

FREEFELLOW

FORMULA & LIMITS SHEET

CPA REG

Taxation & Regulation

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ITEMS

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TOPICS

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ETHICS, PROFESSIONAL RESPONSIBILITIES AND FEDERAL TAX PROCEDURES

1 item

Estimated tax safe harbor (underpayment penalty avoidance)

No penalty if tax paid via withholding + estimated payments \geq the lesser of:

90% of current year tax, OR

100% of prior year tax (110% if prior year AGI > \(\$150,000).

Payments due: April 15, June 15, Sept 15, Jan 15.

FEDERAL TAXATION OF PROPERTY TRANSACTIONS

6 items

§1231, §1245, and §1250 recapture

§1231: net gains \rightarrow LTCG; net losses \rightarrow ordinary.

§1245: all depreciation on personal property recaptured as ordinary.

§1250: only depreciation above SL on realty recaptured (25% rate for unrecaptured §1250 gain).

Like-kind exchange: gain recognized and new basis

Gain Recog = $\min(\text{Realized Gain}, \text{Boot Received})$

New Basis = Old Basis + Boot Paid - Boot Recd + Gain Recog

Real property only post-TCJA (§1031).

Gift basis and inherited basis

Gift: donee takes donor's adjusted basis (carryover basis) + gift tax attributable to appreciation.

If FMV < donor's basis at gift date: basis for loss is FMV; basis for gain is donor's basis.

Inherited: basis = FMV at date of death (stepped-up or stepped-down).

MACRS recovery periods

3-year: certain small tools, racehorses.

5-year: computers, autos, light trucks.

7-year: office furniture, equipment (most personal property).

15-year: land improvements, qualified improvements.

27.5-year: residential rental real property.

39-year: nonresidential real property.

Home sale exclusion §121

Exclude up to \(\$250,000 (\(\$500,000 MFJ) of gain on sale of principal residence.

Requirements: owned and used as principal residence 2 of last 5 years (ownership and use tests).

Cannot use exclusion more than once every 2 years.

§1231 lookback rule

Net §1231 gains treated as ordinary income (not capital gain) to the extent of unrecaptured net §1231 losses from the prior 5 years.

Lookback period: 5 years. Prevents taxpayers from converting ordinary losses into capital gains.

Individual income tax formula

Gross Income
 – Above-the-line deductions (for AGI)
 = Adjusted Gross Income (AGI)
 – Standard or Itemized Deduction
 – QBI Deduction (§199A)
 = Taxable Income
 × Tax Rate
 – Credits
 = Tax Liability

2026 standard deductions

Single: \$16,100
 Married Filing Jointly (MFJ): \$32,200
 Head of Household (HoH): \$24,150
 Married Filing Separately (MFS): \$16,100
 Additional for age ≥ 65 or blind: \$1,650 (MFJ/MFS); \$2,050 (Single/HoH).

Long-term capital gain rates (2026)

0% rate: taxable income ≤ \$49,450 (Single) / \$98,900 (MFJ)
 15% rate: up to \$545,500 (Single) / \$613,700 (MFJ)
 20% rate: above thresholds.
 NIIT (3.8%) added for high earners on net investment income.

AMT formula (individual) and exemptions (2026)

Regular TI + preferences/adjustments = AMTI
 – Exemption = AMT base
 × 26% (≤ \$244,500) or 28% (above) = TMT
 2026 exemptions: Single \$90,100 (PO \$500k); MFJ \$140,200 (PO \$1M).
 OBBBA flat thresholds.

Net investment income tax (NIIT)

NIIT = 3.8% × min(Net Investment Income, MAGI – Threshold)
 Thresholds: Single \$200,000; MFJ \$250,000; MFS \$125,000.
 NIIT includes dividends, interest, rents, royalties, passive activity income, capital gains.

FEDERAL TAXATION OF ENTITIES

Qualified business income (QBI) deduction §199A

QBI Ded = min(20% · QBI, 20% · (TI – Net Cap Gains))
 High earners capped at 50% · W-2 or 25% · W-2 + 2.5% · UB. SSTBs lose deduction above thresholds.

Partnership: outside basis calculation

Outside Basis = Cash Contributed +
 Adjusted Basis of Property Contributed + Share of Partnership Liabilities +
 Allocated Income – Allocated Losses – Distributions
 Cannot go below zero.

S-corporation shareholder basis

Beginning Basis
 + Separately/non-separately stated income
 – Distributions (tax-free up to basis)
 – Losses/deductions (limited to basis)
 Basis ≥ 0; excess losses suspended.

Corporate tax rate and dividends-received deduction (DRD)

Flat 21% corporate income tax rate (TCJA, permanent post-OBBBA).
 DRD: 50% if < 20% ownership; 65% if ≥ 20% but < 80%; 100% if ≥ 80% (affiliated group).
 DRD limited to applicable % of taxable income (before DRD) unless creates/increases NOL.

Self-employment tax

SE Tax = 15.3% × 92.35% × Net SE Income
 (12.4% Social Security on earnings ≤ \$176,100 + 2.9% Medicare on all earnings + 0.9% Additional Medicare on earnings > \$200k/\$250k)
 Deduct 50% of SE tax as above-the-line adjustment.

LIMITS & THRESHOLDS

FEDERAL TAXATION OF ENTITIES

Post-OBBBA, the SALT itemized deduction cap is \$40,000 for MFJ, phasing down above \$500,000 MAGI.

For tax year 2026, the standard deduction is \$32,200 MFJ, \$24,150 HOH, and \$16,100 single.

The Child Tax Credit is \$2,200 per qualifying child, with \$1,700 refundable as the ACTC.

The 2026 unified lifetime estate and gift exemption is \$15M per individual, with a top rate of 40%.

The 2026 401(k) elective deferral limit is \$24,500; total §415(c) additions are capped at \$72,000.

A Qualified Charitable Distribution from an IRA is capped at \$111,000 per year once the owner is at least age 70½.

