

## 前言

USCPA—美国注册会计师，是由 AICPA 美国注册会计师协会颁发，是全球财会证书中含金量最高的证书之一，因其具备全球签字权，可换全球八个国家的会计资格证，成为全球使用范围最广的财会证书之一。目前 USCPA 在国内外的认可度极高，但报考流程复杂，考试范围广，全英文的内容这些因素困扰着备考学员。

因此，高顿财经 USCPA 教研团队基于多年的教学经验和研发积累，将”英文考核内容”和”中式学习方法”有机结合，多位讲师和学术研究员全身心投入，历时 2 年，完成了这套直接对标中国考生的 USCPA 学习资料。这套学习资料并非考纲知识点的简单罗列和展示，而是充分考虑中国考生的背景知识和思维惯性后，重新梳理整个考核体系和知识内容。在考点全覆盖的前提下，着重强调背景知识的介绍，语言表述的简化，相关考点的分析比较。考试趋势的总结预测，力争让”零基础”的中国学员也能顺畅阅读和理解，打破英文考试的壁垒。

作为一套更适合中国考生学习的 USCPA 学习资料，本套资料的学习方法总结如下：

1. 每本讲义的 task1 均为当年最新的官方考纲 blueprints，建议作为初期学习的一个知识指引和最后冲刺的一个自检清单；
2. 每本讲义均划分为独立的章节(Chapter/Section)，章节下设具体目标学习任务。学习时既要具体掌握细节考点，又要有”整体思想”，宏观把控各章节间的联系和不同章节的难易考核程度；
3. 正文 task 均强调添加”Background” “Note” “Summary” “Pass Key” “Example”等特色模块。佐以表格和图例，建议初次学习和复习阶段，重点把握本部分内容；
4. 正文内容和框架均为中国考生”量身打造”，从”为什么考?””考什么?””怎么考?”多维度对知识点进行重构，也建议学员按照这种思维进行备考学习；
5. 正文结束最后配备 Appendix，作为课外学习的补充资料，建议了解这部分内容。

最后，本套学习资料凝结了高顿财经多年的教学研究成果，我们衷心希望能帮助广大考生高分通过考试！

高顿 USCPA 教研团队

## Preface

USCPA—Certified Public Accountant of the United States, issued by the AICPA American Institute of Certified Public Accountants, is one of the most valuable certificates in the Global Accounting Certificate. Because of its global signature rights, it can be exchanged for accounting qualifications in eight countries around the world. At present, USCPA is highly recognized at home and abroad, but the application process is complex, the examination range is wide, and the English content plagues the test taker most.

Therefore, based on years of teaching research experience, Gordon USCPA Research Institute combines “English assessment content” with “Chinese learning method”. Together with many lecturers and researchers devoted themselves to it, after 2 years, this set of USCPA textbooks came out aimed specially for Chinese candidates. This set of textbooks is not a simple listing and display of the knowledge points of the exams. Instead, it fully considers the background knowledge and thinking inertia of Chinese candidates, and reorganizes the entire assessment system and knowledge content. To be more specific, it emphasizes the introduction of background information, the simplification of language expression, the analysis and comparison of relevant test sites. Which can help the “zero-based” students read and understand smoothly, break the barriers of English test.

As a set of USCPA textbooks that is more suitable for Chinese candidates, the learning methods of this set of books are summarized as follows:

1. The task1 of each book is the latest official blueprints of the year, recommended as a knowledge guide for the initial learning and a self-check list for the final sprint;
  2. Each book is divided into independent chapters/sections and specific tasks. When learning, it is necessary to have specific details of the test sites, but also need have overall reflection and macro control of the links between the chapters.
  3. The text task specially adds “Background” “Note” “Summary” “Pass Key” “Example” and other special modules. With the table and legend, it is recommended to focus on these parts during study.
  4. The content and framework of the text are “tailor-made” for Chinese candidates. On the strength of multi-dimensional reconstruction (“Why test this point?” “What this point mean?” “How to test?”) of test points, students can better prepare for exam.
  5. At the end of the book, Appendix is finally installed. As a supplement to extracurricular learning, it is recommended to simply understand this part.
- Finally, this set of textbooks has condensed the effort of teaching and research of Gaodun Finance for several years. We sincerely hope that this set of books can help the majority of candidates pass the exam!

此套资料参与教研老师如下

讲师：凤夙 杨菲霏

学术老师： 赵丁 姜悦



此资料为高顿内部学习资料，仅供高顿学员交流学习使用，未经上海高顿教育科技有限公司书面许可，任何单位及个人不得以任何方式或理由对该教材的任何部分进行使用、复制、永久下载、修改、传播、抄录或者与其它产品捆绑使用销售等。



# Contents-2025 V.1

<b>Section I:</b>	<b>29</b>
<b>Chapter 1: Individual Taxation-Filing a Return</b>	<b>29</b>
Task 1 Filing Requirements and Filing Status	31
<b>Chapter 2: Individual Taxation-Gross Income</b>	<b>45</b>
Task 1 Specific Income Items and Exclusion-Part I	47
Task 2 Specific Income Items and Exclusion-Part II	61
Task 3 Business, Farming Income & Rental Income	69
<b>Chapter 3: Individual Taxation-Above line deduction</b>	<b>77</b>
Task 1 Adjustments-Deduction to Arrive at AGI	79
<b>Chapter 4: Individual Taxation-Below line deduction</b>	<b>93</b>
Task 1 Standard Deductions and Itemized Deductions	95
Task 2 Qualified Business Income Deduction from Other Entities	115
<b>Chapter 5: Individual Taxation-Tax computation and Other Taxes</b>	<b>125</b>
Task 1 Tax Computation of Tax and Credits	127
<b>Section II:</b>	<b>151</b>
<b>Chapter 1: Property Taxtion</b>	<b>151</b>
Task 1 Property Overview and Basis Consideration	153
Task 2 Capital Gains and Losses	165
<b>Chapter 2: Cost Recovery</b>	<b>173</b>
Task 1 Depreciation, Depletion and Amortization	175
<b>Section III:</b>	<b>185</b>
<b>Chapter 1: Entity taxation</b>	<b>185</b>
Task 1 C Corporation Overview	187
Task 2 Difference between Book Income and Taxable Income	201
Task 3 Corporation Tax Computations and Credits	207
Task 4 NOLs and Capital Loss Limitations	215
<b>Chapter 2: Entity taxation – S corporation</b>	<b>219</b>
Task 1 S Corporation Overview	221
Task 2 S Corporation Overview-2	227
<b>Chapter 3: Entity taxation – Partnership and Limited liability Corporation</b>	<b>233</b>
Task 1 Partnership Overview	235
Task 2 Limited Liability Companies	245

<b>Chapter 4: Other taxation issues</b>	<b>249</b>
Task 1 Exempt Organizations	251
Task 2 State and Local Taxation	255
<b>Section IV:</b>	<b>263</b>
<b>Chapter 1: Ethic, Regulations and Responsibilities</b>	<b>263</b>
Task 1 Regulations Governing Practice before the IRS	265
Task 2 Regulations on Tax Return Preparers	273
Task 3 Licensing and Disciplinary Systems	279
Task 4 Tax Audits, Appeals and Judicial Process	283
Task 5 Substantiation and Disclosure of Tax Positions and Authoritative Hierarchy	289
Task 6 Taxpayer Penalties	291
Task 7 Legal Duties and Responsibilities	297
<b>Chapter 2: Contracts</b>	<b>303</b>
Task 1 Introduction and Creation of Contract	305
Task 2 Defenses of Contract	319
Task 3 Remedies and Third-Party Rights	329
Task 4 Sales Contract	339
Task 5 Transfer of Title and Warranties	347
Task 6 UCC Remedies	355
<b>Chapter 3: Agency</b>	<b>359</b>
Task 1 Agency Introduction and Creation of Agency Relationship	361
Task 2 Authority, Duties, Liabilities of Agents and Principals	367
<b>Chapter 4: Federal Regulation of Business</b>	<b>375</b>
Task 1 Federal Laws and Regulations	377
<b>Section V:</b>	<b>385</b>
<b>Chapter 1: Secured Transactions</b>	<b>385</b>
Task 1 Overview of Debtor-Creditor Relationship	387
Task 2 Creation of the Security Interest - Attachment	391
Task 3 Perfection of the Security Interest	392
Task 4 Rights on Default	395
<b>Chapter 2: Bankruptcy</b>	<b>397</b>
Task 1 Bankruptcy Introduction	399
Task 2 Common Feature of Chapter 7 and 11 Cases	401
Task 3 Features of a Chapter 7 Liquidation	407
Task 4 Features of Chapter 11-Reorganization	413
Task 5 Features of Chapter 13 and 15	415
<b>Chapter 3: Suretyship</b>	<b>417</b>
Task 1 Suretyship introduction and the rights of surety and creditor	419
Task 2 Defenses of Surety and Other Issues	425

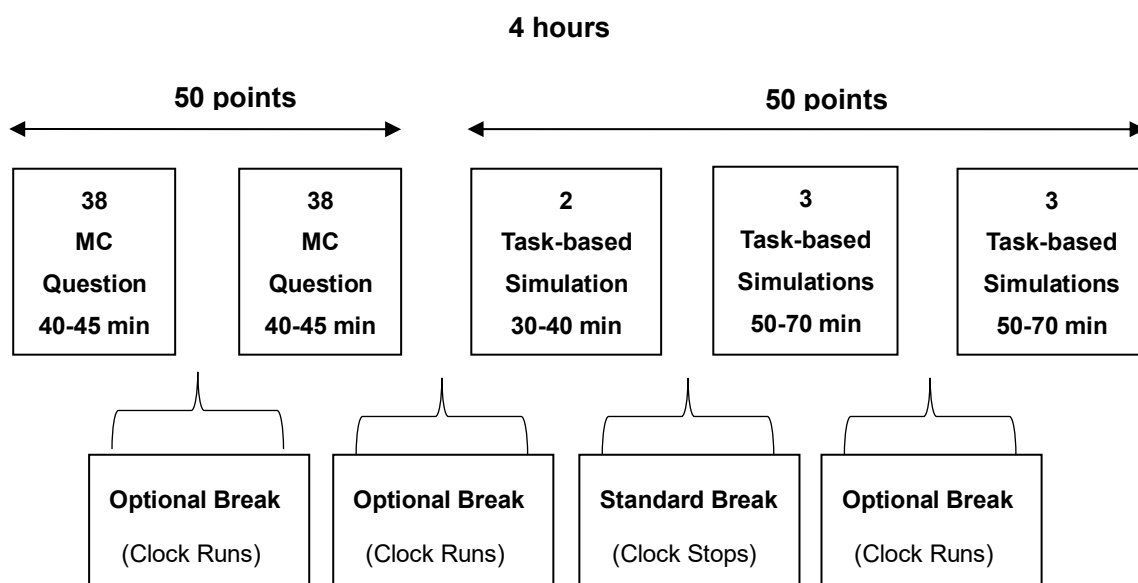
---

<b>Chapter 4: Business Structures</b>	<b>431</b>
Task 1 Summary of Entities	433
Task 2 Sole Proprietorship	435
Task 3 General Partnership and Joint Venture	437
Task 4 Limited Liability Partnership and Limited Partnership and Limited Liability Company	443
Task 5 C Corporation and S Corporation	449



## Exam Content Overview

### I. Exam Format:



### II. INTRODUCTION

The Regulation (REG) section of the Uniform CPA Examination (the Exam) tests the knowledge and skills that a newly licensed CPA must demonstrate with respect to:

- ◆ **U.S. federal taxation**
- ◆ **U.S. ethics and professional responsibilities related to tax practice**
- ◆ **U.S. business law**

A listing of reference materials relevant to the REG section of the Exam are included under References at the conclusion of this introduction.

#### A. Content Organization and Tasks

The REG section blueprint is organized by content AREA, content GROUP and content TOPIC. Each topic includes one or more representative TASKS that a newly licensed CPA may be expected to complete when performing tax preparation services, tax advisory services or other responsibilities of a CPA.

The tasks in the blueprint are representative. They are not intended to be (nor should they be viewed as) an all-inclusive list of tasks that may be tested in the REG section of the Exam. Additionally, it should be noted that the number of tasks associated with a particular content group or topic is not indicative of the extent such content group, topic or related skill level will be assessed on the Exam. Similarly, examples provided within the task statements should not be viewed as all-inclusive.

#### B. Content Allocation

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

CONTENT AREA		ALLOCATION
Area I	Ethics, Professional Responsibilities and Federal Tax Procedures	10–20%
Area II	Business law	10–20%
Area III	Federal Taxation of Property Transactions	12–22%
Area IV	Federal Taxation of Individuals	15–25%
Area V	Federal Taxation of Entities	28%–38%

### C. Overview of Content Areas

Area I of the REG section blueprint covers several topics, including the following:

1. **Ethics and Responsibilities in Tax Practice** – Requirements based on Treasury Department Circular 230 and the rules and regulations for tax return preparers
2. **Licensing and Disciplinary Systems** – Requirements of state boards of accountancy to obtain and maintain the CPA license
3. **Federal Tax Procedures** – Understanding federal tax processes and procedures, including appropriate disclosures, substantiation, penalties and authoritative hierarchy
4. **Legal Duties and Responsibilities** – Understanding legal issues that affect the CPA and his or her practice

Area II of the REG section blueprint covers several topics, including the following:

1. Knowledge and understanding of the legal implications of business transactions, particularly as they relate to accounting, auditing and financial reporting
2. Areas of agency, contracts, debtor-creditor relationships, government regulation of business, and business structure
  - a. The Uniform Commercial Code under the topics of contracts and debtor-creditor relationships
  - b. Nontax-related business structure content. Area V of the REG section blueprint covers the tax-related issues of the various business structures
3. Federal and widely adopted uniform state laws and references as identified in References below.

Area III, Area IV and Area V of the REG section blueprint cover various topics of federal income taxation and gift and estate tax. Accounting methods and periods, and tax elections are included in the Areas listed below:

1. Area III covers the federal income taxation of property transactions. Area III also covers topics related to federal estate and gift taxation.
2. Area IV covers the federal income taxation of individuals from both a tax preparation and tax planning perspective.
3. Area V covers the federal income taxation of entities including sole proprietorships, partnerships, limited liability companies, C corporations, S corporations, joint ventures, trusts, estates and tax-exempt organizations, from both a tax preparation and tax planning perspective.

### D. Skill Allocation

The Exam focuses on testing of higher order skills. Based on the nature of the task, each representative task in the REG section blueprint is assigned a skill level. REG section considerations related to the skill levels are discussed below.

Skill levels		
Evaluations	▲	The examination or assessment of problems, and use of judgment to draw conclusions.
Analysis		The examination and study of the interrelationships of separate areas in order to identify causes and find evidence to support inferences.
Application		The use or demonstration of knowledge, concepts or techniques.
Remembering and		The perception and comprehension of the significance of an area utilizing knowledge gained.

## Understanding

1. Remembering and Understanding is mainly concentrated in Area I and Area II. These two areas contain the general ethics, professional responsibilities and business law knowledge that is required for newly licensed CPAs and is tested at the lower end of the skill level continuum.
2. Application and analysis skills are primarily tested in Areas III, IV and V. These three areas contain more of the day-to-day tasks that newly licensed CPAs are expected to perform and therefore are tested at the higher end of the skill level continuum.

The representative tasks combine both the applicable content knowledge and the skills required in the context of the work that a newly licensed CPA would reasonably be expected to perform. The REG section does not test any content at the Evaluation skill level as newly licensed CPAs are not expected to demonstrate that level of skill in regards to the REG content.

**E. References**

- ◆ Revised Model Business Corporation Act
- ◆ Revised Uniform Limited Partnership Act
- ◆ Revised Uniform Partnership Act
- ◆ Securities Act of 1933
- ◆ Securities Exchange Act of 1934
- ◆ Uniform Accountancy Act
- ◆ Uniform Commercial Code
- ◆ Internal Revenue Code of 1986, as amended
- ◆ Treasury Department Circular 230
- ◆ Treasury Regulations
- ◆ Other administrative pronouncements regarding federal taxation
- ◆ Case law on federal taxation
- ◆ Public Law 86-272
- ◆ Uniform Division of Income for Tax Purposes Act (UDITPA)
- ◆ Current textbooks covering business law, federal taxation, auditing, accounting and ethics

**F. Summary blueprint**

Content Area Allocation	Weight
I. Ethics, Professional Responsibilities and Federal Tax Procedures	10–20%
II. Business law	10–20%
III. Federal Taxation of Property Transactions	12–22%
IV. Federal Taxation of Individuals	15–25%
V. Federal Taxation of Entities	28–38%

Skill levels	Allocation
Remembering and Understanding	25–35%
Application	35–45%
Analysis	25–35%
Evaluation	-

**Area I – Ethics, Professional Responsibilities and Federal Tax Procedures (10–20%)**

Content group/Topic	Skill				Representative tasks
	Remembering and understanding	Application	Analysis	Evaluation	
A. ETHICS AND RESPONSIBILITIES IN TAX PRACTICE					
1. Regulations governing practice before the Internal Revenue Service	√				Recall the regulations governing practice before the Internal Revenue Service.
		√			Apply the regulations governing practice before the Internal Revenue Service given a specific scenario.
2. Internal Revenue Code and Regulations Related to tax return preparers	√				Recall who is a tax return preparer.
	√				Recall situations that would result in federal tax return preparer penalties.
		√			Apply potential federal tax return preparer penalties given a specific scenario.
B. LICENSING AND DISCIPLINARY SYSTEMS					
	√				Understand and explain the role and authority of state boards of accountancy.
C. FEDERAL TAX PROCEDURES					
1. Audits, appeals and judicial process	√				Explain the audit and appeals process as it relates to federal tax matters.
	√				Explain the different levels of the judicial process as they relate to federal tax matters.
		√			Identify options available to a taxpayer within the audit and appeals process given a specific scenario.

		√			Identify options available to a taxpayer within the judicial process given a specific scenario.
<b>2. Substantiation and disclosure of tax positions</b>	√				Summarize the requirements for the appropriate disclosure of a federal tax return position.
		√			Identify situations in which disclosure of federal tax return positions is required.
		√			Identify whether substantiation is sufficient given a specific scenario.
<b>3. Taxpayer penalties</b>	√				Recall situations that would result in taxpayer penalties relating to federal tax returns.
		√			Calculate taxpayer penalties relating to federal tax returns.
<b>4. Authoritative hierarchy</b>	√				Recall the appropriate hierarchy of authority for federal tax purposes.
<b>D. LEGAL DUTIES AND RESPONSIBILITIES</b>					
<b>1. Common law duties and liabilities to clients and third parties</b>	√				Summarize the tax return preparer's common law duties and liabilities to clients and third parties.
		√			Identify situations which result in violations of the tax return preparer's common law duties and liabilities to clients and third parties.
<b>2. Privileged communication, confidentiality and privacy acts</b>	√				Summarize the rules regarding privileged communications as they relate to tax practice.
		√			Identify situations in which communications regarding tax practice are considered privileged.

## Area II – Business Law (10–20%)

Content group/Topic	Skill				Representative tasks
	Remembering and understanding	Application	Analysis	Evaluation	
A. AGENCY					
1. Authority of agents and principals	√				Recall the types of agent authority.
		√			Identify whether an agency relationship exists given a specific scenario.
2. Duties and liabilities of agents and principals	√				Explain the various duties and liabilities of agents and principals
		√			Identify the duty or liability of an agent or principal given a specific scenario.
B. CONTRACTS					
1. Formation	√				Summarize the elements of contract formation between parties.
		√			Identify whether a valid contract was formed given a specific scenario.
		√			Identify different types of contracts (e.g., written, verbal, unilateral, express, implied, etc.) given a specific scenario.
2. Performance	√				Explain the rules related to the fulfillment of performance obligations necessary for an executed contract.
		√			Identify whether both parties to a contract have fulfilled their performance obligation given a specific scenario.

<b>3. Discharge, breach and remedies</b>	√				Explain the different ways in which a contract can be discharged (e.g., performance, agreement, operation of the law).
	√				Summarize the different remedies available to a party for breach of contract.
		√			Identify situations involving breach of contract.
		√			Identify whether a contract has been discharged given a specific scenario.
		√			Identify the remedy available to a party for breach of contract given a specific scenario.
<b>C. DEBTOR-CREDITOR RELATIONSHIPS</b>					
	√				Explain the different ways in which a contract can be discharged (e.g., performance, agreement and operation of the law).
	√				Summarize the different remedies available to a party for breach of contract.
		√			Identify situations involving breach of contract.
		√			Identify whether a contract has been discharged given a specific scenario.
		√			Identify the remedy available to a party for breach of contract given a specific scenario
<b>D. GOVERNMENT REGULATION OF BUSINESS</b>					

	√				Summarize federal laws and regulations, for example, employment tax, qualified health plans and worker classification federal laws and regulations.
		√			Identify violations of federal laws and regulations, for example, employment tax, qualified health plans and worker classification federal laws and regulations.
<b>E. BUSINESS STRUCTURE</b>					
<b>1. Selection and formation of business entity and related operation and termination</b>	√				Summarize the processes for formation and termination of various business entities.
	√				Summarize the non-tax operational features for various business entities.
		√			Identify the type of business entity that is best described by a given set of nontax-related characteristics.
<b>2. Rights, duties, legal obligations and authority of owners and management</b>	√				Summarize the rights, duties, legal obligations and authority of owners and management.
		√			Identify the rights, duties, legal obligations or authorities of owners or management given a specific scenario.

**Area III – Federal Taxation of Property Transactions (12–22%)**

Content group/Topic	Skill				Representative tasks
	Remembering and understanding	Application	Analysis	Evaluation	

A. ACQUISITION AND DISPOSITION OF ASSETS					
<b>1. Basis and holding period of assets</b>		√			Calculate the tax basis of an asset.
		√			Determine the holding period of a disposed asset for classification of tax gain or loss.
<b>2. Taxable and nontaxable dispositions</b>		√			Calculate the realized and recognized gain or loss on the disposition of assets for federal income tax purposes.
		√			Calculate the realized gain, recognized gain and deferred gain on like-kind property exchange transactions for federal income tax purposes.
			√		Analyze asset sale and exchange transactions to determine whether they are taxable or nontaxable.
<b>3. Amount and character of gains and losses, and netting process (including installment sales)</b>		√			Calculate the amount of capital gains and losses for federal income tax purposes.
		√			Calculate the amount of ordinary income and loss for federal income tax purposes.
		√			Calculate the amount of gain on an installment sale for federal income tax purposes.
			√		Review asset transactions to determine the character (capital vs. ordinary) of the gain or loss for federal income tax purposes.
			√		Analyze an agreement of sale of an asset to determine whether it qualifies for installment sale

					treatment for federal income tax purposes.
<b>4. Related party transactions (including Imputed interest)</b>	√				Recall related parties for federal income tax purposes.
	√				Recall the impact of related party ownership percentages on acquisition and disposition transactions of property for federal income tax purposes.
		√			Calculate the direct and indirect ownership percentages of corporation stock to determine whether there are related parties for federal income tax purposes.
		√			Calculate a taxpayer's basis in an asset that was disposed of at a loss to the taxpayer by a related party.
		√			Calculate a taxpayer's gain or loss on a subsequent disposition of an asset to an unrelated third party that was previously disposed of at a loss to the taxpayer by a related party.
		√			Calculate the impact of imputed interest on related party transactions for federal tax purposes.
<b>B. COST RECOVERY (DEPRECIATION, DELETION AND AMORTIZATION)</b>					
		√			Calculate tax depreciation for tangible business property and tax amortization of intangible assets.
		√			Calculate depletion for federal income tax purposes.

			√		Compare the tax benefits of the different expensing options for tax depreciation for federal income tax purposes.
			√		Reconcile the activity in the beginning and ending accumulated tax depreciation account.
C.GIFT taxation					
	√				Recall allowable gift tax deductions and exclusions for federal gift tax purposes.
		√			Compute the amount of taxable gifts for federal gift tax purposes.

**Area IV – Federal Taxation of Individuals (including tax preparation and planning strategies (15–25%))**

Content group/Topic	Skill				Representative tasks
	Remembering and understanding	Application	Analysis	Evaluation	
A. GROSS INCOME (INCLUSIONS AND EXCLUSIONS)					
		√			Calculate the amounts that should be included in, or excluded from, an individual's gross income as reported on federal Form 1040 — U.S. Individual Income Tax Return.
			√		Analyze projected income for use in tax planning in future years.
			√		Analyze client-provided documentation to determine the appropriate amount of gross income to be reported on federal Form 1040 — U.S. Individual

					Income Tax Return.
B. REPORTING OF ITEMS FROM PASS-THROUGH ENTITIES					
		√			Prepare federal Form 1040 — U.S. Individual Income Tax Return based on the information provided on Schedule K-1.
C. ADJUSTMENTS AND DEDUCTIONS TO ARRIVE AT ADJUSTED GROSS INCOME AND TAXABLE INCOME					
		√			Calculate the amount of adjustments and deductions to arrive at adjusted gross income and taxable income on federal Form 1040 — U.S. Individual Income Tax Return.
		√			Calculate the qualifying business income (QBI) deduction for federal income tax purposes.
			√		Analyze client-provided documentation to determine the validity of the deductions taken to arrive at adjusted gross income or taxable income on federal Form 1040 — U.S. Individual Income Tax Return.
D. PASSIVE ACTIVITY LOSSES (EXCLUDING FOREIGN TAX CREDIT IMPLICATIONS)					
	√				Recall passive activities for federal income tax purposes.
		√			Calculate net passive activity gains and losses for federal income tax purposes.
		√			Prepare a loss carryforward schedule for passive activities for

					federal income tax purposes.
		√			Calculate utilization of suspended losses on the disposition of a passive activity for federal income tax purposes.
E. LOSS LIMITATIONS					
		√			Calculate loss limitations for federal income tax purposes for an individual taxpayer.
			√		Analyze projections to effectively minimize loss limitations for federal income tax purposes for an individual taxpayer.
			√		Determine the basis and the potential application of at-risk rules that can apply to activities for federal income tax purposes.
F. FILING STATUS					
	√				Recall taxpayer filing status for federal income tax purposes.
	√				Recall relationships meeting the definition of dependent for purposes of determining taxpayer filing status.
		√			Identify taxpayer filing status for federal income tax purposes given a specific scenario.
G. COMPUTATION OF TAX AND CREDITS					
	√				Recall and define minimum requirements for individual federal estimated tax payments to avoid penalties.

		√			Calculate the tax liability based on an individual's taxable income for federal income tax purposes.
		√			Calculate the impact of the tax deductions and tax credits and their effect on federal Form 1040 — U.S. Individual Income Tax Return.

**Area V – Federal Taxation of Entities (including tax preparation and planning strategies (10–20%))**

Content group/Topic	Skill				Representative tasks
	Remembering and understanding	Application	Analysis	Evaluation	
A. TAX TREATMENT OF FORMATION AND LIQUIDATION OF BUSINESS ENTITIES					
		√			Calculate the realized and recognized gain for the owner and entity upon the formation and liquidation of business entities for federal income tax purposes.
			√		Compare the tax implications of liquidating distributions from different business entities.
			√		Analyze the tax advantages and disadvantages in the formation of a new business entity.
B. DIFFERENCES BETWEEN BOOK AND TAX INCOME (LOSS)					
		√			Identify permanent vs. temporary differences to be reported on Schedule M-1 and/or M-3.

		√			Calculate the book/tax differences to be reported on a Schedule M-1 or M-3.
		√			Prepare a Schedule M-1 or M-3 for a business entity.
			√		Reconcile the differences between book and taxable income (loss) of a business entity.
<b>C. C CORPORATIONS</b>					
<b>1. Computations of taxable income, tax liability and allowable credits</b>		√			Calculate taxable income and tax liability for a C corporation.
		√			Calculate the credits allowable as a reduction of tax for a C corporation.
<b>2. Net operating losses and capital loss limitations</b>		√			Calculate the current-year net operating or capital loss of a C corporation.
		√			Prepare a net operating and/or capital loss carryforward schedule for a C corporation.
<b>3. Entity/owner transactions, including contributions, loans and distributions</b>		√			Calculate an entity owner's basis in C corporation stock for federal income tax purposes.
		√			Calculate the tax gain (loss) realized and recognized by both the shareholders and the corporation on a contribution or on a distribution in complete liquidation of a C corporation for federal income tax purposes.
		√			Calculate the tax gain (loss) realized and

					recognized on a nonliquidating distribution by both a C corporation and its shareholders for federal income tax purposes.
		√			Calculate the amount of the cash distributions to shareholders of a C corporation that represents a dividend, return of capital or capital gain for federal income tax purposes.
			√		Reconcile an owner's beginning and ending basis in C corporation stock for federal income tax purposes.
<b>4. Consolidated tax returns</b>	√				Recall the requirements for filing a consolidated federal Form 1120 — U.S. Corporation Income Tax Return.
		√			Prepare a consolidated federal Form 1120 — U.S. Corporation Income Tax Return.
		√			Calculate federal taxable income for a consolidated federal Form 1120 — U.S. Corporation Income Tax Return.
<b>5. Multijurisdictional tax issues (including consideration of local, state and international tax issues)</b>	√				Define the general concept and rationale of nexus with respect to multijurisdictional transactions.
	√				Define the general concept and rationale of apportionment and allocation with respect to state and local taxation.

	√				Explain the difference between a foreign branch and foreign subsidiary with respect to federal income taxation to a U.S. company.
	√				Explain how different types of foreign income are sourced in calculating the foreign tax credit for federal income tax purposes.
	√				Recall payment sources to determine federal tax withholding requirements.
	√				Identify situations where the base erosion and anti-abuse tax (BEAT) would apply.
	√				Identify factors that would qualify income as Foreign Derived Intangible Income (FDII).
	√				Define the components of Global Intangible Low-Taxed Income (GILTI).
		√			Identify situations that would create nexus for multijurisdictional transactions.
		√			Identify the federal filing requirements of cross border business investments.
		√			Calculate the apportionment percentage used in determining state taxable income.
<b>D. S CORPORATIONS</b>					
<b>1. Eligibility and election</b>	√				Recall eligible shareholders for an S

					corporation for federal income tax purposes.
	√				Recall S corporation eligibility requirements for federal income tax purposes.
	√				Explain the procedures to make a valid S corporation election for federal income tax purposes.
		√			Identify situations in which S corporation status would be revoked or terminated for federal income tax purposes.
<b>2.Determination of ordinary business income (loss) and separately stated items</b>		√			Calculate ordinary business income (loss) for an S corporation for federal income tax purposes.
			√		Analyze both the accumulated adjustment account and the other adjustments account of an S corporation for federal income tax purposes.
			√		Analyze the accumulated earnings and profits account of an S corporation that has been converted from a C corporation.
			√		Analyze components of S corporation income/deductions to determine classification as ordinary business income (loss) or separately stated items on federal Form 1120S — U.S. Income Tax Return for an S

					Corporation.
<b>3. Basis of shareholder's interest</b>		√			Calculate the shareholder's basis in S corporation stock for federal income tax purposes.
			√		Analyze shareholder transactions with an S corporation to determine the impact on the shareholder's basis for federal income tax purposes.
<b>4. Entity/owner transactions (including contributions, loans and distributions)</b>		√			Calculate the realized and recognized gain or loss to the shareholder of property contribution to an S corporation.
		√			Calculate the allocation of S corporation income (loss) after the sale of a shareholder's share in the S corporation for federal income tax purposes.
			√		Analyze the shareholder's impact of an S corporation's loss in excess of the shareholder's basis for federal income tax purposes.
			√		Analyze the federal income tax implication to the shareholders and the S corporation resulting from shareholder contributions and loans as well as S corporation distributions and loans to shareholders.
<b>5. Built-in gains tax</b>	√				Recall factors that cause a built-in gains tax to apply for federal income

					tax purposes.
<b>E. PARTNERSHIPS</b>					
<b>1.Determination of ordinary business income (loss) and separately stated items</b>		√			Calculate ordinary business income (loss) for a partnership for federal income tax purposes.
			√		Analyze components of partnership income/deductions to determine classification as ordinary business income (loss) or separately stated items on federal Form 1065 — U.S Return of Partnership Income.
<b>2. Basis of partner's interest and basis of assets contributed to the partnership</b>		√			Calculate the partner's basis in the partnership for federal income tax purposes.
		√			Calculate the partnership's basis in assets contributed by the partner for federal income tax purposes.
			√		Analyze partner contributions to the partnership to determine the impact on the partner's basis for federal income tax purposes.
<b>3. Partnership and partner elections</b>	√				Recall partner elections applicable to a partnership for federal income tax purposes.
<b>4. Transactions between a partner and the partnership (including</b>		√			Calculate the tax implications of certain transactions between a partner and partnership (such as services

<b>services performed by a partner and loans)</b>					performed by a partner or loans) for federal income tax purposes.
			√		Analyze the tax implications of a partner transaction with the partnership (such as services performed by a partner or loans) to determine the impact on the partner's tax basis for federal income tax purposes.
<b>5. Impact of partnership liabilities on a partner's interest in a partnership</b>		√			Calculate the impact of increases and decreases of partnership liabilities on a partner's basis for federal income tax purposes.
			√		Analyze the impact of partnership liabilities as they relate to the general partners and limited partners for federal income tax purposes.
<b>6. Distribution of partnership assets</b>		√			Calculate the realized and recognized gains (losses) by the partnership and partners of liquidating distributions from the partnership for federal income tax purposes.
		√			Calculate the realized and recognized gains (losses) by the partnership and partners of nonliquidating distributions from the partnership for federal income tax purposes.
		√			Calculate the partner's basis of partnership assets received in a

					liquidating distribution for federal income tax purposes.
		√			Calculate the partner's basis of partnership assets received in a non-liquidating distribution for federal income tax purposes.
<b>7. Ownership changes</b>	√				Recall the situations in which a partnership would be terminated for federal income tax purposes.
		√			Calculate the allocation of partnership income (loss) after the sale of a partner's share in the partnership for federal income tax purposes.
		√			Calculate the revised basis of partnership assets due to a transfer of a partnership interest for federal income tax purposes.
<b>F. LIMITED LIABILITY COMPANIES</b>					
	√				Recall the tax classification options for a limited liability company for federal income tax purposes.
<b>G. TRUSTS AND ESTATES</b>					
	√				Recall and explain the differences between simple and complex trusts for federal income tax purposes.
<b>H. TAX-EXEMPT ORGANIZATIONS</b>					
<b>1. Types of organizations</b>	√				Recall the different types of tax-exempt organizations for federal

					tax purposes.
<b>2. Unrelated business income</b>	√				Recall the different types of unrelated business income for tax-exempt organizations for federal tax purposes.



# **Section I:**

## **Chapter 1: Individual Taxation-Filing a Return**

Task 1: Filing requirements and filing status

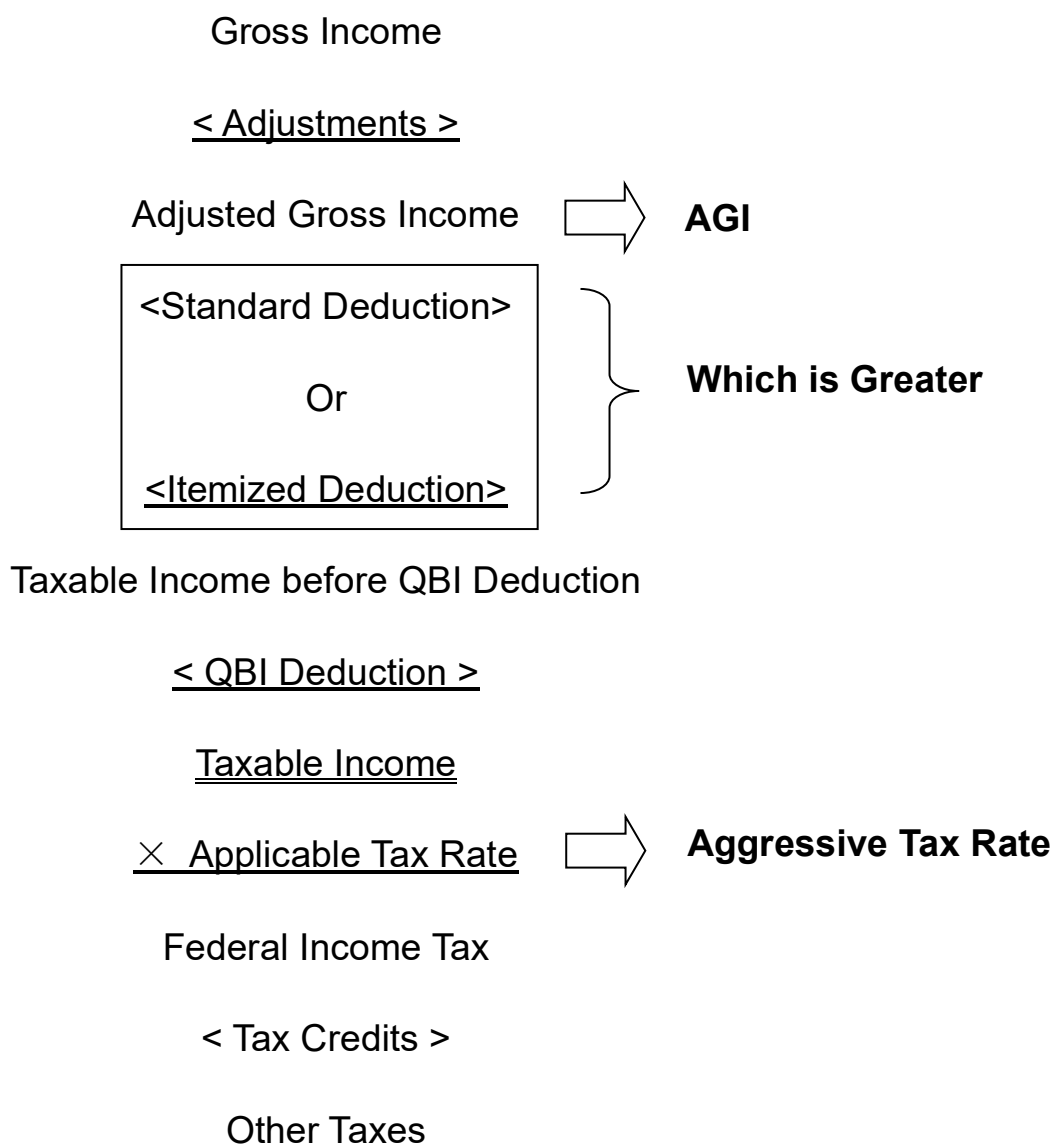


## Task 1 Filing Requirements and Filing Status

### BACKGROUND

In the United States, a percentage of all the money that individuals and businesses earn and spend is collected by federal, state and local governments through various kinds of taxes, such as sales tax, property tax, payroll tax, and income tax. In addition, income taxes are the primary source of revenue for the federal government and many states, and even some towns and cities, also impose income taxes. For many individuals, federal income tax is the largest category of tax they pay. "Nothing is certain, except death and taxes." Let's get started with individual income tax. Given the pervasiveness of taxation, it is important that we understand the tax formula for individuals illustrated below.

### Income Tax Formula for Individuals:



&lt; Payments &gt;

Tax Due/ Refund**Calculation of Taxable Income (in detail)****Gross Income**

Wages  
Interest  
Dividends  
State Tax Refunds  
Alimony Received\*  
Business Income  
Capital Gain/Loss  
IRA Income  
Pension and Annuity  
Rental Income/Loss  
K-1 Income/Loss  
Unemployment Compensation  
Social Security Benefits  
Other Income

&lt; Adjustments &gt;

Educator Expenses  
IRA  
Student Loan Interest Expenses  
Alimony Paid\*  
Health Savings Account  
Moving Expenses \*\*  
One-half Self-Employment Taxes  
Self-Employed Health Insurance  
Self-Employed Retirement  
Interest Withdrawal Penalty

**Adjusted Gross Income (AGI)**

&lt; Standard Deductions &gt; or

&lt; Itemized Deductions &gt;

**Taxable Income before QBI**

Medical (7.5%)  
Taxes-State/Local (income/sales & property  
Up to \$10,000)  
Interest Expense (Home & Investment)  
Charity (AGI limit varies by type)  
Casualty/Theft (in excess of 10% of AGI and  
\$100 floor)

## **Deduction**

### **< QBI Deduction >**

---

### **Taxable Income**

---

\* A divorce agreement entered into on or before December 31, 2018, are deductible by the party making the payment and are includable in the gross income of the party receiving the payments. This change was made by the TCJA of 2017.

\*\*Adjustment for moving expenses only available for members of U.S. armed force following military order.

## Form 1040 U.S. Individuals Income Tax Return

Form 1040		Department of the Treasury—Internal Revenue Service		2023		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2023, or other tax year beginning _____, 2023, ending _____, 20____						See separate instructions.			
Your first name and middle initial			Last name			Your social security number			
If joint return, spouse's first name and middle initial			Last name			Spouse's social security number			
Home address (number and street). If you have a P.O. box, see instructions.						Apt. no.		<b>Presidential Election Campaign</b> Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
City, town, or post office. If you have a foreign address, also complete spaces below.				State		ZIP code			
Foreign country name		Foreign province/state/county		Foreign postal code					
<b>Filing Status</b>		<input type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Married filing jointly (even if only one had income) <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Qualifying surviving spouse (QSS) If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____							
Check only one box.									
<b>Digital Assets</b>		At any time during 2023, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) <input type="checkbox"/> Yes <input type="checkbox"/> No							
<b>Standard Deduction</b>		Someone can claim: <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent <input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien							
<b>Age/Blindness</b>		You: <input type="checkbox"/> Were born before January 2, 1959 <input type="checkbox"/> Are blind Spouse: <input type="checkbox"/> Was born before January 2, 1959 <input type="checkbox"/> Is blind							
<b>Dependents</b>		(see instructions):							
If more than four dependents, see instructions and check here <input type="checkbox"/>		(1) First name Last name		(2) Social security number		(3) Relationship to you		(4) Check the box if qualifies for (see instructions): Child tax credit Credit for other dependents	
								<input type="checkbox"/> <input type="checkbox"/>	
								<input type="checkbox"/> <input type="checkbox"/>	
								<input type="checkbox"/> <input type="checkbox"/>	
								<input type="checkbox"/> <input type="checkbox"/>	
								<input type="checkbox"/> <input type="checkbox"/>	
<b>Income</b>		1a Total amount from Form(s) W-2, box 1 (see instructions) 1a							
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2 1b							
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions) 1c							
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions) 1d							
		e Taxable dependent care benefits from Form 2441, line 26 1e							
		f Employer-provided adoption benefits from Form 8839, line 29 1f							
		g Wages from Form 8919, line 6 1g							
		h Other earned income (see instructions) 1h							
		i Nontaxable combat pay election (see instructions) 1i							
		z Add lines 1a through 1h 1z							
Attach Sch. B if required.		2a Tax-exempt interest 2a		b Taxable interest 2b					
		3a Qualified dividends 3a		b Ordinary dividends 3b					
		4a IRA distributions 4a		b Taxable amount 4b					
		5a Pensions and annuities 5a		b Taxable amount 5b					
		6a Social security benefits 6a		b Taxable amount 6b					
		c If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>							
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 7							
		8 Additional income from Schedule 1, line 10 8							
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income 9							
		10 Adjustments to income from Schedule 1, line 26 10							
		11 Subtract line 10 from line 9. This is your adjusted gross income 11							
		12 Standard deduction or itemized deductions (from Schedule A) 12							
		13 Qualified business income deduction from Form 8995 or Form 8995-A 13							
		14 Add lines 12 and 13 14							
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income 15							

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2023)

# Form 1040 U.S. Individuals Income Tax Return (Continued)

Form 1040 (2023)		Page <b>2</b>	
<b>Tax and Credits</b>	16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	
	17 Amount from Schedule 2, line 3	17	
	18 Add lines 16 and 17	18	
	19 Child tax credit or credit for other dependents from Schedule 8812	19	
	20 Amount from Schedule 3, line 8	20	
	21 Add lines 19 and 20	21	
	22 Subtract line 21 from line 18. If zero or less, enter -0-	22	
	23 Other taxes, including self-employment tax, from Schedule 2, line 21	23	
	24 Add lines 22 and 23. This is your <b>total tax</b>	24	
<b>Payments</b>	25 Federal income tax withheld from:		
	a Form(s) W-2	25a	
	b Form(s) 1099	25b	
	c Other forms (see instructions)	25c	
	d Add lines 25a through 25c	25d	
	26 2023 estimated tax payments and amount applied from 2022 return	26	
	27 Earned income credit (EIC)	27	
	28 Additional child tax credit from Schedule 8812	28	
	29 American opportunity credit from Form 8863, line 8	29	
	30 Reserved for future use	30	
	31 Amount from Schedule 3, line 15	31	
	32 Add lines 27, 28, 29, and 31. These are your <b>total other payments and refundable credits</b>	32	
	33 Add lines 25d, 26, and 32. These are your <b>total payments</b>	33	
<b>Refund</b>	34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	34	
	35a Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
Direct deposit? See instructions.	b Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d Account number <input type="text"/>		
	36 Amount of line 34 you want <b>applied to your 2024 estimated tax</b>	36	
<b>Amount You Owe</b>	37 Subtract line 33 from line 24. This is the <b>amount you owe</b> . For details on how to pay, go to <a href="http://www.irs.gov/Payments">www.irs.gov/Payments</a> or see instructions	37	
	38 Estimated tax penalty (see instructions)	38	
<b>Third Party Designee</b>	Do you want to allow another person to discuss this return with the IRS? See instructions <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No		
	Designee's name <input type="text"/>	Phone no. <input type="text"/>	Personal identification number (PIN) <input type="text"/>
<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	Your signature <input type="text"/>	Date <input type="text"/>	Your occupation <input type="text"/>
			If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
	Spouse's signature. If a joint return, <b>both</b> must sign. <input type="text"/>	Date <input type="text"/>	Spouse's occupation <input type="text"/>
			If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
	Phone no. <input type="text"/>	Email address <input type="text"/>	
<b>Paid Preparer Use Only</b>	Preparer's name <input type="text"/>	Preparer's signature <input type="text"/>	Date <input type="text"/>
	Firm's name <input type="text"/>	PTIN <input type="text"/>	Check if: <input type="checkbox"/> Self-employed
	Firm's address <input type="text"/>	Phone no. <input type="text"/>	Firm's EIN <input type="text"/>

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.Form **1040** (2023)

## I. Requirements for Filing

### A. Determine If Taxpayer needs to File a Return

#### 1. General Rule

Generally, an individual must file a tax return (i.e., Form 1040) if gross income equals or exceeds the sum of:

- The regular standard deduction plus
- The additional standard deduction (discussed later in Task 9) amount for taxpayers age 65 or older (except for married persons filing separately). The additional standard deduction for blindness is not

considered for this purpose.

The \$1,750(or \$1,400/each spouse for married) additional standard deduction for aged group is included in determining an individual's filing requirement; the additional standard deduction for blindness and dependency exemptions are not included.

**EXAMPLE- A Single Taxpayer Who is over 65**

A single individual age 67 must file a return for 2023 if the individual's gross income is at least \$13,850(standard deduction) +\$1,850(additional deduction) =\$15,700

## B. Determine When to File a Return

### 1. Due Date - April 15

Tax returns of individuals are due on or before the fifteen date of the fourth month following the close of the tax year. Thus, for a calendar year taxpayer, the usual filing date is on or before April 15 of the following year. When the due date falls on a Saturday, Sunday, or legal holiday, the filing deadline is the next business day.

### 2. Extension

#### a. "Automatic" Six-Month Extension to October 15

If a taxpayer is unable to file the return by the specified due date, a six-month automatic extension of time (until October 15) is obtained by filing Form 4868 by no later than the due date of the return. Some military personnel are allowed extra time to file their Forms 1040.

Although an extension provides additional time to file a return, it does not extend the deadline for paying any tax due. If more tax is owed, it should be paid when the Form 4868 is filed.

**NOTE**

Candidates should pay attention to that although the six-month extension is called automatic extension, taxpayer gets the six months' extension only by filing a Form 4868. Technically, it cannot be call automatic extension.

#### b. Payment of Tax

With either extension, the due date for payment of taxes remains April 15. Payment can be made by check or more commonly a direct payment using an indicated bank account elected on Form 1040.

## C. Where to File

IRS encourages using a tax preparation software to e-file or mailing a paper return to Department of Treasury Internal Revenue Service.

## II. Filing Status

**BACKGROUND**

The taxpayer must determine filing status before he/she can determine whether must file a tax return, his/her standard deduction (discussed later), and tax. The taxpayer also uses filing status to determine whether he/she is eligible to claim certain other deductions and credits. There are five filing statuses:

- (1) Single
- (2) Married Filing Jointly
- (3) Married Filing Separately
- (4) Head of Household, and
- (5) Qualifying Widow(er).

If more than one filing status applies to the taxpayer, he/she would choose the one that will give the lowest tax.

**Filing Status**

Check only one box.

☐ Single☐ Married filing jointly (even if only one had income)☐ Married filing separately (MFS)☐ Head of household (HOH)☐ Qualifying surviving spouse (QSS)

If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: \_\_\_\_\_

**A. Single (the Last Day of the Year Test)**

A taxpayer who is unmarried, divorced, or legally separated from his or her spouse and does not qualify for another filing status must file as a single taxpayer. Marital status is determined as of the last day of the tax year, except when a spouse dies during the year (in this case, marital status is determined as of the date of death).

**EXAMPLE- Single Taxpayers**

Tony and Kim legally divorced on December 31, 2023. They do not have any dependents. They cannot file either as married filing jointly or married filing separately for 2023. Instead, each must file as "single" for 2023.

**B. Married Filing Jointly (the Last Day of the Year Test)**

1. The taxpayer is considered married for the whole year if, on the last day of the tax year, he/she and his/her spouse are married and living together in a recognized common law marriage or married and living apart (but not legally separated or divorced).
- If the taxpayer is married during the year, a joint return may be filed, as long as the parties are still married at year end. This includes same-sex couples legally married under state law, same-sex couples have the right to marry in states.
- If the couple get divorced during the year, in other word, they are legally separated at year end, the taxpayer is considered unmarried for the whole year and is not allowed to file married filing jointly status.
- If one spouse died during the year, the taxpayer is considered married for the whole year and can choose married filing jointly as filing status.

**B. Married Filing Separately**

Most married couples file a joint return, because the combined amount of tax is lower. However, special circumstance may lead a couple to file separate return. Or a married taxpayer may choose married filing separately when this filing status may benefit if he/she want to be responsible only for his/her own tax or if it results in less tax than filing a joint return (but tax rate generally is higher than on a joint return).

If married individual elects to file separate returns, each report only his or her own income, deductions, and credits, and each must use the tax rates for those married filing separately.

Note that if one spouse chooses to file MFS, the other is forced to do the same, since a joint return must be signed by both spouses. Additional limitations apply to married persons who file separate returns, examples of these limitations is that if either spouse itemizes deductions, the other spouse must also itemize.

**NOTE**

Usually, tax filing software computes the tax under both assumptions to determine which filing status produces the lower tax liability. Once a joint return has been filed and the due date has passed, the spouses cannot switch to separate returns for that year. However, if married persons file separately, they can change later to a joint return.

**C. Qualifying Widow(er) (Surviving Spouse) with Dependent Child****1. Two Years after the Year Spouse Die**

Assuming the surviving spouse is not remarried, joint filing status is available for two years following the death of one spouse, if the surviving spouse maintains a household for a dependent child.

In the event of a remarriage, the surviving spouse can file a tax return (jointly or separately) with the new

spouse. His or her deceased spouse's filing status is married filing separately for the year of death.

## 2. Must Provide Principal Residence for Dependent Child

The surviving spouse must pay more than half the cost of keeping up a home for the taxable year and have a dependent child (including an adopted child but not a foster child, stepson, daughter or stepdaughter) o who can be claimed as a dependent living in the home (principal residence) all year except for temporary absences.

### EXAMPLE- Qualifying Widow(er)

Ailsa's husband dies on May 15, 2019. She has one dependent child. Alisa does not remarry. Therefore, Alisa's filing status for 2019 is MFJ (the last year her husband was alive). In 2020 and 2021, she can file as a qualifying widow, which is a more favorable filing status than single or HOH. In 2022, she would file as HOH, assuming the same facts and she still does not remarry.

## D. Head of Household

An unmarried individual who maintains a household for one or more dependents may qualify to use the head-of-household filing status. The tax liability using the head-of-household rates falls between the tax liabilities for married taxpayers filing jointly and single taxpayers. The following conditions must be satisfied to filing as head of household.

- Taxpayer is not qualified for qualifying widow(er) and married filing jointly filing status.
- Taxpayer may be married but live apart from his or her spouse for the last six months of the taxable year.
- Taxpayer cannot be a nonresident alien.
- The taxpayer pays more than half the cost of maintaining a household as his or her home. The household also must be the principal home of a dependent (either a qualifying child or a qualifying relative who meets the relationship test, defined later).
- Except for temporary absences (e.g., school, hospitalization), the dependent must live in the taxpayer's household for more than half the year. However, if the qualifying person is taxpayer's dependent parent, he or she doesn't have to live with the taxpayer.

### 1. A Dependent Son or Daughter (or descendant)

Legally adopted children, stepchildren, and descendants qualify as sons and daughters who meet definition of dependent under qualifying children rules.

### EXAMPLE- HOH Filing Status with Dependent Child

Roger's unmarried son, Sean, lived with him all year. Sean turned 18 at the end of the year. He does not have a job, did not provide more than half of his own support, and cannot be claimed as a dependent by anyone else. As a result, Sean is Roger's qualifying child. Roger may use the HOH filing status.

### 2. Father or Mother (not required to live with taxpayer)

If the taxpayer's qualifying dependent is his/her father or mother, he/she may be eligible to file as head of household even if parents don't live with. However, the taxpayer must pay more than half the cost of keeping up a home that was the main home for the entire year for parents.

### EXAMPLE- HOH Filing Status with Dependent Parent

Roy is unmarried. His mother lived in an apartment by herself. She died on September 2. The cost of the upkeep of her apartment for the year until her death was \$6,000. Roy paid \$4,000 and his brother paid \$2,000. Roy's brother made no other payments towards his mother's support. Roy's mother had no income.

Because Roy paid more than half of the cost of keeping up his mother's apartment from January 1

until her death, Roy can file as a head of household.

### 3. Dependent Relatives (must live with taxpayer more than half a year)

Generally, relatives include parents, stepparents, parent-in-laws grandparents, brothers, sisters, aunts, uncles, nephews, nieces and etc. Except parents (mother and father), rest of dependent relatives must live with taxpayer. Note that: (1) cousins, foster parents, and unrelated dependents do not qualify. (2) Cannot qualify for head of household status through use of multiple support agreement, or if taxpayer was a nonresident alien at any time during taxable year.

Summary of Residency Requirement of HOH				
	Child or descendant	Parents	Relative	Feeding friend
<b>Qualifying Dependent</b>	✓	✓	✓	×
<b>Lives with Taxpayer (more than half year)</b>	✓	×	✓	Not applicable

NOTE	
Keep in mind of the difference in residency requirement between "Widow(er)" and "head of household":	
➤ Widow/widower	————→ Whole year
➤ Head of household	————→ More than half a year

## III. Definitions of Dependent

There are two types of dependent. A dependent taxpayer can be either a qualifying child or a qualifying relative.

### 1. Qualifying Child

The concept of qualifying child is used in several Code provisions, including those relating to:

- Head-of-household filing status
- Earned income tax credit
- Credit for child and dependent care expenses
- Child and dependent tax credit

A qualifying child must meet the 1) Relationship test, 2) Age test, 3) Residence test, 4) Support test and 5) Joint return test, 6) Citizenship tests.

NOTE
The term "qualifying child" is used in several Code provisions, but there might be slight differences in the qualifying child test. Such as the age test for qualifying child when claiming child tax credit is different from the age test discussed below.

#### a. Relationship Test

To meet this test, a child must be the taxpayer's:

- Son, daughter, stepchild, foster child, or a descendant of any of them (e.g., grandchild), or

- Brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of them (e.g., niece or nephew).

Note that ancestors of any of above parties (e.g., uncle and aunt) and in-laws (e.g., son-in-law and brother in-law) are not included.

An adopted child refers to a child placed with the taxpayer even though the adoption is not final. An eligible foster child is one who is placed with the taxpayer by an authorized placement agency or by a court order.

EXAMPLE-Relationship Test
Aimee's household includes her mother, grandson, stepbrother, stepbrother's daughter, uncle, and sister. All meet the relationship test for a qualifying child except the mother and uncle.

**b. Age Test**

To meet this test, at end of tax year, a child must be:

- Under age 19 (or under age 24 in case of a full-time student) at the end of the year and younger than the taxpayer (or taxpayer's spouse if filing jointly).
- Permanently and totally disabled at any time during the year, regardless of age.

"Younger than the taxpayer or taxpayer's spouse" means, to be your qualifying child, a child who isn't permanently and totally disabled must be younger than the taxpayer. However, if the taxpayer is married filing jointly, the child must be younger than the taxpayer or his/her spouse but doesn't have to be younger than both.

A "full time" student is a student who attends an educational institution for at least part of each of five months during the taxable year. An "educational institution" is one that maintains full-time faculty and a daytime program (e.g., an elementary school, junior or senior high school, college, university, or technical, trade, or mechanical school). However, an on-the-job training course, correspondence school, or school offering courses only through the Internet doesn't count as a school.

EXAMPLE-Age Test
Loren, a 23-year-old full-time student, lives with his brother Robert and Robert's wife, who provides more than half of his support. Loren isn't disabled. Both Robert and his wife are 22 years old, and they file a joint return. Therefore, Loren isn't Robert's qualifying child because he isn't younger than Robert or Robert's wife.

**c. Residency Test**

A qualifying child must live with the taxpayer at the same principal place for more than half of the year. For this purpose, temporary absences (e.g., school, vacation, medical care, military service, detention in a juvenile facility) are ignored. Children who were born or died during the year, kidnapped children, and children of divorced or separated parents are also exceptions treated as meeting the residency test even if the children haven't lived with taxpayers for more than half of the year.

**d. Support Test**

The support test has been modified to determine if the child did not contribute more than one-half of his or her own support. The requirement that the taxpayer (parent) provides over one-half of the child's support is eliminated. A qualifying child cannot be self-supporting (i.e., provide more than half of his or her own support). Support includes food, shelter, clothing, toys, medical and dental care, education, and similar items. In the case of the taxpayer's child who is a full-time student, scholarships are not considered to be support. While social security and welfare payments (to extent of amount that are spent for child supporting) are included in the dependent's total supporting.