



Individual Income Tax: Adjustments Part 2

Course #31055B

Taxes

2 Credit Hours

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INDIVIDUAL INCOME TAX: ADJUSTMENTS PART 2

This course explains how to adjust income for qualified education expenses and identifies which business-related travel, transportation, and gift expenses are deductible under current tax rules.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Education-Related Adjustments
Other Adjustments to Income

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify education-related adjustments that can be made to income.
- Identify what business-related expenses associated with travel, transportation, and gifts are deductible.

NOTICE

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Program publication date **11/1/2025**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: EDUCATION-RELATED ADJUSTMENTS

Chapter Objective

After completing this chapter, you should be able to:

- Identify education-related adjustments that can be made to income.

I. EDUCATOR EXPENSES

If you were an eligible educator in 2025, you can deduct up to \$300 of qualified expenses you paid in 2025 as an adjustment to gross income on Schedule 1 (Form 1040), line 11.

If you and your spouse are filing jointly and both of you were eligible educators, the maximum deduction is \$600. However, neither spouse can deduct more than \$300 of his or her qualified expenses.

Note



For 2026, based on the passage of the OBBBA, in addition to the above-the-line deduction, any additional qualifying unreimbursed educator expenses (greater than \$300) can be claimed as a miscellaneous itemized deduction on Schedule A.

Eligible educator. An eligible educator is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year.

Qualified expenses. Qualified expenses include ordinary and necessary expenses paid in connection with books, supplies, equipment (including computer equipment, software, and services), and other materials used in the classroom. An ordinary expense is one that is common and accepted in your educational field. A necessary expense is one that is helpful and appropriate for your profession as an educator. An expense does not have to be required to be considered necessary.

Qualified expenses also include those expenses you incur while participating in professional development courses related to the curriculum in which you provide instruction. It also includes those expenses related to those students for whom you provide that instruction.

Qualified expenses do not include expenses for home schooling or for nonathletic supplies for courses in health or physical education. Educator expenses also include the cost of personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19 in the classroom.

You must reduce your qualified expenses by the following amounts.

- Excludable U.S. series EE and I savings bond interest from Form 8815.
- Nontaxable qualified tuition program earnings.
- Nontaxable earnings from a Coverdell education savings account (ESA).
- Any reimbursements you received for these expenses that were not reported to you in box 1 of your Form W-2.

II. STUDENT LOAN INTEREST DEDUCTION

Generally, personal interest you pay, other than certain mortgage interest, is not deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than \$100,000 (\$200,000 if filing a joint return) there is a special deduction allowed for paying interest on a student loan (also known as an education loan) used for higher education. For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to \$2,500. *Table 19-1* summarizes the features of the student loan interest deduction.

TABLE 19-1. STUDENT LOAN INTEREST DEDUCTION AT A GLANCE

Do not rely on this table alone. Refer to the text for more details.

Feature	Description
Maximum benefit	You can reduce your income subject to tax by up to \$2,500.
Loan qualifications	Your student loan: <ul style="list-style-type: none">• Must have been taken out solely to pay qualified education expenses, and• Cannot be from a related person or made under a qualified employer plan.
Student qualifications	The student must be: <ul style="list-style-type: none">• You, your spouse, or your dependent, and• Enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential at an eligible educational institution.
Limit on modified adjusted gross income (MAGI)	\$200,000 if married filing a joint return; \$100,000 if single, head of household, or qualifying surviving spouse.

STUDENT LOAN INTEREST DEFINED

Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

Qualified Student Loan

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent (defined in course 31051B) when you took out the loan,
- Paid or incurred within a reasonable period of time before or after you took out the loan, and
- For education provided during an academic period when the student is an eligible student.

Loans from the following sources are not qualified student loans:

- A related person.
- A qualified employer plan.

Reasonable period of time. Qualified education expenses are treated as paid or incurred within a reasonable period of time before or after you take out the loan if they are paid with the proceeds of student loans that are part of a federal postsecondary education loan program.

Even if not paid with the proceeds of that type of loan, the expenses are treated as paid or incurred within a reasonable period of time if both of the following requirements are met.

1. The expenses relate to a specific academic period, and
2. The loan proceeds are disbursed within a period that begins 90 days before the start of that academic period and ends 90 days after the end of that academic period.

If neither of the above situations applies, the reasonable period of time usually is determined based on all the relevant facts and circumstances.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. If an educational institution that uses credit hours or clock hours and does not have academic terms, each payment period can be treated as an academic period.

Eligible student. An eligible student is a student who was enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

Enrolled at least half-time. A student was enrolled at least half-time if the student was taking at least half the normal full-time work load for his or her course of study.

The standard for what is half of the normal full-time work load is determined by each eligible educational institution. However, the standard may not be lower than any of those established by the Department of Education under the Higher Education Act of 1965.

Qualified employer plan. You cannot deduct interest on a loan made under a qualified employer plan or under a contract purchased under such a plan.