



## Assessment 3 Instructions: Inclusions, Exclusions, and AGI

Apply the rules associated with inclusions and exclusions to an individual's gross income and apply another set of code rules to determine a taxpayer's AGI.

*Note:* Completing a tax form requires specific steps that need to be executed in a sequence. The assessments in this course are presented in a sequence and must be completed in order. Incorrect entries in previous assessments will result in incorrect entries in future assessments. **Do not complete Assessment 3 until you have submitted and received faculty feedback for Assessment 2.**

### Introduction

*"I don't know what to do or where to turn in this taxation matter. Somewhere there must be a book that tells all about it, where I could go to straighten it out in my mind. But I don't know where the book is, and maybe I couldn't read it if I found it."*

— Warren G. Harding, the 29th President of the United States, 1921–1923.

About now, you may be nodding your head in agreement with President Harding's quote about the complexity of the tax code, with its many inclusions and exclusions. What started out as a simple document, designed to raise capital to make the new nation independent from the British Empire, has evolved over the centuries and decades into a complex maze of rules and regulations.

Nowhere is that more pronounced than in the rules for including and excluding income in the calculation of a taxpayer's adjusted gross income (AGI) for income tax purposes. Gross income is commonly defined as the amount of a company's or a person's income before all reductions, except that which is specifically excluded by the Internal Revenue Code, before taking deductions or taxes into account. Since not all of an individual's personal income is subject to taxation, one must crack open the voluminous tax codebook to discover exclusions from the tax collector's grasp.

Understanding the ever-changing rules for including and excluding income in the calculation of a taxpayer's adjusted gross income (AGI) for income tax purposes is a skill that is developed through practice.

*Note:* The assessments in this course are presented in a sequence and must be completed in order. In Assessments 2–5, you will work step-by-step toward completing a 1040 tax return and all the necessary related forms, based on a provided scenario. **Do not complete Assessment 3 until you have submitted and received faculty feedback for Assessment 2. Incorrect entries in Assessment 2 affect the entries in Assessment 3.**

### Preparation

For this assessment, use information and publications from IRS.gov and the other IRS resources linked below to determine the adjusted gross income (AGI) for Jacob and Taylor Weaver, based on the provided scenario:

- [IRS.gov](http://www.irs.gov/). (n.d.). <http://www.irs.gov/>
- IRS. (n.d.). *Interactive tax assistant*. [http://www.irs.gov/uac/Interactive-Tax-Assistant-\(ITA\)-1](http://www.irs.gov/uac/Interactive-Tax-Assistant-(ITA)-1)
- IRS. (n.d.). *IRS videos*. <https://www.youtube.com/user/irsvideos>

The primary purpose of the Internal Revenue Service is to raise revenue for the government. However, the U.S. Congress has chosen to exempt certain income from taxation, such as scholarships, gifts, life insurance proceeds, municipal bond interest, and employee fringe benefits.

## Scenario

Jacob and Taylor Weaver, ages 45 and 42 respectively, are married and are filing jointly in 2019.

- They have three children, Ashley, age 9; Patrick, age 6; and John, age 17.
  - Social Security numbers are: Jacob, 222-33-4444; Taylor, 555-66-7777; Ashley, 888-99-1234; Patrick, 789-56-4321; John, 123-45-6789.
- Taylor works part-time as a paralegal.
  - She earned \$31,000 in 2019.
- Income Taxes: \$4,200 withheld.
- Interest received from Local Bank: \$6,575.
- Estimated tax payments: \$25,000.
  - \$350 paid with their 2018 state tax return.
- Jacob and Taylor bought their first house in 2019.
  - Home mortgage interest: \$12,246.
  - Property tax: \$12,230.
- Federal income withholding: \$2,350.
- Charities: \$4,500.
- \$435 to rent a moving truck.
- \$8,000 to put new siding on the house.
- \$11,600 for child care expenses (\$5,800 for each child).
  - It was paid to Lil Tigers Daycare, 1115 S. Garrison St., Muncie, IN 47305 (EIN 98-7654321).
- Taylor is a part-time student at Ball State University in Muncie.
  - She received a 1098-T indicating tuition and fees for 2019 in the amount of \$6,011.
- Health insurance for the family, through Taylor's job, cost \$7,500 for all 12 months of 2019.
  - They paid deductibles and co-payments of \$2,550.

## Instructions

Complete the following:

- Read the information in the scenario below.
- Download the appropriate forms and publications from IRS.gov.
- Enter information from Assessment 2, Schedules C and SE, into the 1040 form.
- Apply the rules for adjustments to adjusted gross income.
  - Enter applicable information from the scenario into the 1040 form.
  - Interpret official rules and instructions to record correct entries on the tax form.
- Calculate the AGI for the Weavers.
- Submit the tax form.

## Competencies Measured

By successfully completing this assessment, you will demonstrate your proficiency in the following course competencies and assessment criteria:

- Competency 2: Analyze the basics of individual income tax return preparation.

- Analyze official rules and instructions to correctly calculate deductible self-employment taxes.
- Interpret official rules and instructions to record correct entries on tax forms.
- Apply rules and instructions to correctly compute AGI for the year.



## SCORING GUIDE

Use the scoring guide to understand how your assessment will be evaluated.

[VIEW SCORING GUIDE](#) 