

2025
NATIONAL INCOME TAX
WORKBOOK

Land Grant University

Tax Education Foundation

CHAPTER 10: INDIVIDUAL TAX ISSUES

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LEARNING OBJECTIVES

p.361

Understand how to select a taxpayer's filing status.

Identify when income is constructively received.

Explain itemized deductions on Schedule A (Form 1040).

Determine taxable income for student-athletes from NIL agreements.

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3

Pg 361

Understand how to amend a return for extended qualified disaster relief.

4

[illegible]

p.363

do not qualify for head of household or qualifying surviving spouse status.

5

[illegible]

p.363

- They are either unmarried or Legally separated under a divorce or separate maintenance decree, as determined by state law.

6

[illegible]

p.363

- They are married and live together.
- They live together in a common-law marriage state or entered into a common-law marriage in another state.

7

[illegible]

p.363

- They are married but live apart without being legally separated under a divorce or separate maintenance decree.
- They are separated under a divorce decree that is not yet final.

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p.363

- they are considered married and
- both spouses agree to file a joint return.

9

[illegible]

ISSUE 1: Filing Status

p.363

Married Filing Jointly

They can file as married filing jointly (MFJ) with the deceased spouse

If the surviving spouse remarries before the end of the year:

The surviving spouse can file jointly with the new spouse

And file the deceased spouse's return as married filing separately.

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Cross Reference-Relief from Joint Liability

p.363

Spouses filing a joint tax return are both fully responsible for the total tax, interest, and penalties on their combined income.

However, one spouse may be excused from this responsibility for errors made by the other spouse through one of three types of relief:

1. Innocent spouse relief,

2. Separation of liability, or

3. Equitable relief.

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ISSUE 1: Filing Status

p.364

Married Filing Separately

A married couple can choose to file as married filing separately (MFS). A taxpayer filing as MFS usually pays more tax due to:

1. Higher average tax rates compared to joint returns.

2. Ineligibility for the child and dependent care credit.

3. Ineligibility for education credits and the student loan interest deduction.

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ISSUE 1: Filing Status

p.364

Married Filing Separately (Con't)

4. Possible ineligibility for the earned income tax credit.

5. Reduced child tax credit and credit for other dependents.

6. Both spouses must itemize deductions if one chooses to, even if it results in less benefit for the other.

7. 85% of SS is taxable income.

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ISSUE 1: Filing Status

p.364

Joint Return after Separate Returns

Taxpayers who filed MFS may file an amended tax return to change their filing status to MFJ.

Generally, the amended return must be filed within 3 years of the due date of the separate returns, without extensions.

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ISSUE 1: Filing Status

p.364

Separate Returns after Joint Return

Taxpayers cannot switch from a joint return to separate returns after the return's due date.

However, a personal representative for a deceased individual has up to one year from the return's due date (including extensions) to change the joint return to a separate return for the decedent.

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ISSUE 1: Filing Status

p.364

Cross Reference-Ethics

Determining a taxpayer's legal marital status may involve legal expertise, and assisting taxpayers in selecting the correct filing status can lead to potential conflicts of interest.

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ISSUE 1: Filing Status

p.364-365

Head of Household (HoH)

A taxpayer must meet all these conditions:

- Be unmarried as of the last day of the tax year, with exceptions for certain married individuals living apart or married to nonresident aliens.
- Cannot claim HoH status in the year their spouse died; they must file a joint or separate return.

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ISSUE 1: Filing Status

p.364-365

Head of Household (Con't)

- Must be a U.S. citizen or resident.
- The taxpayer must pay over half the costs of maintaining a home where a qualifying person lived for more than half the year. A taxpayer with a dependent parent qualifies even if the parent does not live with them.

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ISSUE 1: Filing Status

p.365

Considered Unmarried

A taxpayer is considered unmarried on the last day of the tax year if all the following conditions are met:

1. The taxpayer files separately (MFS, single, or HoH).

2. The taxpayer paid over half the cost of maintaining their home.

3. The spouse did not live in the home during the last 6 months of the year.

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ISSUE 1: Filing Status

p.365

Considered Unmarried (Con't)

4. The home was the main residence of the taxpayer's child, stepchild, or foster child for more than half the year.

5. The taxpayer can claim an exemption for the child or meets the requirements for suspended exemptions, because the noncustodial parent claims the child.

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ISSUE 1: Filing Status

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Costs of Maintaining the Home

Includes	Excludes
▪ Property Taxes	▪ Clothing
▪ Mortgage Interest	▪ Education
▪ Rent	▪ Medical Treatment
▪ Utilities	▪ Vacations
▪ Repairs & Upkeep	▪ Life Insurance
▪ Property Insurance	▪ Transportation
▪ Food Consumed at Home	▪ Taxpayer-provided Services

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- Earned Income Tax Credit
- Child Tax Credit
- Additional Child Tax Credit
- Credit for Other Dependents
- American Opportunity Tax Credit
- HoH Filing Status

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IRS Publication 501, *Dependents, Standard Deduction, and Filing Information*, Table A

23

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p.367

IRS Publication 501, *Dependents, Standard Deduction, and Filing Information*, pp. 18-19

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ISSUE 1: Filing Status

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Cross-Reference

Qualifying Child must meet 5 tests:

•Relationship

•Age

•Residency

•Support

•Joint Return

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ISSUE 1: Filing Status

P.367

Cross-Reference

Qualifying Relative:

•Cannot be a qualifying child for any taxpayer

•Must meet member of household or relationship test

•Gross Income Test

•Support Test

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ISSUE 1: Filing Status

p.367

Qualifying Surviving Spouse

A surviving spouse can file as married filing jointly (MFJ) in the year of their spouse's death and as a qualifying surviving spouse for the two years following the spouse's death.

To file as a qualifying surviving spouse, the surviving spouse must:

1. Have been eligible to file MFJ with the deceased spouse in the year of their death.

2. Ensure the spouse died in 2023 or 2024 and not remarry before the end of 2025.

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ISSUE 1: Filing Status

p.367

Qualifying Surviving Spouse (Con't)

3. Have a child or stepchild who qualifies as a dependent.

4. Have the child live in their home all year, except for temporary absences.

5. Pay more than half the cost of maintaining the home.

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Filing Status Effect on Tax Rates

p.368

Single vs. MFJ

For taxpayers in the 32% tax bracket or lower, the MFJ tax brackets are double those of single filers, meaning filing as married or single has no effect on tax rates. However, in the 35% and 37% brackets, the MFJ tax brackets are not double, resulting in a marriage penalty for MFJ filers.

See Figure 10.3 on page 368

Example 10.3, high income couple contemplating marriage, resulting in a \$7,969 higher tax liability than if filing as two single taxpayers

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ISSUE 1: Filing Status

p.369

Single versus HoH

In 2025, Head of Household (HoH) filers benefit from more favorable tax brackets compared to single filers in the 10%, 12%, and 22% tax brackets.

HoH taxpayers in the 24% bracket and higher have similar tax brackets to single taxpayers but still benefit from more favorable tax calculations.

See Figure 10.4 on page 369 for tax rate/income comparisons

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ISSUE 1: Filing Status

p.370

Example 10.4 Allocating HoH Status

Mark is divorced and has a 12-year-old daughter who splits her time between her parents' homes. She qualifies as a dependent for both Mark and his ex-wife, Julie.

In 2025, Julie's taxable income was \$550,000, and Mark's taxable income was \$50,000.

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ISSUE 1: Filing Status

p.370

Example 10.4 Allocating HoH Status (Con't)

The Head of Household (HoH) filing status provides a \$4,513 tax benefit to Julie and a \$1,154 tax benefit to Mark, making it \$3,359 more advantageous for Julie before factoring in tax credits.

Julie cannot claim the child tax credit or the earned income tax credit (EIC) due to her high income. Mark qualifies for the \$2,000 child tax credit but does not qualify for the EIC because his earned income exceeds the phaseout threshold.

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Cross Reference-Allocation of Tax Benefits

p.370

Only one person can claim a child as a qualifying child to receive tax benefits such as:

- Earned income tax credit (EIC)
- Child tax credit (CTC)
- Additional child tax credit (ACTC)
- Credit for other dependents (ODC)
- Head of household (HoH) status
- Child and dependent care expenses credit
- Dependent care benefits exclusion

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[illegible]

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Issue 2: Constructive Receipt

p.371

Constructive Receipt-Corporate Stock

Stock compensation is not considered constructively received if there are significant restrictions or limitations on accessing it.

For example, if a corporation credits employees with bonus stock but the stock is not accessible until a later date, it does not count as constructively received.

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Issue 2: Constructive Receipt

p.371-372

Constructive Receipt-Interest and Dividends

Interest or dividends are considered constructively received by a cash basis taxpayer if they are available without restrictions, even if not actually received.

Example 10.5 Dividend Mailed In Subsequent Year
Winter Garden Corporation declared a dividend payable on December 31, 2025. Although the checks were mailed and received by shareholders in January 2026, the dividends are considered constructively received in 2026.

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Issue 2: Constructive Receipt

p.372

Constructive Receipt-Royalties

Royalties are considered constructively received when they are unconditionally available to the taxpayer, such as when credited to their account by the lessee.

Example 10.6 Royalty Income not Unconditionally Available
Blanche owned mineral rights in land leased to an oil company. After her death in 2025, the oil company held royalty payments in a suspense account. In 2026, the company identified her heirs and distributed the royalties, which the beneficiaries reported as income in 2026.

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Issue 2: Constructive Receipt

p.372

Constructive Receipt-Trust Income

If a taxpayer is the sole income beneficiary of a trust and can demand payment from the trustee, all trust income is considered part of the taxpayer's income, even if it is not actually distributed.

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Issue 2: Constructive Receipt

p.372

Example 10.7-Trust does not enforce repayment of loans

Robert Greene sold property interests in California and transferred the proceeds to a grantor trust managed by his employee. The trust loaned him money upon request without enforcing repayment terms or interest payments, giving Robert full control over the funds. As a result, he was deemed to have constructive receipt of the sale proceeds.

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Issue 2: Constructive Receipt

p.373

Constructive Receipt-Compensation, Prizes, Bonuses

Compensation, prizes, and bonuses must be included in gross income for the year they are actually or constructively received.

- Credited to TP's account
- Set apart for the TP
- Made available to TP

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Issue 2: Constructive Receipt

p.373

Sent By Mail

Check is mailed to a taxpayer at the end of December
Received in January
Taxable in the year it is received, not the year it was mailed.

Example 10.8-Attempted Delivery of Certified mail-Taxable in year of attempted delivery, even though she was not home and the PO was closed when she went there to collect mail.

Example 10.9-Interesting different result because she did not expect the check and did not intentionally delay.

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Issue 2: Constructive Receipt

p.374

Constructive Receipt-Substantial Restrictions

A taxpayer does not have constructive receipt of compensation, prizes, or bonuses if there are significant limitations or restrictions on when or how the payment can be received.

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Issue 2: Constructive Receipt

p.374

Constructive Receipt-Substantial Restrictions

Example 10.10-Distance and Timing were substantial restrictions on receipt

Taxpayer earned a \$13,095 commission, but the check dated December 30 was mailed to him that day and not received until January. December 30 was on a Saturday and company was 40 miles away—not taxable until year received in mail

Example 10.11-Paul Hornung, NFL star was awarded Corvette on 12/31, but did not get keys until 1/3. Not taxable until later year

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p.374

The constructive receipt doctrine does not apply when an employee's compensation amount cannot be determined by the end of the year.

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[illegible]

p.374

Taxpayer does not include the bonus in his 2025 income because the amount was not determined. Instead, he reports it as part of his 2026 gross income. End

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[illegible]

p. 386

- Student-athletes must report NIL income on their federal and state tax returns or their parents' returns.
- NIL collectives, independent entities that pool funds from boosters and businesses, provide financial opportunities for student-athletes.
- Some NIL collectives have previously obtained tax-exempt status from the IRS.

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[illegible]

p.386

Practitioner Note-When NCAA NIL policy conflicts with state law NIL policy, NCAA takes the position that NCAA NIL policy is the governing authority

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[illegible]

p.386-387

Student-athletes performing NIL services are typically considered independent contractors. They must file a federal tax return to report self-employment income if their net earnings from NIL activities are at least \$400 or if their income exceeds the standard deduction.

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[illegible]

p. 387

Income or benefits received by student-athletes from NIL activities must be reported as taxable income on the FAFSA, which can affect financial aid eligibility, including Pell Grants.

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p. 387

Most students engage with these groups, while top-tier athletes may negotiate NIL contracts through professional services providers.

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[illegible]

p. 387

Student-athletes enter into NIL agreements with collectives, which may involve upfront payments, monthly payments, and other incentives. Collectives also accept charitable contributions and collaborate with local and regional charities to create paid NIL opportunities for student-athletes.

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p.387

However, recent IRS guidance indicates that these collectives typically do not qualify for tax-exempt status, and contributions to them are not tax-deductible.

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[illegible]

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[illegible]

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Chapter 10
Issue 5
Kiddie Tax

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Kiddie Tax-Filing Requirements

p.389

For 2025, a dependent must file a tax return if:
Unearned income exceeds \$1,350.
Earned income exceeds \$15,750.
Both earned and unearned income result in gross income exceeding the greater of:

- \$1,350, or
- \$450 plus earned income (up to the \$15,750 standard deduction).

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Earned Income

p.390

Generally, earned income includes wages, tips, and payments for personal services.
For taxpayers in a trade or business where both personal services and capital contribute to income, earned income includes up to 30% of their share of net profits as reasonable compensation for their services. (Did you know this?)

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p.390

For kiddie tax purposes, Aaron can classify \$1,155 of his \$3,850 net profit as earned income if he proves his labor and management are worth that amount. The remaining \$2,695 is treated as unearned income for kiddie tax calculations. However, the full \$3,850 is considered earned income when calculating his standard deduction.

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p.390

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p.391

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Filing the Child's Returnp.391

4. At least one parent of the child must be alive at the end of the year.

5. The child must not file a joint tax return.

Unearned Income-list on page 390

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Which Parent's Income To Usep.391

If parent's file a joint return, then the parent's marginal tax rates are used

However, if the parent's do not file a joint return, which would not be the typical situation, then special rules apply. See page 390 for listing.

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Example 10.16 Calculation-Only Unearned Incomep.392-395

In 2025, 13-year-old Jerrod had \$6,350 in taxable interest income, \$3,000 in qualified dividends, and no earned income.

His parents, Logan and Jessica, filed a joint return with \$206,700 in taxable income at a 24% marginal tax rate. Jerrod's standard deduction was \$1,350, resulting in \$8,000 of taxable income.

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Example 10.16 Calculation-Only Unearned Income p.392-395

The author ran this on her Drake Software and they came up with the same number, same forms, same worksheets. The allocation of the qualified dividends between the parents and the child for purposes of the tax calculations was handled automatically by the software.

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67

Example 10.17-Kiddie Tax-Unearned & Earned Income p.396

In 2025, Rosalie Simmons, a 17-year-old living with her parents, earned \$5,000 in wages and \$4,700 in taxable interest income, totaling \$9,700 in gross income. She claimed a \$5,450 dependent standard deduction, leaving \$4,250 in taxable income, which resulted in \$425 in tax at a 10% rate.

Rosalie had \$2,000 of net unearned income (\$4,700-\$2,700), taxed at her parents' 24% rate, resulting in \$480. Her remaining taxable income was taxed at 10%, adding \$225. The total tax is \$705, which is higher than \$425, so she reports \$705 on line 16 of her Form 1040.

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Election-Reporting on the Parent's Return p.396

Form 8814

A parent can choose to report a child's interest, dividends, and capital gains on their own tax return, eliminating the need for the child to file a separate return. A parent can make this election if the following 8 conditions are met:

- Be under age 19 or a full-time student under age 24 at the end of the year.
- Have income solely from interest, dividends, capital gain distributions, or Alaska Permanent Fund dividends.
- Have gross income more than \$1,350 and less than \$13,500 for 2025.

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Election-Reporting on the Parent's Return p.396

4. The child is required to file a tax return

5. The child does not file a joint tax return.

6. No estimated tax payments or overpayment from a prior year were applied under the child's SSN.

7. No federal income tax was withheld from the child's income.

8. The parent must be eligible to make the election or file jointly with the child's other parent.

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Warning about using the 8814 p.395

It may save filing a separate return for the child,
BUT
Filing a separate tax return for a child can be more beneficial because certain tax benefits, like the additional standard deduction for blindness, penalty deductions for early savings withdrawal, and itemized deductions, are only available on the child's return. Additionally, qualifying dividends and capital gains distributions may be taxed at a 0% rate on the child's return, potentially eliminating tax on the first \$1,350.

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Example 10.18 Comparison of Tax 8814/8615 p.397-398

Form 8814, not doing that extra return for the child results in a total tax of \$1,539
Form 8615, filing that extra return for the child results in a total tax of \$1,452, so going with simpler process, the 8814, cost \$87.

Cost of tax preparation for the child's return?????????

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p.399

1. Convert ordinary income to capital gains or qualified dividends to utilize the zero percent tax rate.
2. Defer unearned income recognition until the child is no longer subject to the kiddie tax.
3. Use a section 529 plan for tuition instead of gifting money directly to the child.

73

[illegible]

p.399

4. Shift the child's investments to growth-focused assets rather than income-producing ones.
5. Employ the child in a family business to help them provide over half of their own support.
6. Let the child claim education credits if the parents exceed the income threshold for eligibility.

74

[illegible]

p.399

George and Maria can gift up to \$38,000 in appreciated stock to their 19-year-old son Marc, a full-time student eligible for the American Opportunity Tax Credit (AOTC).

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[illegible]

p.399

End

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p.400

1. Have adjusted gross income (AGI) below the phaseout limit.
2. Possess a valid Social Security Number (SSN).
3. Generally, not file as Married Filing Separately (MFS).
4. Be a U.S. citizen or resident alien for the entire tax year.

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p.400

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p.400

No qualifying child: \$19,104 (\$26,214 for Married Filing Jointly).

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[illegible]

p.400

A SSN is invalid for claiming the EIC if the social security card states "Not valid for employment" and was issued solely for accessing federally funded benefits.

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[illegible]

p.400

Practitioner Note - TP with ITIN not eligible for EITC

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[illegible]

p.401

They have a legal agreement (not a divorce decree) with their spouse and are not part of the same household by the end of the year.

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[illegible]

p.401

Investment Income limit in 2025 is \$11,950

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[illegible]

p.401

The rental value of a home or housing allowance provided to a minister is included in earned income for the Earned Income Tax Credit (EITC).

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[illegible]

p.401-402

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[illegible]

p.402

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[illegible]

p.402

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[illegible]

Claiming EITC with a Qualifying Child

p.402

Relationship Test- Must be the taxpayer's child, stepchild, foster child, adopted child, or a descendant of any of them (e.g., grandchild), or the taxpayer's sibling, half-sibling, step-sibling, or a descendant of any of them (e.g., niece or nephew).

Adopted children are considered the taxpayer's children for EIC purposes.

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Claiming EITC with a Qualifying Child

p.402-403

Age Test- A qualifying child must:

Be under age 19 at the end of the year and younger than the taxpayer (or spouse if filing jointly).

Be under age 24 at the end of the year, a full-time student, and younger than the taxpayer (or spouse if filing jointly).

Be permanently and totally disabled at any time during the year, regardless of age.

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Claiming EITC with a Qualifying Child

p.403

Residency Test- A qualifying child must live with the taxpayer in the U.S. for over 6 months of the year, with exceptions for military personnel, temporary absences, or situations involving birth, adoption, foster care, death, or kidnapping during the year.

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Claiming EITC with a Qualifying Child

p.403

Joint Return Test- A qualifying child cannot file a joint return if the taxpayer is claiming the EIC, except when the joint return is filed solely to claim a refund of withheld or estimated taxes.

Only one person can claim the child as a qualifying child.

Taxpayer is not a Qualifying Child of another Taxpayer.

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Example 10.20-Reporting The EITC

p.405-406

Erica Reyes, a single mother, files as head of household with two qualifying children, Shonda and Kaden. In 2025, she earned \$35,000 in wages and had no other income. P 405 illustrates the completion of 1040 Schedule EIC

FIGURE 10.14
Erica Reyes's EIC Calculation

Earned income	\$35,000	
Maximum earned income eligible for the EIC	\$17,880	
EIC percentage for two qualifying children	= 40%	
EIC before phaseout		\$7,152
Earned income	\$35,000	
Beginning phaseout threshold	(23,350)	
Earned income phaseout amount	\$11,650	
Phaseout percentage	= 21.06%	
EIC phaseout amount		(2,453)
EIC after phaseout		<u>\$4,699</u>
		End

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Issue 7: Qualified Disaster Relief

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p.407

From 2018 to 2025, personal casualty or theft losses are deductible only if caused by a federally declared disaster. These losses are reduced by \$100 per casualty and 10% of adjusted gross income (AGI), unless classified as qualified disaster losses.

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[illegible]

p.407

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p.407

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[illegible]

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[illegible]

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[illegible]

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[illegible]

Wildfire Relief Payments

p.412

The Federal Disaster Tax Relief Act of 2023 excludes compensation for expenses or losses from a qualified wildfire disaster (declared after 2014 due to a forest or range fire) from a taxpayer's gross income.

The act excludes qualified wildfire relief payments from gross income for tax years starting after December 31, 2019, and ending before January 1, 2026.

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Wildfire Relief Payments

p.412

These payments include compensation for:

Losses, expenses, or damages (including extra living expenses).

Lost wages (excluding wages an employer would have paid).

Personal injury, death, or emotional distress caused by a wildfire disaster, as long as the losses or expenses are not covered by insurance or other sources.

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Train Derailment Payments

p.412

The Federal Disaster Tax Relief Act of 2023 excludes payments for losses related to the East Palestine, Ohio, train derailment on February 3, 2023, from taxable income.

These payments, classified as qualified disaster relief payments, cover compensation for losses, damages, expenses, property value loss, real estate closing costs, or inconvenience.

They must be provided by government agencies, Norfolk Southern Railway, or its affiliates, and received on or after February 3, 2023.

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Any questions????????????????

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