

2010

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Understanding and Analyzing the Importance of Adjusted Gross Income

National Society of Tax Professionals

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Tax Professional's Role: Focus on Adjusted Gross Income (AGI)

- The *Most Important Number* on the Tax Return
- Focus of Congress Since the **1986 Tax Reform Act**
- Passive Activity Losses under **Sec. 469**
- Disallowance of *Deductible* IRAs for most taxpayers under **Sec. 219**

Budget Reconciliation Act of 1990

- Phase-out of Itemized Deductions on Schedule A under **Sec. 68**
- AGI in *excess of* an Annually Indexed Threshold Amount multiplied by **3%**
- Phase-out of Personal and Dependency Exemptions under **Sec. 151**
- AGI in *excess of* an Annually Indexed Threshold Amount divided by **\$2,500**



All Subsequent Legislation

- *Economic Growth and Tax Relief Act of 2001 to American Recovery and Reinvestment Act of 2009*
- Phase-in of Provisions
- Phase-out of Provisions
- Most taxpayers and Many Tax Professionals focus only on the tax bracket

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Defining Gross Income vs. Adjusted Gross Income

- **Sec. 61(a) General Rule of Gross Income:** *Everything is Income from whatever source derived*
- **Sec. 62(a) General Rule of AGI:** Gross Income minus *allowable deductions*
- Trade or Business Deductions
- Deductions on **Page 1 of Form 1040**

Credits Effected by AGI

- *Sec. 21 Dependent Care Credit: Form 2441*
- *Sec. 22 Credit for the Elderly or Permanently Disabled: Schedule R*
- *Sec. 23 Adoption Credit: Form 8839*
- *Sec. 24 Child Tax Credit*



Credits Effectuated by AGI

- *Sec. 25 Hope & Lifetime Learning Credits: Form 8863*
- *Sec. 25A American Opportunity Tax Credit: Form 8863*
- *Sec. 25B Retirement Contribution Savings Credit: Form 8880*
- *Sec. 32 Earned Income Credit: Schedule EIC*



Credits Effectuated by AGI

- *Sec. 36 First-time Homebuyer Credit:*
Form 5405
- *Sec. 36A Making Work Pay Credit:*
Schedule M



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Deductions on Schedule A Effected by AGI

- *Sec. 67 Miscellaneous Itemized Deductions*
- *Sec. 68 Total Itemized Deductions*
- *Sec. 163(h)(3) Mortgage Insurance Premiums*
- *Sec. 164(a)(6) Qualified Motor Vehicle Taxes*

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Deductions on Schedule A Effected by AGI

- *Sec. 165 Casualty & Theft Loss Allowance*
- *Sec. 170 Charitable Contributions*
- *Sec. 213 Medical Deduction Allowance*

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Deductions For AGI Effected by AGI

- *Sec. 86 Social Security Benefits*
- *Sec. 135 Exclusion of U.S. Savings Bond Interest for Qualified Education Expenses: **Form 8815 and Schedule B***
- *Sec. 219 Deductible IRA Contributions*
- *Sec. 221 Student Loan Interest*

Deductions For AGI Effected by AGI & Other Provisions

- *Sec. 222 Deduction for Higher Education Expenses: Form 8917*
- *Sec. 469 Passive Activity Losses: Form 8582 and Schedule E*
- *Sec.137 Adoption Assistance: Form 8839*
- *Sec. 151 Personal & Dependency Exemptions*

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Other Provisions Effected by AGI

- *Sec. 219 Roth Conversions*
- *Sec. 408 Roth Contributions*
- *Sec. 6654 Quarterly Estimated Taxes*
- *Indexing & Filing Status*