup> grade teacher, instructor, counselor, principal, or aide in school for at least **900** hours during the school year.
- Expenses that qualify include books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. The educator's own professional development expenses related to the curriculum in which the educator provides instruction are also included. Qualified expenses also include amounts paid or incurred for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of coronavirus.



## Health Savings Account

# Health Savings Account

- A Health Savings Account (HSA) is a tax-advantaged medical savings account used to pay for qualifying medical expenses.
- To qualify for an HSA, the taxpayer must meet the following requirements:
  - Be covered by a high-deductible health plan (HDHP) on the first day of the month
  - Not be covered by other health insurance
  - Not be enrolled in Medicare (the individual can be HSA-eligible for the months before being covered by Medicare)
  - Not be eligible to be claimed as a dependent on someone else's tax return

# Health Savings Account

- Contributions are deductible as an adjustment to gross income.
- Distributions from an HSA are nontaxable if the funds are offset by qualified medical expenses.
- In the case of married individuals, each spouse and is an eligible individual and wants to have an HSA must open a separate HSA.
  - Married couples cannot have a joint HSA, however, distributions can be used to cover the qualified expenses of the other spouse.




# HSA Contribution Limits

- Anyone can contribute to an eligible individual HSA.
- For an employee's HSA, the employee, employer, or both may contribute to the employee's HSA in the same year.
  - Any amount the employer puts into the employee's HSA counts towards the employee's contribution maximum for the year.
- Family members or any other person may also contribute on behalf of an eligible individual.
- Contribution limits for 2024:
  - Family plan: \$8,300
  - Self-only plan: \$4,150
  - Add \$1,000 if owner is age 55 or older at year end
  - Any excess contributions over these limits are subject to a 6% penalty.

# HSA Tax Forms

- How to tell if there are HSA considerations:
  - The client will have a W2 with code “W” in box 12 that shows the amount of employer contributions for the year
  - The client has received Form 5498-SA showing total HSA contributions for the year in Box 2
  - The client has Form 1099-SA with the HSA distribution box checked in Box 5
    - This form shows the amount of money taken out of the HSA during the year in Box 1

# Health Savings Account (Form W-2)

<b>a</b> Employee's social security number <b>441-00-XXXX</b>		Safe, accurate, <b>FAST! Use</b>				Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a>	
<b>b</b> Employer identification number (EIN) <b>44-100XXXX</b>		<b>1</b> Wages, tips, other compensation <b>34,620.00</b>		<b>2</b> Federal income tax withheld <b>2,369.00</b>			
<b>c</b> Employer's name, address, and ZIP code <b>WILLIAMS MANUFACTURING</b> <b>2520 AUSTIN BLVD</b> <b>YOUR CITY, STATE ZIP</b>		<b>3</b> Social security wages <b>34,620.00</b>		<b>4</b> Social security tax withheld <b>2,146.44</b>			
		<b>5</b> Medicare wages and tips <b>34,620.00</b>		<b>6</b> Medicare tax withheld <b>501.99</b>			
		<b>7</b> Social security tips		<b>8</b> Allocated tips			
<b>d</b> Control number		<b>9</b>		<b>10</b> Dependent care benefits			
<b>e</b> Employee's first name and initial      Last name      Suff. <b>PEGGY WALKER</b> <b>65421 SW 17TH ST</b> <b>YOUR CITY, STATE ZIP</b>		<b>11</b> Nonqualified plans		<b>12a</b> See instructions for box 12 <b>W</b> <b>600.00</b>			
		<b>13</b> Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<b>12b</b>			
		<b>14</b> Other		<b>12c</b>			
				<b>12d</b>			
<b>f</b> Employee's address and ZIP code							
<b>15</b> State      Employer's state ID number <b>YS</b> <b>44-100XXXX</b>		<b>16</b> State wages, tips, etc. <b>34,620.00</b>		<b>17</b> State income tax <b>456.00</b>		<b>18</b> Local wages, tips, etc.	
						<b>19</b> Local income tax	
						<b>20</b> Locality name	

Form **W-2** Wage and Tax Statement

Department of the Treasury — Internal Revenue Service

Copy B — To Be Filed With Employee's FEDERAL Tax Return.  
 This information is being furnished to the Internal Revenue Service.

# Health Savings Account (Form 5498-SA)

CORRECTED (if checked)

TRUSTEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number <b>PIEDMONT HEALTHCARE</b> <b>P.O. BOX 5498</b> <b>YOUR CITY, STATE ZIP</b>		<b>1</b> Employee or self-employed person's Archer MSA contributions made <b>\$</b>	OMB No. 1545-1518  Form <b>5498-SA</b>	<b>HSA, Archer MSA, or Medicare Advantage MSA Information</b>   <b>Copy B</b>  <b>For Participant</b>  This information is being furnished to the IRS.
TRUSTEE'S TIN <b>58-000XXXX</b>		<b>2</b> Total contributions made <b>\$ 520.00</b>	<b>3</b> Total HSA or Archer MSA contributions made <b>\$</b>	
PARTICIPANT'S TIN <b>456-00-XXXX</b>		<b>4</b> Rollover contributions <b>\$</b>	<b>5</b> Fair market value of HSA, Archer MSA, or MA MSA <b>\$ 2,440.00</b>	
PARTICIPANT'S name <b>MARTHA KEMPER</b>  Street address (including apt. no.) <b>8705 SKIDMORE WAY</b>  City or town, state or province, country, and ZIP or foreign postal code <b>YOUR CITY, STATE ZIP</b>		<b>6</b> HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA <input type="checkbox"/> MSA <input type="checkbox"/>		
Account number (see instructions) <b>6345789</b>				

Form **5498-SA**

(keep for your records)

[www.irs.gov/Form5498SA](http://www.irs.gov/Form5498SA)

Department of the Treasury - Internal Revenue Service

# Health Savings Account (Form 1099-SA)

CORRECTED (if checked)

TRUSTEE'S/PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number  <b>HEALTHCARE TRUSTEE OF AMERICA 123 MAIN STREET YOUR CITY, STATE ZIP</b>				OMB No. 1545-1517  Form <b>1099-SA</b>	<b>Distributions From an HSA, Archer MSA, or Medicare Advantage MSA</b>  <b>Copy B For Recipient</b>  This information is being furnished to the IRS.
PAYER'S TIN <b>44-400XXXX</b>	RECIPIENT'S TIN <b>441-00-XXXX</b>	<b>1</b> Gross distribution \$ <b>1,480.00</b>	<b>2</b> Earnings on excess cont. \$		
RECIPIENT'S name  <b>PEGGY WALKER</b>		<b>3</b> Distribution code  <b>1</b>	<b>4</b> FMV on date of death  \$		
Street address (including apt. no.) <b>65421 SW 17TH STREET</b> City or town, state or province, country, and ZIP or foreign postal code <b>YOUR CITY, STATE ZIP</b>		<b>5</b> HSA <input checked="" type="checkbox"/> Archer MSA <input type="checkbox"/> MA MSA <input type="checkbox"/>			
Account number (see instructions)					

Form **1099-SA**

(keep for your records)

[www.irs.gov/Form1099SA](http://www.irs.gov/Form1099SA)

Department of the Treasury - Internal Revenue Service

# HSA Distributions

- The taxpayer can receive tax-free distributions from an HSA to pay or be reimbursed for qualified medical expenses incurred in the current or prior year, but after the taxpayer establishes the HSA.
- Qualified medical expenses include the medical expenses of the taxpayer, their spouse, or a dependent at the time the expense was incurred.
- Qualified medical expenses are expenses that generally would qualify for the medical and dental expenses deduction. Examples:
  - Unreimbursed expenses for doctors, dentists, and hospitals
  - Personal protective equipment for the primary purpose of preventing the spreading COVID-19
  - The cost of menstrual care products
  - Over-the-counter products and medications

# Form 8889, Health Savings Account (HSA)

- A taxpayer must complete Form 8889 with Form 1040 if the taxpayer (or spouse if filing a joint return) had any activity in an HSA.
- Need to know if their HDHP coverage is “self-only” or “family”
- Form 8889, Part 1, is used to report **all** HSA contributions and to compute the allowable HSA deduction.
- Form 8889, Part II, is used by taxpayers to report distributions from an HSA.
- Withdrawals that are not used for qualifying medical expenses are generally subject to income tax. They may also be subject to a 20% penalty, except in the following instances:
  - When a taxpayer turns 65 or older
  - When a taxpayer becomes disabled
  - When a taxpayer dies



## Deductible Part of Self-Employment Tax



# Deductible Part of Self-Employment Tax

- $\frac{1}{2}$  of self-employment tax can be deducted from income.
- Self-Employment tax is based on income reported on Schedule C and figured on Schedule SE.
- SE tax covers the Social Security and Medicare Tax for self-employed taxpayers.
- The self-employment Tax Deduction is listed on Schedule 1, line 15.
- The deductible portion of the self-employment tax is automatically calculated on Schedule SE by the software.



## Penalty on Early Withdrawal of Savings

# Penalty on Early Withdrawal of Savings

- Taxpayers can adjust their gross income to deduct penalties they paid for withdrawing funds from a deferred interest account before maturity.
- The early withdrawal penalty amount should be entered in the interest income section if it is listed on Form 1099-INT.
- The early withdrawal penalty deduction is reported on Form 1040, Schedule 1.



## Alimony Paid

# Alimony Paid

## Pre-2019 Divorces

- The person paying alimony can deduct alimony payments as an adjustment to income.
- We need the exact amount, as well as the Social Security number of the recipient, because the recipient must report the payment to the IRS as income and the two amounts must agree.
- The date of the divorce, or a reasonable estimate, is also needed to complete Schedule 1.

## Post-2018 Divorces

- Alimony or separate maintenance payments made under a divorce or separation agreement (1) executed after 2018, or (2) executed before 2019, but later modified if the modification expressly states the repeal of the deduction for alimony payments applies to the modification, are no longer deductible.

# Alimony Paid

Requirements for payments to be considered alimony paid:

- The ex-spouses do not file married filing jointly
- The payment was in cash (includes checks and money orders)
- The divorce does not designate the payment as “not alimony”
- The ex-spouses were not members of the same household when the payment was made
- The alimony payment was designated in a divorce/separation document and ordered by a judge
- There is no liability to continue alimony payments after the death of the spouse that receives the payment
- The payment is not treated as child support or a property settlement



## IRA Deduction

# IRA Deduction

- Only contributions to **Traditional** IRAs are deductible
- The maximum IRA deduction is \$7,000 (\$8,000 if age 50 or older).
  - Contributions cannot be more than taxpayer's yearly compensation
- Starting in 2020, the long-standing 70½ age limit for making contributions to traditional IRAs is eliminated.
- Contributions for the current tax year can be made until the filing deadline, generally April 15 of the year following the tax year. Your filing status has no effect on the amount of allowable contributions to your traditional IRA.





## Student Loan Interest Deduction

# Student Loan Interest Deduction (Form 1098-E)

VOID  CORRECTED

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number  <b>MAGGIE MAE</b> 854 LINCOLN RD YOUR CITY, YOUR STATE, ZIP			OMB No. 1545-1576   Form <b>1098-E</b>	<b>Student Loan Interest Statement</b>   <b>Copy C For Recipient</b>  For Privacy Act and Paperwork Reduction Act Notice, see the <b>2022</b> <b>General</b> <b>Instructions for</b> <b>Certain Information</b> <b>Returns.</b>
RECIPIENT'S TIN 20-7XXXXXX	BORROWER'S TIN 141-00-XXXX	1 Student loan interest received by lender <b>\$</b>	<b>\$375.00</b>	
BORROWER'S name  <b>MONICA MONTGOMERY</b>  Street address (including apt. no.) <b>178 PACKER DRIVE</b>  City or town, state or province, country, and ZIP or foreign postal code <b>YOUR CITY, YOUR STATE, ZIP</b>				
Account number (see instructions)		2 Check if box 1 does <b>not</b> include loan origination fees and/or capitalized interest, and the loan was made before September 1, 2004 <input type="checkbox"/>		

Form **1098-E**

[www.irs.gov/Form1098E](http://www.irs.gov/Form1098E)

Department of the Treasury - Internal Revenue Service

# Student Loan Interest Deduction

- The student loan interest deduction is generally the smaller of \$2,500 or the interest payments paid that year on a qualified student loan.
- The taxpayer can only claim the deduction if the following apply:
  - The taxpayer paid interest on a qualified student loan in the current tax year
  - The taxpayer is legally obligated to pay interest on a qualified student loan
  - The taxpayers' filing status **isn't married filing separately**
  - The taxpayer or the taxpayer's spouse, if filing jointly, can't be claimed as dependents on someone else's return.
  - The student must have qualified as the taxpayer's dependent at the time the taxpayer borrowed the money.