Understanding and Analyzing the Importance of Adjusted Gross Income

National Society of Tax Professionals
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

- Phase-in of Provisions
- Phase-out of Provisions
- Most taxpayers and Many Tax Professionals focus only on the tax bracket
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 Effected 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 Effected by AGI

- **Sec. 36 First-time Homebuyer Credit**: Form 5405
- **Sec. 36A Making Work Pay Credit**: Schedule M
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
Deductions on Schedule A Effected by AGI

- **Sec. 165** *Casualty & Theft Loss Allowance*
- **Sec. 170** *Charitable Contributions*
- **Sec. 213** *Medical Deduction Allowance*
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**
Other Provisions Effected by AGI

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