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INDIVIDUAL TAXATION**GROSS INCOME**

< ADJUSTMENTS >

ADJUSTED GROSS INCOME

STANDARD DEDUCTION

OR

ITEMIZED DEDUCTIONS

< EXEMPTIONS >

TAXABLE INCOME

FEDERAL INCOME TAX

< TAX CREDITS >

OTHER TAXES

< PAYMENTS >

TAX DUE OR REFUND

INDIVIDUAL TAXATION

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

< ADJUSTMENTS >

Educator Expenses
IRA
Student Loan Interest Expenses
Tuition & Fee Deduction
Health Savings Account
Moving Expenses
One-Half Self-Employment FICA
Self-Employed Health Insurance
Self-Employed Retirement
Interest Withdrawal Penalty
Alimony Paid

ADJUSTED GROSS INCOME

< ITEMIZED DEDUCTIONS >

Medical (in excess of 7½% of AGI)
Taxes – State/Local (Income/Sales & Property)
Interest Expense – (Home & Investment)
Charity (up to 50% of AGI)
Casualty/Theft (in excess of 10% of AGI)
Miscellaneous (in excess of 2% of AGI)
Other Miscellaneous

< EXEMPTIONS >

2008	\$3,500
-------------	---------

x

Yourself
Spouse
Dependents

TAXABLE INCOME

Form **1040** Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return 2007** IRS Use Only—Do not write or staple in this space.

Label (See instructions on page 12.) **Use the IRS label.** Otherwise, please print or type.

Label (See instructions on page 12.) **Use the IRS label.** Otherwise, please print or type.

For the year Jan. 1–Dec. 31, 2007, or other tax year beginning , 2007, ending , 20 **OMB No. 1545-0074**

Your first name and initial **Last name** **Your social security number**

If a joint return, spouse's first name and initial **Last name** **Spouse's social security number**

Home address (number and street). If you have a P.O. box, see page 12. **Apt. no.** **You must enter your SSN(s) above.**

City, town or post office, state, and ZIP code. If you have a foreign address, see page 12. **Checking a box below will not change your tax or refund.**

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 12) ☐ **You** ☐ **Spouse**

Filing Status

Check only one box.

1 ☐ **Single** 4 ☐ **Head of household (with qualifying person).** (See page 13.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶

2 ☐ **Married filing jointly (even if only one had income)** 5 ☐ **Qualifying widow(er) with dependent child (see page 14)**

3 ☐ **Married filing separately. Enter spouse's SSN above and full name here. ▶**

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a

b ☐ **Spouse**

c **Dependents:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ☒ if qualifying child for child tax credit (see page 15)
				☐
				☐
				☐
				☐

If more than four dependents, see page 15.

d **Total number of exemptions claimed** **Add numbers on lines above ▶**

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7

8a **Taxable interest.** Attach Schedule B if required 8a

b **Tax-exempt interest. Do not include on line 8a** 8b

9a Ordinary dividends. Attach Schedule B if required 9a

b Qualified dividends (see page 19) 9b

10 Taxable refunds, credits, or offsets of state and local income taxes (see page 20) 10

11 Alimony received 11

12 Business income or (loss). Attach Schedule C or C-EZ 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ 13

14 Other gains or (losses). Attach Form 4797 14

15a IRA distributions 15a b Taxable amount (see page 21) 15b

16a Pensions and annuities 16a b Taxable amount (see page 22) 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17

18 Farm income or (loss). Attach Schedule F 18

19 Unemployment compensation 19

20a Social security benefits 20a b Taxable amount (see page 24) 20b

21 Other income. List type and amount (see page 24) 21

22 Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ 22

Adjusted Gross Income

23 Educator expenses (see page 26) 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24

25 Health savings account deduction. Attach Form 8889 25

26 Moving expenses. Attach Form 3903 26

27 One-half of self-employment tax. Attach Schedule SE 27

28 Self-employed SEP, SIMPLE, and qualified plans 28

29 Self-employed health insurance deduction (see page 26) 29

30 Penalty on early withdrawal of savings 30

31a Alimony paid b Recipient's SSN ▶ 31a

32 IRA deduction (see page 27) 32

33 Student loan interest deduction (see page 30) 33

34 Tuition and fees deduction. Attach Form 8917 34

35 Domestic production activities deduction. Attach Form 8903 35

36 Add lines 23 through 31a and 32 through 35 36

37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 83.

Cat. No. 11320B

Form **1040** (2007)

Form 1040 (2007)

Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	
	39a	Check ☐ You were born before January 2, 1943, ☐ Blind. } Total boxes if: ☐ Spouse was born before January 2, 1943, ☐ Blind. } checked ▶ 39a		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 31 and check here ▶ 39b		
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	
	41	Subtract line 40 from line 38	41	
	42	If line 38 is \$117,300 or less, multiply \$3,400 by the total number of exemptions claimed on line 6d. If line 38 is over \$117,300, see the worksheet on page 33	42	
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
	44	Tax (see page 33). Check if any tax is from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐ Form(s) 8889	44	
	45	Alternative minimum tax (see page 36). Attach Form 6251	45	
	46	Add lines 44 and 45	46	
Standard Deduction for— • People who checked any box on line 39a or 39b or who can be claimed as a dependent, see page 31. • All others: Single or Married filing separately, \$5,350 Married filing jointly or Qualifying widow(er), \$10,700 Head of household, \$7,850	47	Credit for child and dependent care expenses. Attach Form 2441	47	
	48	Credit for the elderly or the disabled. Attach Schedule R	48	
	49	Education credits. Attach Form 8863	49	
	50	Residential energy credits. Attach Form 5695	50	
	51	Foreign tax credit. Attach Form 1116 if required	51	
	52	Child tax credit (see page 39). Attach Form 8901 if required	52	
	53	Retirement savings contributions credit. Attach Form 8880	53	
	54	Credits from: a ☐ Form 8396 b ☐ Form 8859 c ☐ Form 8839	54	
	55	Other credits: a ☐ Form 3800 b ☐ Form 8801 c ☐ Form	55	
	56	Add lines 47 through 55. These are your total credits	56	
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0-	57		
Other Taxes	58	Self-employment tax. Attach Schedule SE	58	
	59	Unreported social security and Medicare tax from: a ☐ Form 4137 b ☐ Form 8919	59	
	60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	
	61	Advance earned income credit payments from Form(s) W-2, box 9	61	
	62	Household employment taxes. Attach Schedule H	62	
	63	Add lines 57 through 62. This is your total tax	63	
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64	
	65	2007 estimated tax payments and amount applied from 2006 return	65	
	66a	Earned income credit (EIC)	66a	
	b	Nontaxable combat pay election ▶ 66b		
	67	Excess social security and tier 1 RRTA tax withheld (see page 59)	67	
	68	Additional child tax credit. Attach Form 8812	68	
	69	Amount paid with request for extension to file (see page 59)	69	
	70	Payments from: a ☐ Form 2439 b ☐ Form 4136 c ☐ Form 8885	70	
	71	Refundable credit for prior year minimum tax from Form 8801, line 27	71	
	72	Add lines 64, 65, 66a, and 67 through 71. These are your total payments	72	
Refund Direct deposit? See page 59 and fill in 74b, 74c, and 74d, or Form 8888.	73	If line 72 is more than line 63, subtract line 63 from line 72. This is the amount you overpaid	73	
	74a	Amount of line 73 you want refunded to you . If Form 8888 is attached, check here ▶ ☐	74a	
	b	Routing number	c	Type: ☐ Checking ☐ Savings
	d	Account number		
75	Amount of line 73 you want applied to your 2008 estimated tax ▶ 75	75		
Amount You Owe	76	Amount you owe. Subtract line 72 from line 63. For details on how to pay, see page 60 ▶	76	
	77	Estimated tax penalty (see page 61)	77	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS (see page 61)? ☐ Yes. Complete the following. ☐ No			
	Designee's name ▶	Phone no. ▶ ()	Personal identification number (PIN) ▶	
Sign Here Joint return? See page 13. Keep a copy for your records.	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	Date	Your occupation	Daytime phone number ()
	Spouse's signature. If a joint return, both must sign.		Date	Spouse's occupation
Paid Preparer's Use Only	Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN		
	Phone no. ()			

Form **1040** (2007)

INDIVIDUAL TAXATION—FILING STATUS

I. FILING

A. REQUIREMENT FOR FILING (WHO MUST FILE?)

1. General Rule

Generally, a taxpayer must file a return if his or her income is equal to or greater than the sum of:

- a. The personal exemption plus
- b. The regular standard deduction (except for married filing separately) plus
- c. The additional standard deduction amount for taxpayers age 65 or over or blind (except for married persons filing separately).

2. Exceptions

Certain individuals must file income tax returns even if their income is lower than the "general rule" requirement.

- a. Individuals whose net earnings from self-employment are \$400 or more must file.
- b. Individuals who can be claimed as dependents on another taxpayer's return, have unearned income, and gross income of \$900 (2008) or more must file.
- c. Individuals who receive advance payments of earned income credit must file.

B. WHEN TO FILE

1. Due Date: April 15

Individual taxpayers must file on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year, which is April 15.

2. Extension

a. Automatic Six-Month Extension

An automatic six-month extension (until October 15) is available for those taxpayers who are unable to file on the April 15 due date. The automatic six-month extension is not an extension for the payment of any taxes owed. Although granted automatically, the six-month extension must be requested by the taxpayer by filing Form 4868 by April 15th.

b. Payment of Tax

With either extension, the due date for payment of taxes remains April 15.

3. Taxpayers Who are Out of the Country

Taxpayers who are outside of the United States on the filing date and have their principal place of business outside the United States or are stationed outside the United States have an automatic two-month extension to file, but not to pay. Such persons need not file for the extension, but must include documentation if the extension is taken. They can also request the other extensions under the same rules as for other taxpayers.

II. FILING STATUS



FILING STATUS

Filing Status

Check only one box.

- | | |
|---|--|
| <p>1 ☐ Single</p> <p>2 ☐ Married filing jointly (even if only one had income)</p> <p>3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ►</p> | <p>4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ►</p> <p>5 ☐ Qualifying widow(er) with dependent child (see page 17)</p> |
|---|--|

A. SINGLE/END OF YEAR TEST

Any taxpayer who does not qualify for one of the other filing classes must use single status by default.

1. Single at year end

OR

2. Legally separated

B. JOINT RETURNS/END-OF-YEAR TEST

In order to file a joint return, the parties must be married at the end of the year, living together in a recognized common law marriage, or married and living apart but not legally separated or divorced.

1. If married during the year, they may file a joint return provided they are married at year end.
2. If divorced during the year, they may not file a joint return.
3. If one spouse dies during the year, a joint return may be filed.

C. MARRIED FILING SEPARATELY

A married taxpayer may file a separate return even if only one spouse had income. In a separate property state, a husband and wife who elect to file married filing separately must report their own income, exemptions, credits, and deductions on their individual tax returns. In a community property state, most of the income, deductions, credits, etc., are split 50/50.

D. QUALIFYING WIDOW(ER) (SURVIVING SPOUSE)

1. For Two Years After Spouse's Death

A qualifying widow(er) is a taxpayer who may use the joint tax return standard deduction and rates (but not the exemption for the deceased spouse) for each of two taxable years following the year of death of his or her spouse, unless he or she remarries. In the event of a remarriage, the surviving spouse will file a tax return (joint or separate) with the new spouse.

2 Principal Residence for Dependent Child

The surviving spouse must maintain a household that, for the whole entire taxable year, was the principal place of abode of a son, stepson, daughter, or stepdaughter (whether by blood or adoption). The surviving spouse must also be entitled to a dependency exemption for such individual.

E. HEAD OF HOUSEHOLD

Head of household status entitles certain taxpayers to pay lower taxes. The lower tax results from a larger standard deduction and "wider" tax brackets. To qualify, the following conditions must be met:

1. The individual is not married, is legally separated, or is married and has lived apart from his/her spouse for the last six months of the year at the close of the taxable year.
2. The individual is not a "qualifying widow(er)."
3. The individual is not a nonresident alien.
4. The individual maintains as his or her home a household that, for more than half the taxable year, is the principal residence of:

a. A Son or Daughter

- (1) Legally adopted children, stepchildren, and grandchildren qualify as sons and daughters.
- (2) *Working Families Act*: The definition of head-of-household conforms with the uniform definition of a child. To qualify for head-of-household status, the child must either be a qualifying child or qualify as the taxpayer's dependent (qualifying relative).

b. Father or Mother (Not Required to Live With)

A dependent parent is not required to live with the taxpayer, provided the taxpayer maintains a home that was the principal residence of the parent for the entire year. Maintaining a home means contributing over half the cost of upkeep. This means rent, mortgage interest, property taxes, insurance, utility charges, repairs, and food consumed in the home.

c. Dependent Relatives (Must Live With)

Parents, grandparents, brothers, sisters, aunts, uncles, nephews, and nieces (as well as stepparents, parents-in-law, etc.) qualify as relatives. A dependent relative (other than a father or mother) must live with the taxpayer. Note that cousins, foster parents, and unrelated dependents do not qualify.

5. Summary

	Dependent	Lives With
Child	Yes	Yes
Parent	Yes	No
Relative	Yes	Yes

PASS KEY

In order to avoid confusing the required time period for different filing statuses, just remember:

- W** Widow/widower = Whole year
H Head of household = Half a year (more than)



INDIVIDUAL TAXATION—EXEMPTIONS

Exemptions	6a	☐ Yourself. If someone can claim you as a dependent, do not check box 6a				Boxes checked on 6a and 6b _____ No. of children on 6c who: • lived with you _____ • did not live with you due to divorce or separation (see page 18) _____ Dependents on 6c not entered above _____ Add numbers on lines above ► 																								
	b	☐ Spouse																												
	c	Dependents: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;">(1) First name</th> <th style="width: 15%;">Last name</th> <th style="width: 20%;">(2) Dependent's social security number</th> <th style="width: 20%;">(3) Dependent's relationship to you</th> <th style="width: 10%;">(4) ☒ if qualifying child for child tax credit (see page 18)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td>☐</td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td>☐</td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td>☐</td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td>☐</td></tr> </tbody> </table>				(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ☒ if qualifying child for child tax credit (see page 18)					☐					☐					☐					☐
	(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ☒ if qualifying child for child tax credit (see page 18)																									
					☐																									
				☐																										
				☐																										
				☐																										
If more than four dependents, see page 18.																														
d	Total number of exemptions claimed																													



EXEMPTIONS

I. PERSONAL EXEMPTIONS

Generally, an individual is entitled to a personal exemption that is indexed annually for inflation. For 2008, this amount is \$3,500.

A. PERSONS CLAIMED AS DEPENDENTS

Persons eligible to be claimed as dependents on another's tax return will not be allowed a personal exemption on their own returns.

B. MARRIED TAXPAYERS

1. Each Spouse Receives Personal Exemption

Each married taxpayer claims his or her own personal exemption on the joint or separate return, as the case may be. The exemption for a spouse is always considered to be a personal exemption (not a dependency exemption) even if the spouse does not work.

2. Spouse as Personal Exemption on a Separate Return

Usually, a married taxpayer filing separately is entitled to claim only his or her own personal and dependency exemption. However, a married taxpayer, who files separately, may claim his or her spouse's personal exemption if both of the following tests are met:

- a. The taxpayer's spouse has no gross income; and
- b. The taxpayer's spouse was not claimed as a dependent of another taxpayer.

C. BIRTH OR DEATH DURING YEAR

If a person is born or dies during the year, he or she is entitled to a personal exemption for the entire year. Exemptions are not prorated.



PASS KEY

The CPA Examination will intentionally test on the qualifications for exemptions (both personal and dependency). The actual dollar amounts (which change each year due to indexing) are rarely tested.