FILING STATUS AND EXEMPTIONS
# Table of Contents

1. Overview ............................................................................................................................................ 1
2. Training Objectives ............................................................................................................................ 2
3. Resources ............................................................................................................................................... 3
4. Determining Whether You Must File or Should File ...................................................................... 4  
   a. Age .................................................................................................................................................. 4  
   b. Deceased Status ............................................................................................................................... 4  
   c. Dependent Status ............................................................................................................................. 4  
   d. Filing Status ..................................................................................................................................... 5  
   e. Gross Income .................................................................................................................................... 5  
   f. Residents of Puerto Rico ..................................................................................................................... 6  
   g. US Residents and Resident Aliens .................................................................................................... 6  
   h. Income from US Territories ............................................................................................................... 6  
   i. Persons Who Should File ................................................................................................................... 6  
5. Determining Filing Status .................................................................................................................. 7  
   a. Marital Status .................................................................................................................................. 7  
6. Special Rules for Married Filing Separately .................................................................................... 10  
7. Exemptions and Deductions ............................................................................................................. 12  
   a. Two Exemption Types ....................................................................................................................... 12  
   b. Standard Deduction .......................................................................................................................... 13  
8. Who Should Itemize? ........................................................................................................................... 15  
9. Qualifying Dependents and Qualifying Dependent Tests ................................................................. 16  
   a. Dependent Taxpayer Test ................................................................................................................ 16  
   b. Joint Return Test .............................................................................................................................. 16  
   c. Citizen or Resident Test ................................................................................................................... 16  
   d. Qualifying Child Tests ...................................................................................................................... 16  
10. Special Rules for Qualifying Child of More Than One Person ....................................................... 19  
11. Qualifying Relative and Qualifying Relative Tests ........................................................................ 20  
12. What is New in 2013? ......................................................................................................................... 21  
13. Glossary ............................................................................................................................................... 22
Disclaimer

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The author and affiliated parties are not engaged by this text, any accompanying electronic media, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason the accuracy and completeness of this information and the author's opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.
FILING STATUS AND EXEMPTIONS

1. Overview
   The filing status and exemptions course covers the pertinent information related to who must file, who should file, how to determine filing status, exemptions and deductions, and dependents for US citizen and resident aliens. The course also covers gross income, filing status, age, dependent status, and filing even if owe no tax is owed.
2. Training Objectives
   When you have completed this training, you will:

   - Be familiar with the general terms associated with filing status and exemptions.

   - Understand the differences between the various types of filing status, exemptions, and deductions.

   - Understand the qualifying tests and how they apply to filing statuses and exemptions.

   - Be familiar with the resources at your disposal.
3. Resources

IRS Publication 501, *Exemptions, Standard Deduction, and Filing Information*
IRS Publication 519, *US Tax Guide for Aliens*
IRS Publication 559, *Survivors, Executors, and Administrators*
IRS Publication 929, *Tax Rule for Children and Dependents*
IRS Publication 54, *Tax Guide for US Citizens and Resident Aliens Abroad*
IRS Publication 970, *Tax Benefits for Education*
IRS Publication 8839, *Qualified Adoption Expenses*
IRS Publication 596, *Earned Income Credit (EIC)*
IRS Publication 5405, *First Time Homebuyer Credit and Repayment of the Credit*
Form 1040
Form 1040EZ
Form 1040A
Form 1040X
Form 2848 Power of Attorney and Declaration of Representative
Form 8332 Release/Revocation of Release to Claim to Exemption for Child by Custodial Parent
Form 8814 Parents’ Election to Report Child’s Interest and Dividends
4. Determining Whether You Must File or Should File

Persons who are citizens of the United States or legal resident aliens may have to file a federal income tax return. Whether or not a person must file is based on a number of factors:

a. **Age.** A person aged 65 or older may not have to file a return. The age limitation is based on persons who are 65 or older as of January 2 of the tax year.

b. **Deceased status.** If a person has died, the surviving spouse, estate executor or administrator, or a legal representative must file a return if the decedent met the requirements for filing during the tax year.

c. **Dependent status.** Even a person who is claimed as another’s dependent may have to file a return. The amount of gross income, including earned and unearned, determines whether he or she must file.
   
   i. **Child’s earnings.** Any earnings a child earns count as gross income, even if the parents received the earnings. A parent is responsible for filing an income tax return for a dependent child if the child cannot file for any reason. If the tax is not paid on the earned income by the child, the parents are responsible for the unpaid tax. If the child cannot sign the return, the parent is responsible for signing the return for the child, in this manner:
      
      a. Sign the child’s name, then write “By [your signature], parent for minor child.”
ii. Election to report child’s earnings. A child may have unearned income, such as from interest, dividends, and capital gains. A parent can include the child’s income from unearned sources on his or her return, in which case the child will not have to file (unless he or she has earned income). The following must be met in order for a parent to claim interest or dividend income for the child:
   a. The child must be under age 19, or if he or she is a full-time student, then under the age of 24.


   b. There was no earned income for the child.
   c. The unearned income total is less than $10,000.
   d. If you do not file the unearned income, the child would have to file a return. (In other words, if the child would not have to file a return, then you may not claim the interest).
   e. The child does not file a joint return for the tax year.
   f. No overpayments or estimated tax payments were made for the tax year for the child.
   g. No federal income tax was withheld for the income.
   h. You are the parent.

   d. **Filing status** generally refers to whether a person is married or single, but can also be determined by other factors. Your marital status is determined by the last date of the tax year. Refer to the section on Filing Status described later in this course.

   e. **Gross Income.** Every payment or reimbursement received in the form of money, goods, property, or services that are not tax exempt are considered gross income.

   i. Self-employed persons. Gross income is determined by:
      a. Services rendered, which are calculated by gross receipts.
b. Products, whether manufactured, merchandise, or mining, which are calculated by total sales receipts minus the cost of the goods sold. Investments and incidental income must also be included.

f. **Residents of Puerto Rico** abroad must determine gross income from all income earned or received. The following exception applies:
   i. Income earned from Puerto Rican sources are not included in gross income, if you were a resident of Puerto Rico for the entire tax year.

Gross income will determine whether a return must be filed, which may be in addition to filing requirements of Puerto Rico.

g. **US Residents and Resident Aliens** who live abroad must determine gross income from all income earned or received while abroad and domestic US income. Gross income will determine whether a return must be filed.

h. Individuals who earn **income from US territories** like Guam, the Commonwealth of Northern Mariana Islands, American Samoa, or the US Virgin Islands are under special rules for determining whether he or she must file a US tax return. Refer to IRS Publication 570 for more information.

i. **Persons Who Should File:**
   If you are eligible to receive money, you should file a return, even if you do not have to. You should file if you received a Form 1099-B, and.
   - The amount in Box 2, when added to other gross income, exceeds the filing requirement.
   - There is no amount entered in Box 3

You should also file if you:
   - withheld taxes from your pay
   - made tax deposits based on estimates for your anticipated income.
   - made an overpayment.
   - qualify for earned income credit (See IRS Publication 596, *Earned Income Credit (EIC)*).
   - qualify for a child tax credit, health coverage credit, refundable credit for the previous year’s minimum tax, the first-time homebuyer credit (see IRS Publication 5405, *First Time Homebuyer Credit and Repayment of the Credit*), the federal tax on fuels credit, or the adoption credit (see IRS Publication 8839, *Qualified Adoption Expenses*).
5. **Determining Filing Status** is critical to determining your correct tax. There are five main filing statuses, each with its own considerations:

a. **Marital status** is essentially whether you are married or not. In this sense, marriage means a union between two members of the opposite sex who are legally bound. Each are referred to as a “spouse” of the other. Your status is determined by your legal standing as of the last day of the year.
   
i. **Single** persons are those who are unmarried, legally separated, divorced, or who do not qualify for another filing status.
   
   1. **Widowers** may be considered single if the spouse dies before January 1 of the tax year and you did not remarry within that year. Other filing statuses may also be correct for you, and with which you may gain a lower tax rate.
   
ii. **Unmarried** status refers to any individual who is not legally married as of the last day of the tax year.
   
   1. **Considered unmarried** is determined if any of the following tests are met:
      
      a. you use a separate return to file
      b. more than half the cost of home upkeep is your responsibility
      c. you and your spouse did not live together in the home for the last 6 months of the tax year
      d. Your child, stepchild, or foster child lived in your home as his or her main home for more than half the year

   iii. **Divorced** persons are those who were divorced as of the last day of the tax year, and are therefore considered unmarried (divorced) for the whole year.
iv. Individuals who divorce and then remarry for the purpose of gaining a better tax rate must file as married individuals.

v. **Annulled** marriages that are court decreed will result in a filing status of unmarried. If joint returns were filed for previous years, amended returns must be filed for the tax years affecting the annulment, unless they are closed by the statute of limitations, usually 3 years after the tax year closes.

vi. **Married** status allows you to file either jointly or separately.

1. **Considered married tests:** If any of the following items is true for you and your spouse, you are considered married for the whole tax years:
   a. You and your spouse are married and live together.
   b. You and your spouse live together and your union is recognized as a common law marriage either by the state you now live in or by the state in which your common law marriage began.
   c. You and your spouse are married, but living apart. You are not legally separated.
   d. You and your spouse are separated, but not legally divorced.

*Note:* If you become widowed during the year, you will be considered married for the whole year.

vii. You may file separately, even if you are married. Doing so may result in a lower tax.

*Note:* If your spouse or you do not both agree to file jointly, you must file married filing separately, unless you qualify as a head of household.

viii. **Head of household** can be used when all the following requirements are met:

1. On the last day of the tax year, you are either unmarried or considered unmarried.
2. More than half the cost of keeping up a home was your responsibility for the year.
   a. To establish the cost of home upkeep, consider:
      i. Property taxes
ii. Mortgage interest expense  
iii. Rent  
iv. Utility charges  
v. Repairs/maintenance  
vi. Property insurance  
vii. Food consumed on the premises  
viii. Other household expenses  

Total these expenses, and then figure out how much you paid for each item. Compare that to what others paid for the expenses. If your contribution is more than others who contributed to the household upkeep expenses, you qualify for the head of household.

3. You had a qualifying person living with you (unless the person was your parent, in which case he or she did not have to live with) for more than half the year.

   a. A qualifying person is a person who is:

      i. Your son, daughter, or grandchild living with you for more than half the year, and is single or is married but an exemption can be claimed.

      Note: If your son or daughter is married and you cannot claim an exemption, he or she is not a qualifying person.

      ii. Your father or mother for whom you claim an exemption.

      Note: If you cannot claim an exemption for your parent, he or she is not a qualifying person.

      iii. A relative, such as a sibling or grandparent, who lives with your more than half the year, and for whom you can claim an exemption.

      Note: If he or she did not live with you for more than half the year or he or she is not related to you in one of the specified ways, he or she is not a qualified person.
6. **Special rules for married filing separately.** If you are married and file separately, you may owe less tax than filing jointly, however it is more common that you will pay more by filing separately. Consider the following special rules for married filing separately:

   a. In general, the tax rate for filing separately instead of jointly will be higher.

   b. The exemption amount will be half the allowable amount for a joint return.

   c. Credit for child and dependent care expenses cannot, in most cases, be taken.

      i. The excluded income amount under a dependent care assistance program is limited to $3000 instead of $6000.

   d. The earned income credit cannot be taken.

   e. The adoption expenses credit or exclusion cannot be taken.

   f. Education credits cannot be taken.

*Note:* If you are legally separated or living apart, you may be able to take the full credit. Refer to IRS Publication 503, *Child and Dependent Care Expenses.*
g. Credits for the elderly or disabled and income from social security or railroad retirement must be taken, if you and your spouse lived together at all during the tax year.

h. You cannot take the full child tax credit or retirement savings contributions credit. You may only take half.

i. The deduction limit for capital loss is $1500, instead of $3000.

j. You cannot claim the standard deduction if your spouse itemizes, and your standard deduction is half the full amount from a joint return.
7. Exemptions and Deductions. Exemptions reduce the total amount of your taxable income. Each exemption reduces your taxable income by $3,900. Deductions are taken either as a standard deduction or as itemized deductions. Whichever method provides you with the lower tax rate is advisable.

a. There are two types of exemptions:
   i. **Personal** exemptions are exemptions you can take for yourself and your spouse
      1. **Your own exemption.** You may take one exemption for yourself as long as you are not a dependent to someone else.

      *Note:* Even if the person who could claim you as a dependent does not claim you, you cannot claim yourself as an exemption.

   2. **Spouse’s exemption.** An exemption for yourself can be claimed, and on a joint return, an exemption for your spouse can be claimed.

      *Note:* An exemption for a spouse is never valid, because your spouse is never
your dependent.

a. **Filing separately.** You can claim your spouse’s exemption if your spouse:
   i. had no income
   ii. is not filing a return
   iii. was not a dependent.

*Note:* Even if the person who could claim your spouse as a dependent does not claim him or her, you cannot claim your spouse’s exemption.

b. **Head of household.** If you are head of household because you are unmarried, you can claim your spouse’s exemption if the conditions in 7.a.2.a are met.

ii. **Dependent exemptions** are those you can take for your dependents, known as dependency exemptions. Your dependent is either:
   1. A qualifying child
   2. A qualifying relative

Exemptions for dependents are discussed later in section 9.

b. **Standard deduction** reduces your taxable income by a set dollar amount. Electing to use the standard deduction eliminates the need to itemize your deductions. Items that could be itemized include:

- **Medical expenses**
- **Charitable contributions**
- **Taxes**

Amount for a standard deduction varies due to adjustments for inflation, and are based on your:

- Filing status
- Age
- Whether you are blind.

i. Standard deduction amounts for most people are generally as follows:
   1. Filing status is single or married filing separately, the deduction is $6100.
   2. Filing status is married filing jointly or qualifying widower with dependent child, the deduction is $12,200.
   3. Head of household, the deduction is $8,950.
ii. Standard deduction amounts are higher for:
   1. Taxpayers who are 65 years of age or older
   2. Taxpayers who are blind

iii. Standard deduction for dependents is the greater of either:
   1. $1000, or
   2. The dependent’s earned income, plus $350.

*Note:* The total of the dependent’s earned income and the additional $350 cannot be greater than the standard deduction amount.

*Example:* Mary’s parents claim her as a deduction. Mary earned $700 in the tax year. She adds $300 to the income. The amount of the deduction for Mary is $1050, the greater of $1000 or $1050.
8. **Who Should Itemize Deductions.** You should itemize your deduction is the total of your deductions is greater than the standard deduction amount, or if you do not qualify for the standard deduction. Persons who may benefit from itemizing deductions include:

a. Individuals who have large medical and dental expense that are not covered by insurance.

b. Individuals who paid interest and property taxes on a home.

c. Individuals who have business expenses that a company did not reimburse.

d. Individuals with losses to theft or casualty that were not insured.

e. Individuals who made contributions to charities in large amounts.

Itemizing deductions should be done using Schedule A of Form 1040.
9. Qualifying Dependents and Qualifying Dependent Tests.
Claiming an exemption for a dependent is allowed when the following three tests are true:

a. **Dependent taxpayer test.** You cannot claim a dependent if someone claims you as a dependent.

b. **Joint return test.** You cannot claim a married person as a dependent if he or she files taxes jointly with his or her spouse.

Note: There is an exception to this when a joint return is filed only as a means to claim a refund, rather than as a tax liability. If the two parties were to file separately, no tax liability would exist then either.

c. **Citizen or resident test.** A person who is not a US citizen, resident alien, US national, or resident of Canada or Mexico cannot be claimed as a dependent, with the exception of an adopted child.

d. To determine if a person is a **qualifying child**, the following five **tests** must be met:
   i. Relationship test. The dependent child must be:
      1. Your son, daughter, stepchild, foster child, or descendent of any of these, or
      2. Your sibling, half sibling, stepsibling, or a descendent of any of these.

Note: An adopted child is treated the same as your own child.
ii. **Age test.** A child must meet one of the following criteria:
   1. Age 19 or younger
   2. A full-time student 24 years of age or younger
   3. Permanently and totally disabled

iii. **Residency test.** Your dependent must have lived in your home for more than 6 months of the tax year. Exceptions include:
   1. Temporary absences due to:
      a. Illness
      b. Education
      c. Business
      d. Vacation
      e. Military service
   2. The death or birth of a child meets the residency requirements.
   3. A child born alive meets the residency requirements, even if the child died immediately.
   4. A child born dead or stillborn does not meet the residency requirement, and cannot be claimed.
   5. A kidnapped child meets the residency requirements when:
      a. The child is not believed by law enforcement officials to have been taken by a family member
      b. The child lived with you for at least of the year that he or she was kidnapped.

   *Note:* A kidnapped child can continue to be claimed until he or she is believed to be dead by law enforcement officials, or he or she would have reached the age of 18.

   6. A child’s custodial parent is the parent with whom the child spent the greater number of nights.

   *Note:* If the child spent the same amount of nights with each parent, the parent with the higher adjusted gross income is the custodial parent.

iv. To be a qualifying child, a dependent must meet the **support test.** In order to meet the support test, a dependent child must have been provided for and not met his or her own needs for more than half of the year.
v. In order to be a qualifying child, the dependent must pass the **joint return test**, which means that the child must not have filed a joint return.
10. **Special rules for a qualifying child of more than one person.** When a child meets the requirements for all the qualifying tests—relationship, age, support, and joint—he or she may qualify to be claimed by more than one person. Special rules apply for a qualifying child of more than one person:

a. Only one person can take the following benefits for the qualifying child:
   
   i. Child exemption
   ii. Child tax credit
   iii. Child and dependent care expenses credit
   iv. Dependent care benefits income exclusion
   v. Earned income credit

*Note:* even if the person does not qualify to take each of the five benefits, and another person does, the benefits for the qualifying child cannot be split among different parties.

b. The following rules apply to break the tie and determine who can claim the child:

   i. The child’s parent will qualify over a non-parent.
   ii. The parent with whom the child lived the most during the tax year will qualify over the parent with whom the child lived the least.
   iii. If the child lived with both parents equally, the parent with the highest adjusted gross income will qualify.
   iv. If the child cannot be claimed as a qualifying child of either parent, the parent with the highest adjusted gross income will qualify.
11. **Qualifying relative and qualifying relative tests.** Claiming an exemption for a dependent is allowed when the following three tests are true: To be a **qualifying relative,** the following tests must be met:

a. **Not a qualifying child test,** which states that a child is not a qualifying relative if he or she is your qualifying child or a qualifying child of any taxpayer.

b. **Member of household test** means that the person must be a resident of your household for the whole year, or be related to you in one of the qualifying ways that a relative does not have to live with you, which are:
   i. A sibling, half sibling, or stepsibling.
   ii. A father, mother, grandparent, or other direct ancestor.
   iii. Not a foster parent.
   iv. A stepparent.
   v. A son or daughter of your half sibling
   vi. A brother or sister of your parent

c. **The gross income test** means that to be a qualifying relative, the person’s gross income must be less than $3,900.

d. To be a qualifying relative, the relative must receive more than half his or her support from you, which passes the support test.

a. **In order to determine if you provide at least half a person’s support,** you must determine total support for the person’s expenses related to:

   i. Food
   ii. Lodging
   iii. Clothing
iv. Education  
v. Medical and dental care  
vi. Recreation  
vii. Transportation  
viii. Necessities  

The qualifying relative can be of any age.
12. What is New in 2013?
   a. Visit www.irs.gov/pub501 for updates and the latest information. This is a page dedicated to updated information about this topic.
   b. The amount of income a person can receive before he or she must file a tax return has increased. See IRS Publication 501, Table 1.
   c. The amount of standard deduction has increased for 2013. See IRS Publication 501, “2013 Standard Deduction Tables” for information.
13. Glossary

*Decedent:* A person who died.

*Head of Household.* A person who is either a) unmarried or considered unmarried, b) paid more than half the cost of keeping up a home, c) had a qualifying person living with him or her for more than half a year (see exceptions).