

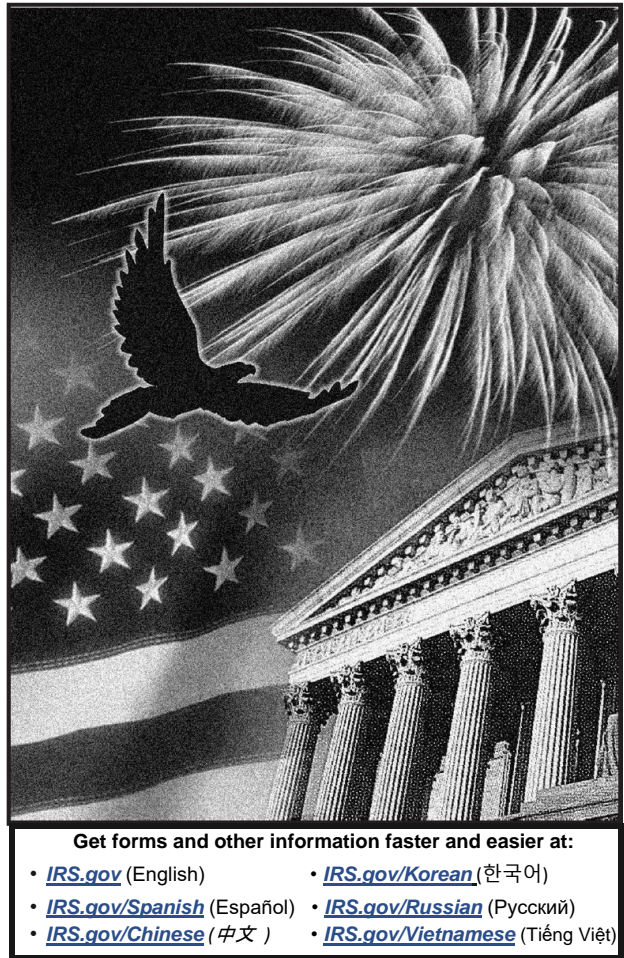
# Publication 554

## Tax Guide for Seniors

For use in preparing

**2024** Returns

Volume 2 of 3



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## **Repayment of Benefits**

Any repayment of benefits you made during 2024 must be subtracted from the gross benefits you received in 2024. It doesn't matter whether the repayment was for a benefit you received in 2024 or in an earlier year. If you repaid more than the gross benefits you received in 2024, see *Repayments More Than Gross Benefits*, later.

Your gross benefits are shown in box 3 of Form SSA-1099 or Form RRB-1099. Your repayments are shown in box 4. The amount in box 5 shows your net benefits for 2024 (box 3 minus box 4). Use the amount in box 5 to figure whether any of your benefits are taxable.

## **Tax Withholding and Estimated Tax**

You can choose to have federal income tax withheld from your social security and/or the SSEB portion of your tier 1 railroad retirement benefits.

If you choose to do this, you must complete a Form W-4V, Voluntary Withholding Request.

If you don't choose to have income tax withheld, you may have to request additional withholding from other income, or pay estimated tax during the year. For details, see Pub. 505, or the Instructions for Form 1040-ES, Estimated Tax for Individuals.

## **How Much Is Taxable?**

If part of your benefits is taxable, how much is taxable depends on the total amount of your benefits and other income. Generally, the higher that total amount, the greater the taxable part of your benefits.

Worksheet 2-A. **A Quick Way To Check if Your Benefits May Be Taxable**

Keep for Your Records 

<b>A.</b> Enter the amount from <b>box 5</b> of all your Forms SSA-1099 and RRB-1099. Include the full amount of any lump-sum benefit payments received in 2024, for 2024 and earlier years. (If you received more than one form, combine the amounts from box 5 and enter the total.) .....	<b>A.</b> _____
<b>Note.</b> If the amount on line A is zero or less, stop here; none of your benefits are taxable this year.	
<b>B.</b> Enter one-half of the amount on line A .....	<b>B.</b> _____
<b>C.</b> Enter your taxable pensions, wages, interest, dividends, and other taxable income .....	<b>C.</b> _____
<b>D.</b> Enter any tax-exempt interest income (such as interest on municipal bonds) plus any exclusions from income for: <ul style="list-style-type: none"><li>• Interest from qualified U.S. savings bonds,</li><li>• Employer-provided adoption benefits,</li><li>• Foreign earned income or foreign housing, or</li><li>• Income earned in American Samoa or Puerto Rico by bona fide residents .....</li></ul>	<b>D.</b> _____
<b>E.</b> Add lines B, C, and D and enter the total .....	<b>E.</b> _____
<b>F.</b> If you are: <ul style="list-style-type: none"><li>• Married filing jointly, enter \$32,000;</li><li>• Single, head of household, qualifying surviving spouse, or married filing separately and you lived apart from your spouse for all of 2024, enter \$25,000; or</li><li>• Married filing separately and you lived with your spouse at any time during 2024, enter -0- .....</li></ul>	<b>F.</b> _____
<b>G.</b> Is the amount on line F less than or equal to the amount on line E? <input type="checkbox"/> <b>No.</b> None of your benefits are taxable this year. <input type="checkbox"/> <b>Yes.</b> Some of your benefits may be taxable. To figure how much of your benefits are taxable, see <a href="#">Which worksheet to use</a> under <i>How Much Is Taxable</i> .	

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**Maximum taxable part.** The taxable part of your benefits usually can't be more than 50%. However, up to 85% of your benefits can be taxable if either of the following situations applies to you.

- The total of one-half of your benefits and all your other income is more than \$34,000 (\$44,000 if you are married filing jointly).
- You are married filing separately and lived with your spouse at any time during 2024.

If you are a nonresident alien, 85% of your benefits are taxable. However, this income is exempt under some tax treaties.

**Which worksheet to use.** A worksheet to figure your taxable benefits is in the Instructions for Form 1040. However, you will need to use a different worksheet(s) if any of the following situations applies to you.

1. You contributed to a traditional IRA and you or your spouse were covered

by a retirement plan at work. In this situation, you must use the special worksheets in Pub. 590-A to figure both your IRA deduction and your taxable benefits.

2. Situation (1) doesn't apply and you take one or more of the following exclusions.
  - Interest from qualified U.S. savings bonds (Form 8815, Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989).
  - Employer-provided adoption benefits (Form 8839, Qualified Adoption Expenses).
  - Foreign earned income or housing (Form 2555, Foreign Earned Income).
  - Income earned in American Samoa (Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa) or Puerto Rico by bona fide residents.



In these situations, you must use Worksheet 1 in Pub. 915 to figure your taxable benefits.

3. You received a lump-sum payment for an earlier year. In this situation, also complete Worksheet 2 or 3 and Worksheet 4 in Pub. 915. See Lump-Sum Election, later.

## **How To Report Your Benefits**

If part of your benefits is taxable, you must use Form 1040, 1040-SR, or 1040-NR.

### **Reporting on Form 1040 or 1040-SR.**

Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on line 6a and the taxable part on line 6b. If you are married filing separately and you lived apart from your spouse for all of 2024, also enter "D" to the right of the word "benefits" on line 6a.

**Reporting on Form 1040-NR.** Report 85% of the total amount of your benefits (box 5 of your Form SSA-1042S or Form RRB-1042S) in the appropriate column of Schedule NEC (Form 1040-NR), line 8.

**Benefits not taxable.** Report your net benefits (the amount in box 5 of your Form SSA-1099 or Form RRB-1099) on Form 1040 or 1040-SR, line 6a. Enter -0- on Form 1040 or 1040-SR, line 6b. If you are married filing separately and you lived apart from your spouse for all of 2024, also enter "D" to the right of the word "benefits" on Form 1040 or 1040-SR, line 6a.

## **Lump-Sum Election**

You must include the taxable part of a lump-sum (retroactive) payment of benefits received in 2024 in your 2024 income, even if the payment includes benefits for an earlier year.



*This type of lump-sum benefit payment shouldn't be confused with the lump-sum death benefit that both the SSA and Railroad Retirement Board (RRB) pay to many of their beneficiaries. No part of the lump-sum death benefit is subject to tax. For more information about the lump-sum death benefit, visit the SSA website at [SSA.gov](https://www.ssa.gov), and use keyword: "death benefit."*

Generally, you use your 2024 income to figure the taxable part of the total benefits received in 2024. However, you may be able to figure the taxable part of a lump-sum payment for an earlier year separately, using your income for the earlier year. You can elect this method if it lowers your taxable benefits. See Pub. 915 for more information.

## **Repayments More Than Gross Benefits**

In some situations, your Form SSA-1099 or Form RRB-1099 will show that the total benefits you repaid (box 4) are more than the gross benefits (box 3) you received.

If this occurred, your net benefits in box 5 will be a negative figure (a figure in parentheses) and none of your benefits will be taxable. If you receive more than one form, a negative figure in box 5 of one form is used to offset a positive figure in box 5 of another form for that same year.

If you have any questions about this negative figure, contact your local SSA office or your local U.S. RRB field office.

**Joint return.** If you and your spouse file a joint return, and your Form SSA-1099 or RRB-1099 has a negative figure in box 5 but your spouse's doesn't, subtract the box 5 amount on your form from the box 5 amount on your spouse's form. You do this to get your net benefits when figuring if your combined benefits are taxable.

**Repayment of benefits received in an earlier year.** If the total amount shown in box 5 of all of your Forms SSA-1099 and RRB-1099 is a negative figure, you may be

able to take an itemized deduction for the part of this negative figure that represents benefits you included in gross income in an earlier year.

The deduction must be more than \$3,000 and you have to follow some special instructions. See Pub. 915 for those instructions.

## **Sickness and Injury Benefits**

Generally, you must report as income any amount you receive for personal injury or sickness through an accident or health plan that is paid for by your employer. If both you and your employer pay for the plan, only the amount you receive that is due to your employer's payments is reported as income. However, certain payments may not be taxable to you. Some of these payments are discussed later in this section. Also, see *Military and Government Disability Pensions and Other Sickness and Injury Benefits* in Pub. 525.

**Cost paid by you.** If you pay the entire cost of an accident or health plan, don't include any amounts you receive from the plan for personal injury or sickness as income on your tax return. If your plan reimbursed you for medical expenses you deducted in an earlier year, you may have to include some, or all, of the reimbursement in your income.

## **Disability Pensions**

If you retired on disability, you must include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments as wages on Form 1040, 1040-SR, or 1040-NR, line 1h, until you reach minimum retirement age. Minimum retirement age is generally the age at which you can first receive a pension or annuity if you aren't disabled.



*If you were age 65 or older by the end of 2024 or you were retired on permanent and total disability and received taxable disability income, you may be able to claim the credit for the elderly or the disabled. See Credit for the Elderly or the Disabled, later. For more information on this credit, see the Instructions for Schedule R (Form 1040).*

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. Report the payments on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b. For more information on pensions and annuities, see Pub. 575.

**Note.** Don't include in your income disability payments you receive for injuries incurred as a direct result of terrorist attacks or military action directed against the United States

(or its allies), whether outside or within the United States. For more information, see *Terrorist attacks* in Pub. 525.

**Retirement and profit-sharing plans.** If you receive payments from a retirement or profit-sharing plan that doesn't provide for disability retirement, don't treat the payments as a disability pension. The payments must be reported as a pension or annuity.

**Accrued leave payment.** If you retire on disability, any lump-sum payment you receive for accrued annual leave is a salary payment. The payment isn't a disability payment. Include it in your income in the tax year you receive it.

## **Long-Term Care Insurance Contracts**

In most cases, long-term care insurance contracts are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds)



are generally excludable from income as amounts received for personal injury or sickness. However, the amount you can exclude may be limited. Long-term care insurance contracts are discussed in more detail in Pub. 525.

## **Workers' Compensation**

Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they are paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies to your survivors. The exemption, however, doesn't apply to retirement plan benefits you receive based on your age, length of service, or prior contributions to the plan, even if you retired because of an occupational sickness or injury.



*If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For a discussion of the taxability of these benefits, see Social Security and Equivalent Railroad Retirement Benefits, earlier.*

**Return to work.** If you return to work after qualifying for workers' compensation, salary payments you receive for performing light duties are taxable as wages.

## **Other Sickness and Injury Benefits**

In addition to disability pensions and annuities, you may receive other payments for sickness or injury.

**Federal Employees' Compensation Act (FECA).** Payments received under this Act for personal injury or sickness, including payments to beneficiaries in case of death,

aren't taxable. However, you are taxed on amounts you receive under this Act as continuation of pay for up to 45 days while a claim is being decided. Report this income on Form 1040, 1040-SR, or 1040-NR, line 1a. Also, pay for sick leave while a claim is being processed is taxable and must be included in your income as wages.



*If part of the payments you receive under FECA reduces your social security or equivalent railroad retirement benefits, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For a discussion of the taxability of these benefits, see Social Security and Equivalent Railroad Retirement Benefits, earlier.*

**Other compensation.** Many other amounts you receive as compensation for sickness or injury aren't taxable. These include the following amounts.

- Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer paid the premiums but you had to include the amount of employer-paid premiums in your income.
- Compensatory damages you receive for physical injury or physical sickness, whether paid in a lump sum or in periodic payments.
- Disability benefits you receive for loss of income or earning capacity as a result of injuries under a no-fault car insurance policy.
- Compensation you receive for permanent loss or loss of use of a part or function of your body, for your permanent disfigurement, or for such loss or disfigurement suffered by your spouse or dependent(s). This compensation must be based only on the injury and not on the period of your absence from work.

These benefits aren't taxable even if your employer pays for the accident and health plan that provides these benefits.

## **Life Insurance Proceeds**

Life insurance proceeds paid to you because of the death of the insured person aren't taxable unless the policy was turned over to you for a price. This is true even if the proceeds were paid under an accident or health insurance policy or an endowment contract issued on or before December 31, 1984. However, interest income received as a result of life insurance proceeds may be taxable.

**Proceeds not received in installments.** If death benefits are paid to you in a lump sum or other than at regular intervals, include in your income only the benefits that are more than the amount payable to you at the time of the insured person's death.

If the benefit payable at death isn't specified, include in your income the benefit payments that are more than the present value of the payments at the time of death.

**Proceeds received in installments.** If you receive life insurance proceeds in installments, you can exclude part of each installment from your income.

To determine the excluded part, divide the amount held by the insurance company (generally, the total lump-sum payable at the death of the insured person) by the number of installments to be paid. Include anything over this excluded part in your income as interest.

***Installments for life.*** If, as the beneficiary under an insurance contract, you are entitled to receive the proceeds in installments for the rest of your life without a refund or period-certain guarantee, figure the excluded part of each installment by dividing the amount held by the insurance company by your life

expectancy. If there is a refund or period-certain guarantee, the amount held by the insurance company for this purpose is reduced by the actuarial value of the guarantee.

***Surviving spouse.*** If your spouse died before October 23, 1986, and insurance proceeds paid to you because of the death of your spouse are received in installments, you can exclude, in any year, up to \$1,000 of the interest included in the installments.

If you remarry, you can continue to take the exclusion.

**Surrender of policy for cash.** If you surrender a life insurance policy for cash, you must include in income any proceeds that are more than the cost of the life insurance policy. In general, your cost (or investment in the contract) is the total of premiums that you paid for the life insurance policy, less any refunded premiums, rebates, dividends, or unrepaid loans that weren't included in your

income. You should receive a Form 1099-R showing the total proceeds and the taxable part. Report these amounts on Form 1040, 1040-SR, or 1040-NR, lines 5a and 5b.

## **Endowment Contract Proceeds**

An endowment contract is a policy that pays you a specified amount of money on a certain date unless you die before that date, in which case the money is paid to your designated beneficiary. Endowment proceeds paid in a lump sum to you at maturity are taxable only if the proceeds are more than the cost of the policy. To determine your cost, subtract from the total premiums (or other consideration) paid for the contract any amount that you previously received under the contract and excluded from your income. Include in your income the part of the lump-sum payment that is more than your cost.



Endowment proceeds that you choose to receive in installments instead of a lump-sum payment at the maturity of the policy are taxed as an annuity. The tax treatment of an annuity is explained in Pub. 575. For this treatment to apply, you must choose to receive the proceeds in installments before receiving any part of the lump sum. This election must be made within 60 days after the lump-sum payment first becomes payable to you.

## **Accelerated Death Benefits**

Certain amounts paid as accelerated death benefits under a life insurance contract or viatical settlement before the insured's death are generally excluded from income if the insured is terminally or chronically ill.

However, see Exception, later. For a chronically ill individual, accelerated death benefits paid on the basis of costs incurred for qualified long-term care services are fully excludable.

Accelerated death benefits paid on a per diem or other periodic basis without regard to the costs are excludable up to a limit.

In addition, if any portion of a death benefit under a life insurance contract on the life of a terminally or chronically ill individual is sold or assigned to a viatical settlement provider, the amount received is also excluded from income. Generally, a viatical settlement provider is one who regularly engages in the business of buying or taking assignment of life insurance contracts on the lives of insured individuals who are terminally or chronically ill.

To report taxable accelerated death benefits made on a per diem or other periodic basis, you must file Form 8853, Archer MSAs and Long-Term Care Insurance Contracts, with your return.

**Terminally or chronically ill defined.** A terminally ill person is one who has been certified by a physician as having an illness or physical condition that can reasonably be expected to result in death within 24 months from the date of the certification. A chronically ill person is one who isn't terminally ill but has been certified (within the previous 12 months) by a licensed health care practitioner as meeting either of the following conditions.

- The person is unable to perform (without substantial help) at least two activities of daily living (eating, toileting, transferring, bathing, dressing, and continence) for a period of 90 days or more because of a loss of functional capacity.
- The person requires substantial supervision to protect themselves from threats to health and safety due to severe cognitive impairment.

**Exception.** The exclusion doesn't apply to any amount paid to a person other than the insured if that other person has an insurable interest in the life of the insured because the insured:

- Is a director, officer, or employee of the other person; or
- Has a financial interest in the business of the other person.

## **Sale of Home**

You may be able to exclude from income any gain up to \$250,000 (\$500,000 on a joint return in most cases) on the sale of your main home. Generally, if you can exclude all of the gain, you don't need to report the sale on your tax return. You can choose not to take the exclusion by including the gain from the sale in your gross income on your tax return for the year of the sale.

**Main home.** Usually, your main home is the home you live in most of the time and can be a:

- House,
- Houseboat,
- Mobile home,
- Cooperative apartment, or
- Condominium.

**Repaying the first-time homebuyer credit.** If you purchased your home in 2008 and claimed the first-time homebuyer credit, you must continue repaying the credit with your 2024 tax return. If you are required to repay the credit because you sold the home or it otherwise ceased to be your main home in 2024, you must generally repay the balance of the unpaid credit with your 2024 return. See the Instructions for Form 5405, Repayment of the First-Time Homebuyer Credit, for more information and exceptions.

## Maximum Amount of Exclusion

You can generally exclude up to \$250,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you didn't exclude gain from the sale of another home.

**Joint returns.** You may be able to exclude up to \$500,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if you are married and file a joint return and meet the requirements listed in the discussion of the special rules for joint returns, later, under Married Persons.

**Reduced exclusion.** Even if you don't meet the requirements described above, you can still claim an exclusion in some cases.

Generally, you must have sold the home due to a change in place of employment, health, or unforeseen circumstances. The maximum amount you can exclude will be reduced. See Pub. 523 for more information.

**Expatriation tax.** You can't exclude gain from the sale of your home if you are subject to the expatriation tax. See Pub. 519 for more information about the expatriation tax.

## **Ownership and Use Tests**

To claim the exclusion, you must meet the ownership and use tests. These tests generally require that during the 5-year period ending on the date of the sale, you must have:

- Owned the home for at least 2 years (the ownership test), and

- Lived in the home as your main home for at least 2 years (the use test). The 2 years of residence can fall anywhere within the 5-year period, and it doesn't need to be a single block of time.

**Exception to use test for individuals with a disability.** There is an exception to the use test if, during the 5-year period before the sale of your home:

- You become physically or mentally unable to care for yourself, and
- You owned and lived in your home as your main home for a total of at least 1 year.

If you qualify for this exception, you are considered to live in your home during any time that you own the home and live in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.



If you meet this exception to the use test, you still have to meet the 2-out-of-5-year ownership test to claim the exclusion.

**Exception to ownership test for property acquired in a like-kind exchange.** If you acquired your main home in a like-kind exchange, you must own the home for 5 years before you qualify for the exclusion. This special 5-year ownership rule continues to apply to the home even if you give it to another person. A like-kind exchange is an exchange of property held for productive use in a trade or business or for investment in which no gain or loss is recognized. See Pub. 523 for more information.

**Period of nonqualified use.** Generally, the gain from the sale or exchange of your main home won't qualify for the exclusion to the extent that the gain is allocated to periods of nonqualified use. Nonqualified use is any period after December 31, 2008,

during which the property isn't used as the main home. See Pub. 523 for more information.

## **Married Persons**

Generally, if the home you sold counts as your main home and you are a married person filing separately, the first \$250,000 of gain isn't taxable if all of the following are true.

- You meet the ownership test.
- You meet the use test.
- During the 2-year period ending on the date of the sale, you didn't exclude gain from the sale of another home.

You may be able to exclude up to \$500,000 of the gain (other than gain allocated to periods of nonqualified use) on the sale of your main home if

you are married and file a joint return and meet the requirements for joint returns, discussed under *Special rules for joint returns* next.

**Special rules for joint returns.** You can exclude up to \$500,000 of the gain on the sale of your main home if all of the following are true.

- You are married and file a joint return for the year.
- Either you or your spouse meets the ownership test.
- Both you and your spouse meet the use test.
- During the 2-year period ending on the date of the sale, neither you nor your spouse exclude gain from the sale of another home.

**Sale of home by surviving spouse.** If your spouse died and you didn't remarry before the date of sale, you are considered to have owned and lived in the property as your main home during any period of time when your spouse owned and lived in it as a main home.

If you meet all of the following requirements, you may qualify to exclude up to \$500,000 of any gain from the sale or exchange of your main home in 2024.

- The sale or exchange took place no more than 2 years after the date of death of your spouse.
- You haven't remarried.
- You and your spouse met the use test at the time of your spouse's death.
- You or your spouse met the ownership test at the time of your spouse's death.

- Neither you nor your spouse excluded gain from the sale of another home during the last 2 years.

**Home transferred from spouse.** If your home was transferred to you by your spouse (or former spouse if the transfer was incident to divorce), you are considered to have owned it during any period of time when your spouse owned it.

**Use of home after divorce.** You are considered to have used property as your main home during any period when:

- You owned it, and
- Your spouse or former spouse is allowed to live in it under a divorce or separation instrument and uses it as their main home.

## **Business Use or Rental of Home**

You may be able to exclude gain from the sale of a home that you have used for

business or to produce rental income.

However, you must meet the ownership and use tests. See Pub. 523 for more information.

**Recapturing depreciation.** If you used all or part of your home for business or rental after May 6, 1997, you may need to pay back (recapture) some or all of the depreciation you were entitled to take on your property when you sell it. See Pub. 523 for more information.

## **Reporting the Sale**

Don't report the 2024 sale of your main home on your tax return unless:

- You received Form 1099-S, Proceeds From Real Estate Transactions;
- You have a gain and you don't qualify to exclude all of it;
- You have a gain and you choose not to exclude it; or

- You have a loss from the sale that is deductible.



*A loss from the sale of your home, or the personal part of your home if it was also used for business or to produce rental income, isn't deductible.*

If any of the above apply, report the sale on Part I or Part II of Form 8949 as a short-term or long-term transaction, depending on how long you owned the home. If you used your home for business or to produce rental income, you may have to use Form 4797, Sales of Business Property, to report the sale of the business or rental part. See Pub. 523 for more information.

## **Reverse Mortgages**

A reverse mortgage is a loan where the lender pays you (in a lump sum, a monthly advance, a line of credit, or a combination of all three)

while you continue to live in your home. With a reverse mortgage, you retain title to your home. Depending on the plan, your reverse mortgage becomes due with interest when you move, sell your home, reach the end of a pre-selected loan period, or die. Because reverse mortgages are considered loan advances and not income, the amount you receive isn't taxable. Any interest (including original interest discount) accrued on a reverse mortgage isn't deductible home mortgage interest. See Pub. 936 for more information.

## **Other Items**

The following items are generally excluded from taxable income. You shouldn't report them on your return, unless otherwise indicated as taxable or includible in income.

**Gifts and inheritances.** In most cases, property you receive as a gift, bequest, or inheritance isn't included in your income.



However, if property you receive this way later produces income such as interest, dividends, or rents, that income is taxable to you. If property is given to a trust and the income from it is paid, credited, or distributed to you, that income is also taxable to you. If the gift, bequest, or inheritance is the income from property, that income is taxable to you.

**Veterans' benefits.** Don't include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the Department of Veterans Affairs (VA). See Pub. 525.

**Public assistance benefits.** Other items that are generally excluded from taxable income also include the following public assistance benefits.

**Welfare benefits.** Don't include in your income benefit payments from a public welfare fund based upon need, such as payments due to blindness.

However, you must include in your income any welfare payments that are compensation for services or that are obtained fraudulently.

***Payments from a state fund for victims of crime.*** Don't include in your income payments from a state fund for victims of crime if the payments are in the nature of welfare payments. Don't deduct medical expenses that are reimbursed by such a fund.

***Mortgage assistance payments.*** Payments made under section 235 of the National Housing Act for mortgage assistance aren't included in the homeowner's income. Interest paid for the homeowner under the mortgage assistance program can't be deducted.

Also, mortgage payments provided under the Department of Housing and Urban Development's Emergency Homeowners' Loan Program (EHLPP), state housing finance authorities receiving funds allocated from the Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets

(HFA Hardest Hit Fund), or other similar state programs receiving funding from the EHLP are excluded from income. See Form 1098-MA, Mortgage Assistance Payments, and its instructions for details.

***Payments to reduce cost of winter energy use.*** Payments made by a state to qualified people on the basis of need to reduce their cost of winter energy use aren't taxable.

***Nutrition Program for the Elderly.*** Food benefits you receive under the Nutrition Program for the Elderly aren't taxable. If you prepare and serve free meals for the program, include in your income as wages the cash pay you receive, even if you are also eligible for food benefits.

***Reemployment Trade Adjustment Assistance (RTAA).*** Payments you receive from a state agency under RTAA must be included in your income.

The state must send you Form 1099-G, Certain Government Payments, to advise you of the amount you should include in income.

The amount should be reported on Schedule 1 (Form 1040), line 8z.

**Persons with disabilities.** If you have a disability, include in income compensation you receive for services you perform unless the compensation is otherwise excluded. However, don't include in income the value of goods, services, and cash that you receive, not in return for your services, but for your training and rehabilitation because you have a disability. Excludable amounts include payments for transportation and attendant care, such as interpreter services for the deaf, reader services for the blind, and services to help individuals with an intellectual disability do their work.

**Medicare.** Medicare benefits received under title XVIII of the Social Security Act aren't includible in the gross income of the individuals for whom they are paid. This includes basic (Part A (Hospital Insurance Benefits for the Aged)) and supplementary (Part B (Supplementary Medical Insurance Benefits for the Aged)).

**Social security benefits.** The Social Security Administration (SSA) provides benefits such as old-age benefits, benefits to disabled workers, and benefits to spouses and dependents. These benefits may be subject to federal income tax depending on your filing status and other income. See *Social Security and Equivalent Railroad Retirement Benefits*, earlier, and Pub. 915 for more information.

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### **3.**

## **Adjustments to Income**

You may be able to subtract amounts from your total income (Form 1040 or 1040-SR, line 9) or total effectively connected income (Form 1040-NR, line 9) to get your adjusted gross income (Form 1040, 1040-SR, or 1040-NR, line 11). Some adjustments to income follow.

- Contributions to your IRA (Schedule 1 (Form 1040), line 20), explained later.
- Some health insurance costs (Schedule 1 (Form 1040), line 17) if you were self-employed and had a net profit for the year, or if you received wages in 2024 from an S corporation in which you were a more-than-2% shareholder.

- Payments to your self-employed SEP, SIMPLE, or qualified plan (Schedule 1 (Form 1040), line 16). For more information, including limits on how much you can deduct, see Pub. 560.
- Penalties paid on early withdrawal of savings (Schedule 1 (Form 1040), line 18). Form 1099-INT, Interest Income, or Form 1099-OID, Original Issue Discount, will show the amount of any penalty you were charged.
- Alimony payments (Schedule 1 (Form 1040), line 19a). Certain conditions may apply for your alimony payment to be deductible from income. For more information, see Pub. 504.

There are other items you can claim as adjustments to income. These adjustments are discussed in your tax return instructions.



# Individual Retirement Arrangement (IRA) Contributions and Deductions

This section explains the tax treatment of amounts you pay into traditional IRAs. A traditional IRA is any IRA that isn't a Roth or SIMPLE IRA. Roth and SIMPLE IRAs are defined earlier in the IRA discussion under *Retirement Plan Distributions*. For more detailed information, see Pub. 590-A and Pub. 590-B.

**Contributions.** An IRA is a personal savings plan that offers you tax advantages to set aside money for your retirement. Two advantages of a traditional IRA are:

- You may be able to deduct some or all of your contributions to it, depending on your circumstances; and

- Generally, amounts in your IRA, including earnings and gains, aren't taxed until distributed.



*Although interest earned from your traditional IRA generally isn't taxed in the year earned, it isn't tax-exempt interest. Don't report this interest on your tax return as tax-exempt interest.*

**General limit.** The most that can be contributed for 2024 to your traditional IRA is the smaller of the following amounts.

- Your taxable compensation for the year, or
- \$7,000 (\$8,000 if you were age 50 or older by the end of 2024).

***Contributions to Kay Bailey Hutchison Spousal IRAs.*** In the case of a married couple filing a joint return for 2024, up to \$7,000 (\$8,000 for each spouse age 50 or older by the end of 2024)

can be contributed to IRAs on behalf of each spouse, even if one spouse has little or no compensation.

For more information on the general limit and the Kay Bailey Hutchison Spousal IRA limit, see *How Much Can Be Contributed?* in Pub. 590-A.

***Deductible contribution.*** Generally, you can deduct the lesser of the contributions to your traditional IRA for the year or the general limit (or Kay Bailey Hutchison Spousal IRA limit, if applicable) just explained. However, if you or your spouse was covered by an employer retirement plan at any time during the year for which contributions were made, you may not be able to deduct all of the contributions. Your deduction may be reduced or eliminated, depending on your filing status and the amount of your income. For more information, see *Limit if Covered by Employer Plan* in Pub. 590-A.

***Nondeductible contribution.*** The difference between your total permitted contributions and your IRA deduction, if any, is your nondeductible contribution. You must file Form 8606 to report nondeductible contributions even if you don't have to file a tax return for the year.

## **4.**

### **Deductions**

Most taxpayers have a choice of taking a standard deduction or itemizing their deductions. You benefit from the standard deduction if your standard deduction is more than the total of your allowable itemized deductions. If you have a choice, you should use the method that gives you the lower tax.

#### **Standard Deduction**

The standard deduction amount depends on your filing status, whether you are 65 or older or blind, and whether another taxpayer can claim you as a dependent. Generally, the standard deduction amounts are adjusted each year for inflation. In most cases, you can use Worksheet 4-1 to figure your standard deduction amount.

**Persons not eligible for the standard deduction.** Your standard deduction is zero and you should itemize any deductions you have if:

- You are married and filing a separate return, and your spouse itemizes deductions;
- You are filing a tax return for a short tax year because of a change in your annual accounting period; or
- You are a nonresident or dual-status alien during the year. You are considered a dual-status alien if you were both a nonresident alien and a resident alien during the year.

If you are a nonresident alien who is married to a U.S. citizen or resident alien at the end of the year, you can choose to be treated as a U.S. resident. If you make this choice, you can take the standard deduction.

See Pub. 519 and *Nonresident aliens and dual-status aliens* in the Form 1040 instructions for more information, including information on making the election to treat a nonresident or dual-status alien spouse as a U.S. resident for the entire tax year.

**Decedent's final return.** Decedent's final tax return should reflect the standard deduction that the decedent was entitled to claim at the time of their death. However, if the decedent wasn't age 65 or older at the time of death, the higher standard deduction for age can't be claimed. See *Death before age 65*, later.

**Higher standard deduction for age (65 or older).** If you don't itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. You are considered age 65 on the day before your 65th birthday. Therefore, you can take a higher standard deduction for 2024 if you were born before January 2, 1960.

**Death before age 65.** If you are preparing a return for someone who died in 2024, consider the taxpayer to be age 65 or older at the end of 2024 only if they were age 65 or older at the time of death. A taxpayer is considered age 65 on the day before their birthday.

***Example.*** Your spouse was born on February 14, 1959, and died on February 13, 2024. Your spouse is considered age 65 at the time of death. However, if your spouse died on February 12, 2024, your spouse isn't considered age 65 at the time of death and isn't age 65 or older at the end of 2024.

**Higher standard deduction for blindness.** If you are blind on the last day of the year and you don't itemize deductions, you are entitled to a higher standard deduction.



**Not totally blind.** If you aren't totally blind, you must get a certified statement from an eye doctor (ophthalmologist or optometrist) that:

- You can't see better than 20/200 in the better eye with glasses or contact lenses, or
- Your field of vision isn't more than 20 degrees.

If your eye condition isn't likely to improve beyond these limits, the statement should include this fact. You must keep the statement in your records.

If your vision can be corrected beyond these limits only by contact lenses that you can wear only briefly because of pain, infection, or ulcers, you can take the higher standard deduction for blindness if you otherwise qualify.

**Spouse age 65 or older or blind.** You can take the higher standard deduction if your spouse is age 65 or older or blind and:

- You file a joint return, or
- You file a separate return and your spouse had no gross income and can't be claimed as a dependent by another taxpayer.



*You can't claim the higher standard deduction for an individual other than yourself and your spouse.*

**Example.** This example illustrates how to determine your standard deduction using Worksheet 4-1.

Jean and Terry are filing a joint return for 2024. Both are over age 65. Neither is blind, and neither can be claimed as a dependent. They don't itemize deductions, so they use Worksheet 4-1. Because they are married filing jointly, they enter \$29,200 on line 1. They check the "No" box on line 2, so they also enter \$29,200 on line 4.

Because they are both over age 65, they enter \$3,100 ( $\$1,550 \times 2$ ) on line 5. They enter \$32,300 ( $\$29,200 + \$3,100$ ) on line 6, so their standard deduction is \$32,300.

## **Standard Deduction for Dependents**

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the greater of:

- \$1,300, or
- The individual's earned income for the year plus \$450 (but not more than the regular standard deduction amount).

However, the standard deduction may be higher if the individual is age 65 or older or blind.

If you (or your spouse if filing jointly) can be claimed as a dependent on someone else's return, use Worksheet 4-1, if applicable, to determine your standard deduction.

# Itemized Deductions

Some individuals should itemize their deductions because it will save them money. Others should itemize because they don't qualify for the standard deduction. See the discussion under *Standard Deduction*, earlier, to decide if it would be to your advantage to itemize deductions.

Medical and dental expenses, some taxes, certain interest expenses, charitable contributions, casualty and theft losses, and certain other expenses may be itemized as deductions on Schedule A (Form 1040).

You may benefit from itemizing your deductions on Schedule A (Form 1040) if you:

- Can't take the standard deduction;
- Had uninsured medical or dental expenses that are more than 7.5% of your adjusted gross income (AGI);

- Paid interest on a loan secured by your home and that you used to buy, build, or improve your home;
- Paid real estate or personal property taxes;
- Paid state and local income taxes or general sales taxes;
- Had large uninsured casualty or theft losses due to a federally declared disaster;
- Made large contributions to qualified charities (see Pub. 526); or
- Have total itemized deductions that are more than the standard deduction that applies to you.

See the Instructions for Schedule A (Form 1040) for more information.

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Worksheet 4-1. **2024 Standard Deduction Worksheet**

Keep for Your Records



**Caution.** If you are married filing separately and your spouse itemizes deductions, if you file a tax return for a short year because of a change in annual accounting period, or if you are a dual-status alien, don't complete this worksheet.

If you were born before January 2, 1960, and/or you were blind at the end of 2024, check the correct box(es) below. Put the total number of boxes checked in box c and go to line 1.

- a. You

Born before January 2, 1960 ☐

Blind ☐
- b. Your spouse

Born before January 2, 1960 ☐

Blind ☐
- c. Total boxes checked

☐

1. Enter the amount shown below for your filing status.

• Single or married filing separately—\$14,600

• Married filing jointly or qualifying surviving spouse—\$29,200

• Head of household—\$21,900

} ..... 1. \_\_\_\_\_
2. Can you (or your spouse if filing jointly) be claimed as a dependent on someone else's return?

☐ **No.** Skip line 3; enter the amount from line 1 on line 4.

☐ **Yes.** Go to line 3.
3. Is your **earned income**\* more than \$850?

☐ **Yes.** Add \$450 to your earned income. Enter the total.

☐ **No.** Enter \$1,300.

} ..... 3. \_\_\_\_\_
4. Enter the **smaller** of line 1 or line 3

..... 4. \_\_\_\_\_
5. If born before January 2, 1960, or blind, multiply the number in box c by \$1,550 (\$1,950 if single or head of household). Enter the result here. Otherwise, enter -0-

..... 5. \_\_\_\_\_
6. Add lines 4 and 5. This is your standard deduction for 2024\*\*

..... 6. \_\_\_\_\_

\* **Earned income** includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any taxable scholarship or fellowship grant. Generally, your earned income is the total of the amount(s) you reported on Form 1040 or 1040-SR, line 1z, and Schedule 1 (Form 1040), lines 3, 6, 8r, 8t, and 8u minus the amount, if any, on Schedule 1 (Form 1040), line 15.

\*\* You may be able to increase the amount of your standard deduction on line 6 by a loss you suffered related to property in one of the Presidentially declared disaster areas eligible for that relief. See Pub. 976 for more information.

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## Medical and Dental Expenses

You can deduct certain medical and dental expenses you paid for yourself, your spouse, and your dependent(s) if you itemize your deductions on Schedule A (Form 1040).

Table 4-1 shows some common items that you can or can't include in figuring your medical expense deduction. For more information, see the following discussions of selected items, which are presented in alphabetical order. A more extensive list of items and further details can be found in Pub. 502.



*You can deduct only the amount of your medical and dental expenses that is more than 7.5% of your AGI.*

**What to include.** Generally, you can include only the medical and dental expenses you paid this year, regardless of when the services were provided.

If you pay medical expenses by check, the day you mail or deliver the check is generally the date of payment. If you use a pay-by-phone or online account to pay your medical expenses, the date reported on the statement of the financial institution showing when payment was made is the date of payment. You can include medical expenses you charge to your credit card in the year the charge is made. It doesn't matter when you actually pay the amount charged.

## **Home Improvements**

You can include in medical expenses amounts you pay for home improvements if their main purpose is medical care for you, your spouse, or your dependent(s).

Only reasonable costs to accommodate a home to your disabled condition (or that of your spouse or your dependent(s) who lives with you) are considered medical care.

Additional costs for personal motives, such as for architectural or aesthetic reasons,

aren't medical expenses. Pub. 502 contains additional information and examples, including a capital expense worksheet, to assist you in figuring the amount of the capital expense that you can include in your medical expenses. Also, see Pub. 502 for information about deductible operating and upkeep expenses related to such capital expense items, and for information about improvements, for medical reasons, to property rented by a person with disabilities.

## **Household Help**

You can't include in medical expenses the cost of household help, even if such help is recommended by a doctor. This is a personal expense that isn't deductible. However, you may be able to include certain expenses paid to a person providing nursing-type services. For more information, see *Nursing Services*, later.

Also, certain maintenance or personal care services provided for qualified long-term care can be included in medical expenses. For more information, see Qualified long-term care services under *Long-Term Care*, later.

## **Hospital Services**

You can include in medical expenses amounts you pay for the cost of inpatient care at a hospital or similar institution if a principal reason for being there is to receive medical care. This includes amounts paid for meals and lodging. Also, see Meals and Lodging, later.

## **Long-Term Care**

You can include in medical expenses amounts paid for qualified long-term care services and certain amounts of premiums paid for qualified long-term care insurance contracts.

Table 4-1. **Medical and Dental Expenses Checklist**

You can include:		You can't include:	
<ul style="list-style-type: none"><li>• Bandages</li><li>• Capital expenses for equipment or improvements to your home needed for medical care (see Pub. 502)</li><li>• Certain weight-loss expenses for obesity</li><li>• Diagnostic devices</li><li>• Expenses of an organ donor</li><li>• Eye surgery—to promote the correct function of the eye</li><li>• Costs of buying and maintaining guide dogs or other service animals aiding the blind, deaf, and disabled</li><li>• Hospital services fees (lab work, therapy, nursing services, surgery, etc.)</li><li>• Lead-based paint removal (see Pub. 502)</li><li>• Long-term care contracts, qualified (see Pub. 502)</li><li>• Meals and lodging provided by a hospital during medical treatment</li><li>• Medical and hospital insurance premiums</li><li>• Medical services fees (from doctors, dentists, surgeons, specialists, and other medical practitioners)</li></ul>	<ul style="list-style-type: none"><li>• Medicare Part D premiums</li><li>• Oxygen equipment and oxygen</li><li>• Part of life-care fee paid to retirement home designated for medical care</li><li>• Prescription medicines (prescribed by a doctor) and insulin</li><li>• Psychiatric and psychological treatment</li><li>• Social security tax, Medicare tax, FUTA tax, and state employment tax for worker providing medical care (see Pub. 502)</li><li>• Special items (artificial limbs, dentures, eyeglasses, contact lenses, hearing aids, crutches, wheelchair, etc.)</li><li>• Special education for mentally or physically disabled persons (see Pub. 502)</li><li>• Stop-smoking programs</li><li>• Transportation for needed medical care</li><li>• Treatment at a drug or alcohol center (includes meals and lodging provided by the center)</li><li>• Wages for nursing services (see Pub. 502)</li></ul>	<ul style="list-style-type: none"><li>• Bottled water</li><li>• Contributions to Archer MSAs (see Pub. 969)</li><li>• Diaper service</li><li>• Expenses for your general health (even if following your doctor's advice) such as:<ul style="list-style-type: none"><li>—Health club dues;</li><li>—Household help (even if recommended by a doctor);</li><li>—Social activities, such as dancing or swimming lessons; and</li><li>—Trip for general health improvement</li></ul></li><li>• Flexible spending account reimbursements for medical expenses (if contributions were on a pre-tax basis) (see Pub. 502)</li><li>• Funeral, burial, or cremation expenses</li><li>• Health savings account payments for medical expenses (see Pub. 502)</li><li>• Illegal operation or treatment</li><li>• Life insurance or income protection policies, or policies providing payment for loss of life, limb, sight, etc.</li></ul>	<ul style="list-style-type: none"><li>• Medical insurance included in a car insurance policy covering all persons injured in or by your car</li><li>• Medicine you buy without a prescription</li><li>• Nursing care for a healthy baby</li><li>• Prescription drugs you brought in (or ordered shipped) from another country, in most cases (see Pub. 502)</li><li>• Surgery for purely cosmetic reasons (see Pub. 502)</li><li>• Toothpaste, toiletries, cosmetics, etc.</li><li>• Teeth whitening</li><li>• Weight-loss expenses not for the treatment of obesity or other disease</li></ul>

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## **Qualified long-term care services.**

Qualified long-term care services are necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, rehabilitative services, and maintenance and personal care services (defined later) that are:

4. Required by a chronically ill individual, and
5. Provided under a plan of care prescribed by a licensed health care practitioner.

***Chronically ill individual.*** An individual is chronically ill if, within the previous 12 months, a licensed health care practitioner has certified that the individual meets either of the following descriptions.

1. The individual is unable to perform at least two activities of daily living without substantial assistance from another individual for at least 90 days, due to a loss of functional capacity.

Activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.

2. The individual requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

***Maintenance and personal care services.***

Maintenance or personal care services is care that has as its primary purpose the providing of a chronically ill individual with needed assistance with their disabilities (including protection from threats to health and safety due to severe cognitive impairment).

**Qualified long-term care insurance**

**contracts.** A qualified long-term care insurance contract is an insurance contract that provides only coverage of qualified long-term care services. The contract must:

1. Be guaranteed renewable;



2. Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;
3. Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract must be used only to reduce future premiums or increase future benefits; and
4. Generally not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

The amount of qualified long-term care premiums you can include is limited. You can include the following as medical expenses on Schedule A (Form 1040).

1. Qualified long-term care premiums up to the following amounts.
  - a. Age 40 or under—\$470.
  - b. Age 41 to 50—\$880.
  - c. Age 51 to 60—\$1,760.
  - d. Age 61 to 70—\$4,710.
  - e. Age 71 or over—\$5,880.
2. Unreimbursed expenses for qualified long-term care services.

**Note.** The limit on premiums is for each person.

## **Meals and Lodging**

You can include in medical expenses the cost of meals and lodging at a hospital or similar institution if your main reason for being there is to receive medical care.

You may be able to include in medical expenses the cost of lodging (but not meals) not provided in a hospital or similar institution. You can include the cost of such lodging while away from home if all of the following requirements are met.

- The lodging is primarily for, and essential to, medical care.
- The medical care is provided by a doctor in a licensed hospital or in a medical care facility related to, or the equivalent of, a licensed hospital.
- The lodging isn't lavish or extravagant under the circumstances.
- There is no significant element of personal pleasure, recreation, or vacation in the travel away from home.

The amount you include in medical expenses for lodging can't be more than \$50 per night for each person.

You can include lodging for a person traveling with the person receiving the medical care. For example, if a parent is traveling with a sick child, up to \$100 per night can be included as a medical expense for lodging. (Meals aren't included.)

**Nursing home.** You can include in medical expenses the cost of medical care in a nursing home or a home for the aged for yourself, your spouse, or your dependent(s). This includes the cost of meals and lodging in the home if a main reason for being there is to get medical care.

Don't include the cost of meals and lodging if the reason for being in the home is personal. However, you can include in medical expenses the part of the cost that is for medical or nursing care.

## Medical Insurance Premiums

You can include in medical expenses insurance premiums you pay for policies that cover medical care. Policies can provide payment for:

- Hospitalization, surgical fees, X-rays;
- Prescription drugs and insulin;
- Dental care;
- Replacement of lost or damaged contact lenses; and
- Qualified long-term care insurance contracts (subject to the additional limits included in the discussion on qualified long-term care insurance contracts under Long-Term Care, earlier).

If you have a policy that provides payments for other than medical care, you can include the premiums for the medical care part of the policy if the charge for the medical part is reasonable.

The cost of the medical portion must be separately stated in the insurance contract or given to you in a separate statement.

**Medicare Part A.** If you are covered under social security (or if you are a government employee who paid Medicare tax), you are enrolled in Medicare Part A. The payroll tax paid for Medicare Part A isn't a medical expense. If you aren't covered under social security (or weren't a government employee who paid Medicare tax), you can enroll voluntarily in Medicare Part A. In this situation, you can include the premiums you paid for Medicare Part A as a medical expense.