

NINJA NOTES

Regulation 2026



Introduction

Content Area Allocation

The following table summarizes the content areas and the allocation of content tested in the REG section of the Exam:

Area I	Ethics, Professional Responsibilities and Federal Tax Procedures	10% - 20%
Area II	Business Law	15% - 25%
Area III	Federal Taxation of Property Transactions	5% - 15%
Area IV	Federal Taxation of Individuals	22%-32%
Area V	Federal Taxation of Entities	23%-33%

Skill Allocation

Remembering and Understanding	25% - 35%
Application	35% - 45%
Analysis	25% - 35%
Evaluation	0% - 0%

Scoring Weight

The table below presents the scoring weight of MCQs and TBSs

	Multiple-Choice Questions (MCQs)	Tasked-Based Simulations (TBSs)
REG - Core	50%	50%

Section Time and Question Type

The table below presents the design of the Exam by section time and question type.

	Section Time	Multiple-Choice Questions (MCQs)	Tasked-Based Simulations (TBSs)
REG - Core	4 Hours	72	8

Content

REG-1 Individual Taxation

REG-2 Property Taxation

REG-3 C-Corporation Taxation

REG-4 S-Corporation Taxation

REG-5 Partnership Taxation

REG-6 Limited Liability Companies (LLC) Taxation

REG-7 Tax-Exempt Organization Taxation

REG-8 State and Local Tax Issues

REG-9 Tax Compliance & Ethics and Responsibilities in Tax Preparation and Practice

REG-10 Federal Taxation Process

REG-11 Professional and Legal Responsibilities

REG-12 Contracts

REG-13 Sale of Goods

REG-14 Agency

REG-15 Secured Transactions

REG-16 Bankruptcy

REG-17 Suretyship

REG-18 Business Structures

REG-19 Other Laws and Regulations

NINJA NOTES

Regulation 2026



Individual Taxation
(July 1, 2025 – June 30, 2026 Exams)

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Individual Taxation

Overview of Individual Taxation

- Filing Requirements of Form 1040
 - Who must file Form 1040?
 - Income is greater than the standard deduction
 - Net self-employment income of \$400 or more
 - When to file Form 1040?
 - Form 1040 must be filed by April 15
- Overview of Form 1040

Gross Income
<Adjustments>
Adjusted Gross Income (AGI)
<Standard Deduction>
or
<Itemized Deductions>
Taxable Income Before Qualified Business Income Deduction
<Qualified Business Income Deduction>
Taxable Income
x Tax Rate
Federal Income Tax
< Tax Credits >
Alternative Minimum Tax
Self-Employment Tax
< Estimated Payments / Withholdings >
Tax Due

- Tax Accounting Basis: Cash & Accrual
 - Cash Basis: Cash Basis is allowed for small businesses that have average annual gross receipts of \$31 Million or less (for 2025) during the preceding 3 Years.
 - Accrual Basis: Accrual Basis is mandatory for businesses that have average annual gross receipts of more than \$31 Million (for 2025) during the preceding 3 Years.

Qualifying Child and Qualifying Relative

- Qualifying Child and a Qualifying Relative are terms used by the IRS to determine if a person can be claimed as a dependent on your federal income tax return.
- Claiming a dependent can provide certain tax benefits, such as advantageous filing status, deductions, or credits.
- Qualifying Child
 - Son, daughter, stepchild, foster child, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of these (e.g., grandchild, niece, or nephew).
 - The child must be under age 19 at the end of the tax year or under age 24 if they are a full-time student.
 - The child must not have provided more than half of their own support during the tax year
 - The child must have lived with you for more than half of the tax year.
 - Citizen of United States or Resident of United States, Mexico, or Canada
 - No income limit for the dependent to be claimed as a qualifying child
 - The child must not be filing a joint return for the tax year.
- Qualifying Relative
 - Not a Qualifying Child:
 - The person must either live with you all year as a member of your household or be related to you as a child, sibling, parent, grandparent, niece, nephew, aunt, uncle, or in-law
 - There is no age limit for a dependent to be claimed as a qualifying relative
 - Taxpayer must provide more than half of the person's total support for the tax year
 - Citizen of United States or Resident of United States, Mexico, or Canada
 - The person's gross income for the tax year must be less than the annual exemption amount (\$5,200 for tax year 2025; this amount may change in subsequent years)
 - The relative must not be filing a joint return for the tax year.

Filing Status

- Single
 - Unmarried
 - Married but legally separated as of year-end
- Married Filing Jointly (MFJ)
 - Married and not divorced or legally separated as of year-end
 - Both spouses file one single joint return (Form 1040)
 - Neither spouse is a non-resident alien
 - Tax year is the same for both spouses
- Married Filing Separately (MFS)
 - Married couples who file separate tax returns, reporting their individual income, deductions, and credits.
- Head of Household
 - Unmarried or Considered Unmarried
 - Maintaining a Household
 - The taxpayer must have paid more than half the cost of maintaining a home for the tax year.
 - Must have a qualifying person, such as a dependent child, parent, or relative:
 - Qualifying Child
 - Meets the criteria of a Qualifying Child
 - Qualifying Relative other than Parent
 - Meets the criteria of a Qualifying Relative
 - Actually Related
 - Lives with the taxpayer for more than half the year (not the whole year)
 - Qualifying Relative who is a Parent
 - Meets the criteria of a Qualifying Relative

- Actually Related
- Need not live with the taxpayer
- Surviving Spouse (SS) / Qualifying Widow(er)
 - Spouse passed away in the last two years
 - Not Remarried
 - Qualifying Child
 - Principle Residence for the Qualifying Child for the whole year

Gross Income

- Various types of gross income should be reported on U.S. tax forms:

Type of Income	Relevant Form(s)
Wages and Salaries (Salary Income)	Form W-2
Interest & Dividend (Portfolio Income)	Schedule B
Business Income or Loss (Business Income)	Schedule C
Capital Gains & Losses	Schedule D
Passive Income (Income from Pass-thru entities)	Schedule E
Farming Income	Schedule F
Other Miscellaneous Income	Schedule 1

- Wages and Salaries (Form W-2)

Taxable	Non-Taxable
<p>Cash & Property</p> <ul style="list-style-type: none"> • Include receipts in cash and FMV of property <p>Tips</p> <ul style="list-style-type: none"> • Tips > \$20: Report to employer by 10th of next month: Included in month reported • Tips < \$20: No need to report to the employer: Included in the month received <p>Cancellation of Debt</p> <ul style="list-style-type: none"> • Debt cancellation by employer should be included in gross income. <p>Bargain Purchase</p> <ul style="list-style-type: none"> • Include the difference between FMV and Purchase Price 	<p>Insurance Premiums</p> <ul style="list-style-type: none"> • Group-term life insurance premiums for the first \$50,000 of coverage are excluded from taxable income <p>Proceeds on Life Insurance</p> <ul style="list-style-type: none"> • Proceeds from a life insurance policy are generally excluded from beneficiaries' gross income <p>Medical/Health/Accident Insurance Premiums</p> <ul style="list-style-type: none"> • Employer-paid medical, health, dental, vision, or accident insurance premiums are not part of the employee's taxable income

Guaranteed Payments

- Guaranteed payments received by a partner without regard to the partnership income are included in gross income and are subject to self-employment tax.

Taxable Fringe Benefits

- Include FMV of fringe benefits in gross income (e.g., personal use of company car, moving expense reimbursements, non-qualified bicycle commuting)

Insurance Premiums

- Include premiums paid for coverage above \$50,000

Stock Options

Stock Options that have a readily determinable Fair Market Value:

- **Granted:** Ordinary Income = FMV of Options on Grant Date – Cost
- **Exercised:** No Tax on Exercise.
Basis of Stock = Exercise Price + Income Recognized on Options on Grant Date
- **Sold:** Capital Gain or Loss = Sales Price – Basis of Stock
- **Lapsed:** Capital Loss = Income Recognized on Options on Grant Date.

Stock Options that do not have a readily determinable Fair Market Value:

- **Granted:** No Tax on Grant
- **Exercised:** Ordinary Income = FMV of Stock at Exercise Date – Exercise Price
- **Sold:** Capital Gain or Loss = Sales Price - FMV of Stock at Exercise Date.
- **Lapsed:** No Deduction on Lapse.

Qualified Medical Expenses Reimbursement

- Reimbursements for qualified medical expenses are generally not taxable

HSA and MSA Contributions

- Employer contributions to HSA and MSA accounts are not part of the employee's taxable income

Contributions to Flexible Spending Arrangements (FSAs)

- Contributions to an FSA lower an employee's taxable income, providing tax savings. The dollar limitation on voluntary employee salary reductions for contributions to FSA is \$3,300 (for 2025).

Dependent Care Benefits

- Employer-provided Dependent Care Benefits are not taxable up to a certain limit (\$5,000 per year for most taxpayers)

Qualified Adoption Expenses

- Employer-provided financial assistance for adoption-related expenses is not taxable up to \$17,280 (for 2025)

Workers' Compensation

- Workers' compensation in the form of wage replacement and medical benefits to employees who are injured or become ill as a direct result of their job is not taxable income for the employee.

Employee Achievement Award

- Employee Achievement Award is not taxable if the value does not exceed \$400 and is not cash or cash equivalent

De Minimis Fringe Benefits

- Low-value benefits are not considered taxable income

Meals in Employer-Operated Facilities

- Meals provided on the employer's premises are generally not taxable

Lodging (Required for the Job)

- Lodging provided on the employer's premises as a job requirement is generally not taxable

Transit Passes & Parking Benefits

- Employer-provided transit passes up to \$325/month (for 2025) and parking benefits up to \$325/month (for 2025) are not taxable, helping offset commuting costs

Qualified Employee Discounts

- Discounts on merchandise or services are not taxable:
 - Merchandise discounts: If the discount is less than the employer's gross profit percentage (Discount % < Gross Profit %; Not Taxable)
 - Service Discounts If Discount is less than 20% of FMV of service (Discount % < 20%; Not Taxable)

Educational Expenses

- Educational assistance up to \$5,250 per year for undergraduate or graduate-level education provided by the employer is not taxable

Contributions to the Pension Plan

- Employer contributions to SEP or SIMPLE plans are not taxable

Qualified Tuition Reductions

- Qualified tuition reductions for educational institution employees are not taxable. If for a graduate degree, should be engaged in teaching (even if in a different institution) and should receive pay for that.

- Interest & Dividend (Schedule B)
 - Interest Income (Part I of Schedule B)

Taxable	Non-Taxable
Interest on U.S. Federal bonds, U.S. Treasury bills, and other U.S. obligations.	Interest earned on State, Municipal, and U.S. Possession Bonds are not taxable.
Interest in Industrial Development Bonds and Corporate Bonds.	Series EE & Series I Savings Bonds: Interest earned is not taxed upon redemption if used for qualified higher education expenses (tuition and fees, not room and board) for the taxpayer, their spouse, or their dependents.
Interest paid by Federal or State Government on late payment of tax refund.	
The Interest portion of the Installment Sale proceeds.	

- Dividend Income (Part II of Schedule B)

Taxable	Non-Taxable
<p>Qualified Dividends</p> <ul style="list-style-type: none"> • Taxed at lower rates as they meet specific criteria set by the IRS <p>Ordinary Dividends</p> <ul style="list-style-type: none"> • Dividends that do not meet the criteria to be considered qualified dividends. Taxed at the taxpayer's ordinary income tax rate 	<p>Return of Capital</p> <ul style="list-style-type: none"> • Non-taxable distribution representing a return on the shareholder's initial investment. <p>Stock Splits</p> <ul style="list-style-type: none"> • A corporate action dividing existing shares into multiple shares. <p>Stock Dividends</p> <ul style="list-style-type: none"> • Stock dividends to common stockholders allocate the original basis to the increased number of stocks held. Non-taxable when there is no option to receive cash dividends. <p>Mutual Funds Invested in Tax-Free Bonds</p> <ul style="list-style-type: none"> • Dividends from mutual funds invested in tax-free bonds are not taxable. <p>Life Insurance</p> <ul style="list-style-type: none"> • Non-taxable return of premium/capital from life insurance. <p>S-Corp Dividend</p> <ul style="list-style-type: none"> • S-Corp Income flows through to Schedule E of S-Corp shareholders and is not taxable as dividends.

- Business Income (Schedule C)
 - Applicability
 - Self-Employed Individuals
 - Sole Proprietors
 - Single-Member LLCs
 - Income from a Hobby
 - Husband and Wife Joint Venture
 - Statutory Employees
 - Overview of Schedule C

Gross Receipts	Total amount received from sales and services provided during the tax year.
Sales Returns	Sales Returns represent the value of Sales returned by the customer.
Net Receipts	Net Receipts = Gross Receipts – Sales Return. (If cash basis, net receipts equals cash received.)
Cost of Goods Sold or Cost of Services	<p>Cost of Goods Sold (COGS) = Opening Inventory + Cost of Goods Manufactured - Ending Inventory</p> <p>Inventory</p> <ul style="list-style-type: none"> • Small Businesses with average annual gross receipts of \$31 Million (for 2025) or less during the preceding three Years: <ul style="list-style-type: none"> ○ <u>If Using Accrual Basis of Accounting:</u> <ul style="list-style-type: none"> ▪ Inventory is valued at a Lower Cost or Market Value ▪ May use, specific identification, FIFO, or LIFO Rule. (Must follow LIFO Conformity Rule) ○ <u>If Using Cash Basis of Accounting:</u> <ul style="list-style-type: none"> ▪ Treat Inventory as non-incidental material and supplies ▪ Conform to taxpayer’s financial accounting treatment of inventories. • Businesses with average annual gross receipts of \$31 Million (for 2025) or more during the preceding three Years: <ul style="list-style-type: none"> ○ Must use UNICAP Rules for Inventory
Gross Profit	Gross Profit = Net Receipts – COGS
Other income	Other Income may include:

	<ul style="list-style-type: none"> • Federal and State Gasoline Tax Credit • Royalties • Rental Income (if part of business operations) • Interest on business accounts • Gains from the sale of business assets
Gross Income	Gross Income = Gross Profit + Other Income
<Total Expenses>	
Net Profit/Loss	Gross Income – Total Expenses – Expenses for Business Use of Home

○ Deductible Business Expenses

- Salaries
- State and Local Taxes and Federal Payroll Taxes
- Office Expenses
- Transportation Expenses
- Business Meals up to 50%
- Business Travel
- Interest on Business Loan
- Fringe Benefits Paid to Employee
- Legal & Professional Services and Fees
- Business Bad Debts
- Depreciation and Amortization
- Business Start-Up Cost
 - Businesses can deduct up to \$5,000 in start-up costs during the first year of operation. However, this \$5,000 limit is reduced dollar-for-dollar for start-up expenses exceeding \$50,000. If your start-up costs exceed the deductible limit the remaining balance will be amortized over 180 months (15 years), beginning with the month your business starts operating.

- Non-Deductible Expenses
 - Salaries to Owner
 - Entertainment Expense
 - Federal Income Taxes
 - Fines & Penalties
 - Personal Expense
 - Expenses for Illegal Business
 - Transportation Benefits Provided to an Employee for Travel Between Home Location and Office
- Uniform Capitalization (UNICAP) Rules
 - Applies to
 - Produced for Use: Example, Building constructed for own use
 - Produced for Sale: Example, Manufacturer's Inventory
 - Acquired for Resale: Example, Retailer's Inventory
 - Capitalized Costs
 - Pre-Production Costs
 - Production Costs
 - ⇒ Direct Materials
 - ⇒ Direct Labor
 - ⇒ Direct & Indirect Production Costs (Factory Overheads)
 - Pre-Sale Costs
 - Non-Capitalized Costs
 - Advertising, Selling, and Distribution Expenses
 - Income Taxes
 - Strike Expenses

- Warranty Expenses
- General and Administrative (G&A) Expenses
- Applicability
 - Businesses with average annual gross receipts of more than \$31 million (for 2025) during each of the preceding three tax years.
- Net Operating Loss (NOL)
 - Sources of NOL
 - Business Loss from a Sole Proprietorship reported on Schedule C
 - Share of Business Loss from a Partnership or S-Corporation reported on Schedule E
 - Farming Business Loss reported on Schedule F

- NOL Calculation

Component	Amount \$
Loss Sources:	
Schedule C Business Loss	(XXX)
Schedule F Farming Business Loss	(XXX)
Schedule E Partnership/S-Corp Loss	(XXX)
Income Sources:	
Wages & Salaries Income (Form W-2)	XXX
Business Income (Schedule C)	XXX
Passive Income (Schedule E)	XXX
Farming Income (Schedule F)	XXX
Net Operating Loss (NOL)	(XXX)

- Excess Business Losses (Business Losses in excess of Business Income) can be deducted against other sources of income unto \$626,000 for MFJ and \$313,000 for other taxpayers (for 2025) and the balance is carried forward as NOL.
- NOL Treatment
 - Businesses can now carry forward Net Operating Losses (NOLs) indefinitely but can only use NOL carryforwards to offset up to 80% of their taxable income in a given year, with any remaining NOLs continuing to be carried forward indefinitely.

- Capital Gains & Losses (Schedule D)
 - Calculation of Capital Gains and Losses

Proceeds	Cash received Property received (FMV) Services received (FMV) Cancellation of Debt Selling Expenses
<Adjusted Basis of Assets Sold>	
Capital Gain or Loss Realized	Holding Period > 1 Year (Long-Term Capital Gain or Loss) Holding Period < 1 Year (Short-Term Capital Gain or Loss)

- Netting Process for Capital Gains and Losses
 - Step 1: Net Short-Term Gains and Losses together, and Long-Term Gains and Losses together

Short-Term Capital Gain
(Short-Term Capital Loss)
Net Short-Term Capital Gain / (Net Short-Term Capital Loss)

Long-Term Capital Gain
(Long-Term Capital Loss)
Net Long-Term Capital Gain / (Net Long-Term Capital Loss)

- Step 2: Net Short-Term Gains and Losses with Long-Term Gains and Losses if opposite signs or else no netting.
 - If one is a net gain and the other is a net loss, net them together. This will result in either a single net Short-Term Capital Gain/Loss or a Single Net Long-Term Capital Gain/Loss.

Net Short-Term Capital Gain
(Net Long-Term Capital Loss)
Net Short-Term Capital Gain

(Net Short-Term Capital Loss)
Net Long-Term Capital Gain
Net Short-Term Capital Loss

Net Long-Term Capital Gain
(Net Short-Term Capital Loss)
Net Long-Term Capital Gain

(Net Long-Term Capital Loss)
Net Short-Term Capital Gain
Net Long-Term Capital Loss

- If both are gains or both are losses, do not net them together. In this case, you will have either:
 - ⇒ Net Short-Term Capital Gain and Net Long-Term Capital Gain.
 - ⇒ Net Short-Term Capital Loss and Net Long-Term Capital Loss.

○ Tax Treatment of Capital Gains and Losses

Type	Tax Treatment
Net Short-Term Capital Gain	<ul style="list-style-type: none"> • Short-Term Capital Gains are taxed at ordinary income tax rates
Net Short-Term Capital Loss	<ul style="list-style-type: none"> • Set off Net Short-Term Capital Loss from other sources of income up to \$3,000 (MFJ & Single) and \$1,500 (MFS) every year. • Excess carried forward indefinitely
Net Long-Term Capital Gain	<ul style="list-style-type: none"> • Long-Term Capital Gains are taxed at capital gain tax rates (0%, 15%, 20%)
Net Long-Term Capital Loss	<ul style="list-style-type: none"> • Set off Net Long-Term Capital Loss from other sources of income up to \$3,000 (MFJ & Single) and \$1,500 (MFS) every year. • Excess carried forward indefinitely

- Passive Income (Schedule E)

- Passive Activities include the following:

- Income from Rental Real Estate Activities
- Income from Royalties
- Income from Closely Held C-Corporations and Personal Service Corporations
- Income from Schedule K-1 (Pass-through Income)
 - Partnerships and Limited Liability Companies (LLCs)
 - S-Corporations
 - Estates and Trusts

o Income from Rental Real Estate Activities

▪ Rental Income: Active vs. Passive

	Income Type	Reporting Form
Materially Participating & Real Estate Professional	Active	Schedule C (Form 1040)
No Material Participation or Non-Real Estate Professional	Passive	Schedule E (Form 1040)

▪ Rental Income: Calculation

Gross Rental Income	<ul style="list-style-type: none"> • Gross Rental Income includes <ul style="list-style-type: none"> o Rent Payments taxpayers receive from tenants during the tax year. o Other payments from tenants, such as: <ul style="list-style-type: none"> ▪ Reimbursement for utilities ▪ Other property-related expenses • Cash Basis: Rent Received & Accrual Basis: Rent Earned
Prepaid Rental Income	<ul style="list-style-type: none"> • Prepaid Rental Income is always included, even on an accrual basis. • Rental income is taxed earlier than received or earned.
Lease Cancellation Payment	<ul style="list-style-type: none"> • Payments received for lease cancellation are included in the calculation of Net Rental Income.
Lease Improvement In-lieu-of Rent	<ul style="list-style-type: none"> • Payments received for lease improvements in place of rent are included in the calculation of Net Rental Income.
<Rental Expenses>	<ul style="list-style-type: none"> • Rental Expenses include: <ul style="list-style-type: none"> o Mortgage interest o Property taxes o Insurance o Depreciation o Repairs and Maintenance o Utilities o Property Management Fees o Advertising Costs o Legal and Professional Fees
Net Rental Income or Loss	

- Home Is Rented Out and also used as a Personal Residence

	Rental Income	Rental Expenses
<p>Treated as Personal Residence:</p> <ul style="list-style-type: none"> Used as a Home: Higher of 15 Days or 10% of Rented Days. and Rented for less than 15 days during the year. 	Not Included	<p>Not Deducted on Schedule E.</p> <p>Mortgage Interest & Property Taxes:</p> <ul style="list-style-type: none"> Allowed as an Itemized Deduction on Schedule A. <p>Property Expenses:</p> <ul style="list-style-type: none"> Property expenses such as utilities, insurance, and depreciation are not deductible.
<p>Treated as Personal and Rental Residence:</p> <ul style="list-style-type: none"> Used as a Home: Higher of 15 Days or 10% of Rented Days. and Rented for 15 or more days during the year. 	Included	<p>Proportionate Reductions for Rental Expenses are allowed on Schedule E.</p> <p>Mortgage Interest & Property Taxes:</p> <ul style="list-style-type: none"> Mortgage Interest & Property Taxes allocated between Personal and Rental Use <ul style="list-style-type: none"> Deductible for the Period Rented on Schedule E (Months Rented / 12) Allowed as an Itemized Deduction on Schedule A for the period used as a personal residence. (Months used as a Personal Residence / 12) <p>Property Expenses:</p> <ul style="list-style-type: none"> Property Expenses such as utilities, insurance, and depreciation are allocated proportionately between Personal and Rental Use. <ul style="list-style-type: none"> Deductible for the Period Rented on Schedule E. Not Deductible for Period used as a personal residence.

- **Passive Activity Loss Offset Rules**

- Passive Activity Losses (PAL) can generally be offset against passive income only.
- Excess Passive Activity Losses (PAL) are carried forward indefinitely or until the activity is disposed of.
- Exceptions:

⇒ Active Participation

AGI Range	Offset Limitation
\$100,000 or less	\$25,000
Between \$100,000 and \$150,000	\$25,000 - 50% x (AGI - \$100,000)
\$150,000 or more	\$0

⇒ Material Participation

- Rental losses are fully deductible against all types of income without any limitations.

- **Income from Royalties**

Gross Royalty Income	<ul style="list-style-type: none"> • Gross Royalty Income includes <ul style="list-style-type: none"> ○ Upfront Payments ○ Ongoing Royalties based on Sales or Usage, ○ Other Relevant Payments
<Royalty Expenses>	<ul style="list-style-type: none"> • Royalty Expenses include: <ul style="list-style-type: none"> ○ Legal Fees. ○ Agent Fees. ○ Other Costs directly associated with generating the Royalty Income.
Net Royalty Income or Loss	

- **Income from Closely Held C-Corporations and Personal Service Corporations**

- This has been discussed along with C-Corporation Taxation.

- **Income from Schedule K-1 (Pass-through Income): Partnerships, Limited Liability Companies (LLCs), S-Corporations, Estates, and Trusts.**

- This has been discussed along with Entities Taxation.

- Farming Income (Schedule F)

- Accounting Methods Used to Report Farming Income

Accounting Method	Description
Cash Basis	Income is reported in the year it is received, and expenses are deducted in the year they are paid.
Accrual Basis	Income is reported in the year it is earned, and expenses are deducted in the year they are incurred, regardless of when cash is received or paid.
Crop Basis	Expenses for producing the crop are deducted in the year income is realized from the sale of the crop.

- Farming Income: Calculation

Farming Income	Farming Income includes: <ul style="list-style-type: none"> • Sales of livestock, produce, grains, etc. • Agricultural program payments. • Crop insurance proceeds and disaster payments. • Cooperative distributions. • Custom hire (machine work) income. • Other farming-related income.
<Farming Expenses>	Farming Expenses include: <ul style="list-style-type: none"> • Vehicle expenses. • Chemicals, conservation, and depreciation. • Employee benefits and feed for livestock. • Fertilizers, freight, and fuel expenses. • Insurance, interest, and labor costs. • Rent or lease, repairs, and seeds/plants. • Taxes, utilities, and veterinary expenses. • Other farming-related expenses.
Net Farming Profit or Loss	

- Net Operating Loss Related to Farming

- Net Operating Losses (NOL) related to farming can still be carried back for two years and carried forward for 20 years.

- Other Items of Inclusions in Gross Income

- Alimony Received

Divorces finalized prior to January 1, 2019	<ul style="list-style-type: none"> • Alimony Received: Taxable • Alimony Paid: Deductible
Divorces finalized on or after January 1, 2019	<ul style="list-style-type: none"> • Alimony Received: Not Taxable • Alimony Paid: Not Deductible

- Social Security Benefits

- Taxation of Social Security benefits depends on the beneficiary's provisional income.
- 0% - 85% of Social Security Benefits are taxable based on the provisional income level.

- Distributions from Individual Retirement Account (IRA)

	Traditional IRA	Roth IRA	Non-Deductible IRA	Coverdell IRA
Contribution	Deductible	Non-Deductible	Non-Deductible	Non-Deductible
Distributions: Principal	Taxable	Not taxable	Not taxable	Not taxable
Distributions: Interest	Taxable	Not taxable	Taxable	Not taxable
Distribution Age Limits	Distributions can occur after age 59 ½.	Distributions can occur after age 59 ½. and the account has been open for 5 years	Distributions can occur after age 59 ½.	No Age limit on Distribution. However, Funds should be used by the beneficiary before age 30.
Penalty on Early Withdrawal	10% Penalty + Income Tax on the amount withdrawn in case of early withdrawal	10% Penalty + Income Tax on the Earnings Portion in case of early withdrawal	10% Penalty + Income Tax on the Earnings Portion in case of early withdrawal	10% Penalty + Income Tax on the Leftover Funds
Required Minimum Distributions (RMDs)	RMDs must begin by April 1 of the year following the year that you turn 73	No RMDs.	RMDs must begin by April 1 of the year following the year that you turn 73	No RMDs.

○ Income from Pensions and Annuities

	Qualified Pension and Retirement Plans	Non-Qualified Pension and Retirement Plans
Contributions	Deductible	Non-Deductible
Distributions: Principal	Taxable	Non-Taxable
Distributions: Interest	Taxable	Taxable

○ State and Local Tax Refunds

Situation	Taxability of State and Local Tax Refunds
Itemized Deductions	Taxable up to the benefit received from the deduction
Standard Deduction	Not Taxable

○ Unemployment Compensation

○ Debt Cancellation

○ Gambling Winnings

○ Jury Duty Fees

○ Prizes and Awards

- Prizes and awards are taxable
- Exceptions:
 - Selection without any action on the recipient's part.
 - Services not required of the recipient.
 - Charity or government gets the payment as assigned by the recipient.

○ Punitive Damages

○ Scholarships and Grants

- Non-Degree Students: Taxable
- Degree Students: Non-Taxable to the extent used for tuition and fees, books, supplies, and equipment.

○ Income Earned by Decedent

- Exclusions from Gross Income
 - Foreign Earned Income Exclusion
 - Alimony Received for divorce or separation agreements executed or modified on or after January 1, 2019.
 - Inheritance and Gifts
 - Life Insurance Policy
 - Medical Benefits

Adjustments (Above the Line Deductions)

- Contributions to HSA: Health Savings Account / MSA: Medical Savings Account Deduction

	HSA: Health Savings Account / MSA: Medical Savings Account Deduction
Contribution	<ul style="list-style-type: none"> Deductible \$4,300 (Individual) & \$8,550 (Family) (for 2025) Additional \$1,000 Contribution allowed for Individuals aged 55 and above
Distributions	<ul style="list-style-type: none"> Non-Taxable if used for Qualified Medical Expenses
Penalty on Non-Qualified Use	<ul style="list-style-type: none"> 20% Penalty + Income Tax if the distribution is not used for medical expenses.

- Contributions Individual Retirement Account (IRA)

Retirement Account	Deductibility	Contribution Limit	Additional Contribution	Retirement Savings Contribution Credit
Traditional IRA	Deductible	Lesser of <ul style="list-style-type: none"> \$7,000 (Single) & \$14,000 (MFJ) (for 2025) Earned Income (Wage, Business & Alimony). 	An additional \$1,000 is allowed for Individuals aged 50 and above	Allows Retirement Savings Contribution Credit for up to 50% on \$2,000 Contributions for Low-Income Groups
Roth IRA	Non-Deductible	Lesser of <ul style="list-style-type: none"> \$7,000 (Single) & \$14,000 (MFJ) (for 2025) Earned Income (Wage, Business & Alimony). 	An additional \$1,000 is allowed for Individuals aged 50 and above	Allows Retirement Savings Contribution Credit for up to 50% on \$2,000 Contributions for Low-Income Groups
Non-Deductible IRA	Non-Deductible	Lesser of <ul style="list-style-type: none"> \$7,000 (Single) & \$14,000 (MFJ) (for 2025) Earned Income (Wage, Business & Alimony). 	An additional \$1,000 is allowed for Individuals aged 50 and above	N/A
Coverdell IRA (ESA)	Non-Deductible	\$2,000	N/A	N/A

- Alimony Paid

Divorces finalized prior to January 1, 2019	<ul style="list-style-type: none"> Alimony Received: Taxable Alimony Paid: Deductible
Divorces finalized on or after January 1, 2019	<ul style="list-style-type: none"> Alimony Received: Not Taxable Alimony Paid: Not Deductible

- Withdrawal of Savings Penalty

- Educator Expenses
 - Educators in primary and secondary schools can deduct up to \$300 (for 2025) of unreimbursed qualified teaching expenses
- Student Loan Interest Deduction
 - Individuals can deduct the lesser of \$2,500 or the amount of interest paid on a student loan for the tax year for themselves, spouse, or dependents.
- Moving Expenses for Members of the Armed Forces
- Legal Fees for Discrimination Suit
- Jury Duty Fees Paid to Your Employer
- Deductions for Self-Employed
 - Self-Employment Taxes
 - Self-employed individuals are allowed to deduct the employer's portion of self-employment taxes (7.65%) paid by them which is 50% of total Self-Employment Taxes paid.
 - Self-Employment Health Insurance Deduction
 - Self-Employed Retirement Plans

	Qualified Pension and Retirement Plans	Non-Qualified Pension and Retirement Plans
Contributions	Deductible	Non-Deductible
Distributions: Principal	Taxable	Non-Taxable
Distributions: Interest	Taxable	Taxable

Standard Deduction

- Standard Deduction Limits (for 2025)

Filing Status	Standard Deduction
Single/Married Filing Separately	\$15,000
Married Filing Jointly/Qualifying Widow(er)	\$30,000
Head of Household	\$22,500

- Additional Standard Deduction (for 2025)

	Single	Married Filing Jointly
Single / Only 1 Spouse Qualify		
65 or Blind	\$2,000	\$1,600
65 and Blind	\$4,000	\$3,200
Both Spouses Qualify		
Each 65 or Blind	-	\$3,200
Both 65 and Blind	-	\$6,400

- Standard Deduction – Individuals Claimed as Dependents
 - For dependents of others, the standard deduction is the greater of \$1,350 or earned income + \$450 for 2025 but must not exceed the regular standard deduction.

Itemized Deductions

- Medical Expenses (In Excess of 7.5% of AGI)
 - Qualified Medical Expenses for Self, Spouse and Dependents
 - To claim someone as a dependent for Medical Expenses, they must meet the following criteria:
 - Taxpayer must provide more than half of the person's total support for the tax year
 - The person must either live with the taxpayer all year as a member of taxpayer's household or be related to taxpayer as a child, sibling, parent, grandparent, niece, nephew, aunt, uncle, or in-law
 - Citizen of United States or Resident of United States, Mexico, or Canada
 - However, they are not required to meet the Gross Income (Gross Income less than \$5,050 for 2025) or Joint Return (No Joint Return) criteria which is required to meet the definition of Qualifying Relative.

o Qualified and Non-Qualified Medical Expenses

Qualified Medical Expenses	Non-Qualified Medical Expenses
<ul style="list-style-type: none"> • Prescribed drugs and medicines. 	<ul style="list-style-type: none"> • Over-the-counter drugs not prescribed by a physician
<ul style="list-style-type: none"> • Fees paid to medical practitioners, including doctors, dentists, and surgeons. 	<ul style="list-style-type: none"> • General health costs, like Gym Memberships and Health Club Membership, that aren't prescribed by a physician for a specific health condition
<ul style="list-style-type: none"> • Travel Costs for Medical Care (Actual Costs or Standard Mileage Rate of \$0.21/mile for 2025) 	<ul style="list-style-type: none"> • Personal hygiene items and ordinary personal care expenses.
<ul style="list-style-type: none"> • Meals and Lodging provided by a hospital or similar institution during medical treatment. 	<ul style="list-style-type: none"> • Household help.
<ul style="list-style-type: none"> • Stop-Smoking Programs 	<ul style="list-style-type: none"> • Illegal operations or treatments.
<ul style="list-style-type: none"> • Weight-Loss Programs (only if the purpose is to treat obesity or other disease) 	<ul style="list-style-type: none"> • Cosmetic surgery purely for aesthetic reasons.
<ul style="list-style-type: none"> • Surgery including plastic/cosmetic surgery done to cure the disfiguring injury, illness, or birth defects. • LASIK surgery 	<ul style="list-style-type: none"> • The Medicare portion of Social Security and Self-Employment Taxes.
<ul style="list-style-type: none"> • Insurance Premiums for Medical, Dental, Hospital care, and Qualifying Long-Term Care Policies 	<ul style="list-style-type: none"> • Insurance premiums for Accident, Disability, and Life Insurance.
<ul style="list-style-type: none"> • Medical Equipment and devices like eyeglasses, hearing aids, false teeth, etc. 	<ul style="list-style-type: none"> • Funeral and Burial Expenses.
<ul style="list-style-type: none"> • Costs to install medically prescribed facilities or remove structural barriers at home for physically handicapped such as swimming pool, elevator, etc. <p>⇒ Deduction = Cost of Home Improvement – Increase in FMV</p>	

o Calculation of Deductible Medical Expenses

Qualified Medical Expense	XXX
<Insurance/Employer Reimbursement>	(XXX)
Medical Expense Paid	XXX
<7.5% of AGI>	(XXX)
Deductible Medical Expenses	XXX

- State/Local/Foreign Taxes (SALT) paid (up to \$10,000)

Deductible Taxes	Non-Deductible Taxes
<ul style="list-style-type: none"> • State and Local Income Taxes or State and Local Sales Tax 	<ul style="list-style-type: none"> • Federal Income Tax
<ul style="list-style-type: none"> • State and Local Personal and Real Property Tax 	<ul style="list-style-type: none"> • Federal, State, and Local Estate or Gift Taxes
<ul style="list-style-type: none"> • Foreign Income Tax 	<ul style="list-style-type: none"> • Social Security and Self-Employment Taxes
	<ul style="list-style-type: none"> • Business Taxes.
	<ul style="list-style-type: none"> • Foreign Sales Tax, Real Property Tax, and Personal Property Tax

- Interest Expense

Deductible Interest	Non-Deductible Interest
<ul style="list-style-type: none"> • Home Mortgage Interest for loans up to \$750,000 	<ul style="list-style-type: none"> • Personal Consumer Interest
<ul style="list-style-type: none"> • Investment Interest Expense limited to net investment income 	<ul style="list-style-type: none"> • Education Loan Interest
<ul style="list-style-type: none"> • Home Equity Loans 	<ul style="list-style-type: none"> • Prepaid Interest

- Charitable Contributions

- Allowed as an itemized deduction on Schedule A up to 60% of AGI.
- Deductible and Non-Deductible Charitable Contribution

Deductible Charitable Contribution	Non-Deductible Charitable Contribution
<ul style="list-style-type: none"> • Charitable Contributions to Qualified Domestic Organizations for religious, charitable, scientific, literary, or educational purposes. 	<ul style="list-style-type: none"> • Contributions to individuals or non-qualified organizations civic leagues, social clubs, foreign organizations, political organizations, communist organizations, chambers of commerce, and labor unions.
<ul style="list-style-type: none"> • Out-of-pocket costs incurred while doing work for a charitable organization. 	<ul style="list-style-type: none"> • Cannot deduct the value of taxpayer's time or services that taxpayer donates to a charitable organization.
<ul style="list-style-type: none"> • \$50 per student per month for every completed month of an unrelated student staying in a taxpayer's home on agreement with a qualified organization. 	<ul style="list-style-type: none"> • Cannot deduct the value of the use of a property that the taxpayer allows to a charitable organization.
	<ul style="list-style-type: none"> • Cannot deduct the value of Blood Donation

- Charitable Contribution Deduction Calculation

Charitable Contribution	XXX
<Benefits Received>	(XXX)
Charitable Contribution Deduction	XXX

- Charitable Contribution Limits

Contribution Type	Deduction	Deduction Limit
Cash	Amount Contributed	Up To 60% of Adjusted Gross Income (AGI)
Short-Term Property	Lower of Basis or FMV of Property	Up To 50% of Adjusted Gross Income (AGI)
Long-Term Property	FMV of Property	Up To 30% of Adjusted Gross Income (AGI)

- Casualty Losses (In Excess of 10% of AGI)

- Deductible and Non-Deductible Casualty Losses

Deductible Casualty Losses	Non-Deductible Casualty Losses
<ul style="list-style-type: none"> ● Personal Property Losses that occurred due to a Federally Declared Disaster 	<ul style="list-style-type: none"> ● Business Property Losses that occurred due to a Federally Declared Disaster
	<ul style="list-style-type: none"> ● Progressive Damage that happens over time, such as wear and tear or deterioration.
	<ul style="list-style-type: none"> ● Casualty Insurance Premiums for insurance coverage
	<ul style="list-style-type: none"> ● Incidental Expenses such as temporary housing, meals, and transportation costs incurred due to a casualty or disaster, but not directly related to the damage or destruction of property, are not deductible as a casualty loss.

- Casualty Loss Deduction Calculation

Drop in FMV (Limited to Tax Basis of the Asset)	XXX
<Insurance/Government Reimbursement>	(XXX)
<\$100 per event>	(\$100)
Loss Eligible for Deduction	XXX
<10% of AGI>	(XXX)
Deductible Casualty Loss	XXX

- Other Itemized Deductions

- Gambling Losses

- Taxes for Decedent

Qualified Business Income (QBI) Deduction

- QBI Deduction Calculation
 - Step 1: Calculate Tentative QBI Deduction
 - Tentative QBI Deduction = QBI x 20%
 - Step 2: Apply Phase-Out (Wage and Property Limitation) (for 2025)

	Taxable Income		QTB	SSTB
	Single	MFJ		
Below Threshold	\$197,300	\$394,600	Full 20% Deduction	Full 20% Deduction
Between Threshold	\$197,300- \$247,300	\$394,600- \$494,600	QBI Deduction - [(QBI Deduction - W-2 Wage & Property Limitation) x Phase-in Percentage]	[(1 - Phase-in %) x QBI Deduction] - {[(1 - Phase-in %) x QBI Deduction]} - [(1 - Phase-in %) x W-2 Wage & Property Limitation]} x Phase-in Percentage Used up
Above Threshold	\$247,300	\$494,600	QBI Deduction Limited to W-2 Wage & Property Limitation	No QBI Deduction

- Step 3: Apply Overall Limitation
 - The final QBI deduction would be limited to an overall limitation calculated as 20% of (Taxable Income – Capital Gain) of the taxpayer.

Tax Rates (2025)

Tax Rate	Single	Head of Household	Married MFJ / QW	MFS
10%	Up to \$11,925	Up to \$17,000	\$0 to \$23,850	Up to \$11,925
12%	\$11,926 to \$48,475	\$17,001 to \$64,850	\$23,851 to \$96,950	\$11,926 to \$48,475
22%	\$48,476 to \$103,350	\$64,851 to \$103,350	\$96,951 to \$206,700	\$48,476 to \$103,350
24%	\$103,351 to \$197,300	\$103,351 to \$197,300	\$206,701 to \$394,600	\$103,351 to \$197,300
32%	\$197,301 to \$250,525	\$197,301 to \$250,500	\$394,601 to \$501,050	\$197,301 to \$250,525
35%	\$250,526 to \$626,350	\$250,501 to \$626,350	\$501,051 to \$751,600	\$250,526 to \$375,800
37%	\$626,351 or more	\$626,351 or more	over \$751,601	\$375,801 or more

Tax Credits

Tax Credit	Description	Credit Amount
Refundable Credit		
Child Tax Credit	Aids taxpayers with qualifying dependent children	Up to \$2,000 per qualifying child
American Opportunity Tax Credit	Education credit for qualified expenses in the first 4 years of college	Up to \$2,500 per eligible student
Earned Income Credit	Assistance for low-to-moderate-income individuals and families with earned income	Maximum credit amounts based on the number of qualifying children
Premium Tax Credit	Helps low-income individuals and families afford health insurance coverage.	Depending upon the taxpayer's income, the cost of coverage in the taxpayer's area, and the size of the taxpayer's household,
Non-Refundable Credit		
Adoption Credit	Helps with expenses incurred for adopting a child under 18 years of age	Limited to \$17,280 per child (for 2025)
Lifetime Learning Credit	Education credit for qualified expenses beyond the first 4 years of college	Up to \$2,000 per taxpayer
Dependent and Child Care Credit	Provides assistance for child and dependent care expenses	Percentage of qualifying expenses, up to \$3,000 for one dependent or \$6,000 for multiple dependents
Elderly and Disabled Credit	Credit for individuals over 65 years or permanently disabled	15% of Eligible Income
Credit for Other Dependents	Credit for eligible dependents that do not qualify for the Child Tax Credit	Up to \$500 per eligible dependent
Retirement Savings Contribution Credit	Credit for contributions to retirement savings accounts	Percentage of eligible contributions, up to \$2,000
Foreign Tax Credit	Credit for foreign income taxes paid to a foreign government	Actual foreign taxes paid, subject to foreign tax credit limitation
General Business Credits	Various credits available to businesses for qualifying activities	Varies depending on the type of credit
Residential Energy Credit	Credit for taxpayers who make energy-efficient improvements to their homes.	<ul style="list-style-type: none"> Residential Clean Energy Credit: 30% of Qualified Energy-Efficient Improvements. Energy Efficient Home Improvement Credit: 10% of Qualified Energy-Efficient Improvements
Credit for Electric Vehicles	Credit for taxpayers who purchase qualified Electric Vehicles.	Up to \$7,500.

Other Taxes

- Federal Insurance Contributions Act (FICA) Tax & Self-Employment Tax

- Employee

	Employer's FICA Contribution	Employee's FICA Contribution	Total
FICA Social Security	6.2%	6.2%	12.4%
FICA Medicare	1.45%	1.45%	2.9%
Total Contribution	7.65%	7.65%	15.3%

- Withhold employees' shares from Wages
- Employer's FICA Share is Deductible as a business expense.

- Self Employed Individuals

- Self-Employed Individuals are required to pay both Employee's and Employers' share of FICA which is equal to 15.3%.
- Allowed to deduct the employer's portion of self-employment taxes (7.65%) paid by them which is 50% of total Self-Employment Taxes paid.

- Kiddie Tax

- The Kiddie Tax is a tax that applies to the unearned income of children
- Applies to children under the age of 19 and certain full-time students under the age of 24.
- A child is subject to kiddie tax if the following conditions are met:
 - Have net unearned income above \$2,700 (threshold amount for 2025).
 - The child did not pay for more than one-half of the support.

- Kiddie Tax Calculation

Child's Unearned Income	
(\$2,600)	
Net Unearned Minor Income	→ Taxed at Parent's Marginal Tax Rates

- Net Investment Income Tax
 - The Net Investment Income Tax (NIIT) is a 3.8% tax that applies to certain net investment income of individuals, estates, and trusts with income above the statutory threshold amounts.
 - Net Investment Income Tax Calculation
 - Net Investment Income Tax (NIIT) applies to the lesser of:
 - Net Investment Income
 - Amount by which Modified Adjusted Gross Income exceeds the thresholds:
Modified Adjusted Gross Income - \$200,000 (Single) / \$250,000 (MFJ) / \$125,000 (MFS)

Estimated Payments & Withholdings

- Estimated Payments
 - Estimated tax payments are typically due in four equal installments as follows:
 - 1st payment: April 15.
 - 2nd payment: June 15.
 - 3rd payment: September 15.
 - 4th payment: January 15 of the following year.
 - Penalty for Failure to Make Estimated Tax Payments
 - Penalty for underpayment of Estimated Taxes will not apply in the following circumstances:
 - Taxpayer owes less than \$1,000 on the tax return due date (April 15).
 - Estimated Tax Payments are equal to the lesser of:
 - ⇒ Withholding and Estimated Tax Payments is at least 90% of the Current Year Tax Liability.
 - ⇒ Withholding and Estimated Tax Payments are at least 100% of the Prior Year's Tax Liability (Withholding and Estimated Tax Payments are at least 110% of the Prior Year's Tax Liability if the Prior Year AGI was more than \$150,000)
 - Zero tax liability in the Prior Year.
- Withholdings
 - Income taxes that are withheld and paid directly by an individual's employer on their behalf.