



# Personal Exemptions



## Introduction

Identifying and entering the correct number of exemptions is an important component of completing taxpayers' returns.

### Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Distinguish between personal and dependency exemptions
- Determine if a taxpayer can be claimed as a dependent on a taxpayer's return

#### What do I need?

- Form 13614-C
- Publication 4012
- Publication 17
- Optional:**
- Publication 501

## What are exemptions?

An **exemption** is a dollar amount that can be deducted from an individual's total income, thereby reducing the taxable income. Taxpayers may be able to claim two kinds of exemptions:

- Personal exemptions generally allow taxpayers to claim themselves (and possibly their spouse)
- Dependency exemptions allow taxpayers to claim qualifying dependents



**CAUTION** The deduction for personal exemptions is suspended (reduced to \$0) for tax years 2018 through 2025 by the Tax Cuts and Jobs Act. Although the exemption amount is zero, the ability to claim an exemption may make taxpayers eligible for other tax benefits.

## When can a taxpayer claim personal exemptions?

To claim a personal exemption, the taxpayer must be able to answer "no" to the intake question, "Can anyone claim you or your spouse as a dependent?"

This applies even if another taxpayer does not actually claim the taxpayer as a dependent. In this case, the taxpayer must check the box on Form 1040 that indicates that they can be claimed as a dependent. Married taxpayers filing a joint return should also check the box if the spouse can be claimed as a dependent by another taxpayer. This means they may have to use a smaller standard deduction amount. See the lesson Standard Deduction and Tax Computation for more information on this topic.

An individual is not a dependent of a person if that person is not required to file an income tax return and either does not file an income tax return or files an income tax return solely to claim a refund of estimated or withheld taxes. If this is the situation, the taxpayer should answer "no" to "can anyone claim you as a dependent?" If that other individual chooses to file a return as described, they should **not** list the taxpayer as a dependent.

Refer to the next lesson for the rules for claiming a dependent.



**Tax Software Hint:** Review the Volunteer Resource Guide Tab B, Starting a Return and Filing Status, for the required entries if the taxpayer is not able to claim his or her own personal exemption.

## Taxpayer Interview and Tax Law Application

Ray Jackson is a college student who worked during the tax year. Use the Volunteer Resource Guide to help him determine if his parents can claim him as a dependent. Here's how the conversation might sound:

SAMPLE INTERVIEW	
VOLUNTEER SAYS...	RAY RESPONDS...
<i>The questions I'm about to ask you will help us figure out if you can be claimed as a dependent by your parents. First of all, you aren't married and you are a U.S. citizen, correct?</i>	Yes, that's correct.
<i>And you were under age 24 at the end of the tax year and a full-time student?</i>	That's right.
<i>Did you live with your parents for more than half the year?</i>	I lived with them during the summer and other school breaks, but when school was in session, I lived in the dorm on campus.
<i>Okay, that's considered a temporary absence so for tax purposes, you lived with your parents all year. Did you pay more than half of your own support?</i>	I worked part-time, but I didn't make that much. I used my money to buy a few books and some food, but my parents paid my tuition, room and board, and most of my other expenses like clothing and medical bills.
<i>Based on what you've told me, you are considered a qualifying child of your parents and they can claim you as a dependent. We will indicate this on your return so it doesn't cause problems for your parents when they file their return.</i>	Okay, thanks.



**Tax Software Hint:** When preparing a return for a deceased taxpayer, refer to the Volunteer Resource Guide, Tab B, Starting a Return and Filing Status, for instructions on entering basic information in the software.

### Summary

There are two types of exemptions:

- Personal
- Dependency

The deduction for personal exemptions is suspended (reduced to \$0) for tax years 2018 through 2025. If a taxpayer can be claimed as a dependent on a taxpayer's return, they must check the box on Form 1040 that indicates that they can be claimed as a dependent. An individual is not a dependent of a person if that person is not required to file an income tax return and either does not file an income tax return or files an income tax return solely to claim a refund of estimated or withheld taxes. If this is the situation, the taxpayer should answer "no" to "can anyone claim you as a dependent?" and the other individual should not list the taxpayer as their dependent if they file a return.