

**FREEFELLOW**

FORMULA & LIMITS SHEET

# EA PART 1

IRS · Individuals (2025 tax year)

**48**

ITEMS

**6**

TOPICS

[freefellow.org/ea-part1/formulas](https://freefellow.org/ea-part1/formulas)

PRELIMINARY WORK AND TAXPAYER DATA

4 items

**Substantial Presence Test (weighted day count)**

$D = d_0 + \frac{1}{3}d_{-1} + \frac{1}{6}d_{-2}$  —  $d_0$  = days in current year ( $\geq 31$  required),  $d_{-1}$  = days prior year,  $d_{-2}$  = days two years prior; resident if  $D \geq 183$

**Child and Dependent Care Credit**

$CDCC = r \times \min(E, C) - r = 20-35\%$  (AGI-based, floors at 20% over  $\$43,000$ ),  $E$  = qualified care expenses,  $C = \$3,000$  cap for 1 qualifying person or  $\$6,000$  for 2+

**Kiddie tax on a child's unearned income**

$T = (U - 2700) \times t_p + 1350 \times t_c$  —  $U$  = child's unearned income ( $> \$2,700$ ),  $t_p$  = parent's marginal rate,  $t_c$  = child's rate on the second  $\$1,350$ ; first  $\$1,350$  untaxed

**MAGI for Premium Tax Credit**

$MAGI = AGI + I_{tax-exempt} + FEIE_{excluded} + SS_{excluded}$  —  $AGI$  = adjusted gross income, plus tax-exempt interest, excluded foreign earned income, and excluded Social Security benefits

INCOME AND ASSETS

4 items

**Provisional income for Social Security taxability**

$PI = AGI + TEI + 0.5 \times SS$  —  $AGI$  = adjusted gross income (excl. SS),  $TEI$  = tax-exempt municipal interest,  $SS$  = gross Social Security benefits

**Self-employment tax**

$SE_{tax} = (NE \times 0.9235) \times 0.153$  —  $NE$  = net Schedule C earnings, 0.9235 strips employer-side SE, 0.153 = 12.4% SS (to  $\$176,100$ ) + 2.9% Medicare

**Installment sale gross profit ratio**

$GPR = \frac{\text{Gross profit}}{\text{Contract price}}$  — gross profit = sale price - adjusted basis - selling expenses; contract price = total payments due (Form 6252)

**IRA pro-rata taxable distribution**

$T_{taxable} = D \times \left(1 - \frac{B}{V}\right)$  —  $D$  = distribution,  $B$  = total nondeductible basis (Form 8606),  $V$  = aggregate traditional IRA value before distribution

DEDUCTIONS AND CREDITS

4 items

**Foreign tax credit limit**

$FTC \text{ Limit} = T_{US} \times \frac{TI_F}{TI}$  —  $T_{US}$  = U.S. tax before FTC,  $TI_F$  = foreign-source taxable income,  $TI$  = total taxable income

**Personal casualty loss deduction (federally declared disaster)**

$L = \min(\Delta FMV, B) - I - 100 - 0.10 \times AGI$  —  $\Delta FMV$  = decline in FMV,  $B$  = adjusted basis,  $I$  = insurance reimbursement, applied per event

**QBI W-2 wage and UBI limit (above threshold)**

$\text{Limit} = \max(0.50 \times W, 0.25 \times W + 0.025 \times U)$  —  $W$  = W-2 wages of the qualified trade/business,  $U$  = UBI of qualified property

**American Opportunity Tax Credit (AOTC)**

$AOTC = 1.00 \times \min(QE, 2000) + 0.25 \times \min(\max(QE - 2000, 0), 2000)$  —  $QE$  = qualified education expenses; max  $\$2,500$ /student, 40% refundable

TAXATION

4 items

**Tentative alternative minimum tax**

$TMT = r \times (AMTI - E)$  —  $AMTI$  = alt min taxable income,  $E$  = exemption,  $r = 26\%$  on first  $\$239,100$  then 28% above

**Incentive stock option bargain element (AMT preference)**

$\text{Bargain} = (FMV - X) \times N$  —  $FMV$  = fair market value at exercise,  $X$  = exercise price,  $N$  = shares exercised and held past year-end

**Additional Medicare tax**

$\text{AddlMed} = 0.009 \times (Wages + SE - T)$  —  $SE$  = self-employment earnings,  $T$  = threshold ( $\$200K$  single,  $\$250K$  MFJ,  $\$125K$  MFS)

**Net investment income tax (NIIT)**

$NIIT = 0.038 \times \min(NII, MAGI - T)$  —  $NII$  = net investment income,  $MAGI$  = modified AGI,  $T$  = threshold ( $\$200K$  single,  $\$250K$  MFJ,  $\$125K$  MFS)

ADVISING THE INDIVIDUAL TAXPAYER

4 items

**Section 121 principal residence gain exclusion**

$E = \min(G, L)$  —  $G$  = realized gain,  $L = \$250,000$  single or  $\$500,000$  MFJ; requires 2-of-5-year ownership and use

**Required minimum distribution (RMD)**

$RMD = \frac{B_{prior}}{F_{ULT}}$  —  $B_{prior}$  = prior year-end IRA balance,  $F_{ULT}$  = Uniform Lifetime Table divisor for current age (begins age 73)

**Lifetime Learning Credit**

$LLC = 0.20 \times \min(QE, \$10,000)$  —  $QE$  = qualified post-secondary expenses per return; max  $\$2,000$ , nonrefundable, phaseout  $\$80K/\$160K$

**Section 6654 estimated tax safe harbor payment**

$P_{safe} = \min(0.90 \cdot T_{cur}, k \cdot T_{pri})$  —  $T_{cur}$  = current-year tax,  $T_{pri}$  = prior-year tax,  $k = 1.00$  (1.10 if prior AGI  $> \$150,000$ )

**Tentative estate and gift tax above the \ \$1M base**

$T = \$345,800 + 0.40 \times (B - \$1,000,000) - B$  = tax base (taxable estate + adjusted taxable gifts), 40% is the top unified rate above \ \$1M

**Spousal JTWROS gross estate inclusion**

Included =  $0.50 \times FMV$  — FMV = fair market value of property held JTWROS with U.S. citizen spouse under §2040(b), regardless of who furnished consideration

**Taxable estate**

$TE = GE - (\text{Funeral} + \text{Admin} + \text{Debts} + \text{Casualty} + \text{Charitable} + \text{Marital}) - GE$  = gross estate at FMV (or alternate valuation date)

**Federal estate tax with unified credit**

Estate Tax =  $T(TE + ATG) - GTP - UC$  — TE = taxable estate, ATG = adjusted taxable gifts, GTP = gift tax payable on prior gifts, UC = unified credit (\ \$5,389,800 in 2025)

## LIMITS &amp; THRESHOLDS

## PRELIMINARY WORK AND TAXPAYER DATA

4 items

CTC is **\\$2,000** per qualifying child under **17**, refundable up to **\\$1,700** as ACTC.

FBAR (FinCEN 114) is required when aggregate foreign accounts exceed **\\$10,000** at any point in the year.

2025 FEIE caps the foreign earned income exclusion at **\\$130,000**, with a foreign housing base of **\\$20,800**.

2025 standard deductions: **\\$15,000** single/MFS, **\\$30,000** MFJ/QSS, **\\$22,500** HoH.

## INCOME AND ASSETS

4 items

§121 excludes up to **\\$250,000** single / **\\$500,000** MFJ of gain on a principal residence with **2-of-5**-year ownership and use tests.

QCDs are available at age **70½**, capped at **\\$108,000** per year (2025), and count toward the RMD while excluded from AGI.

Net capital losses offset ordinary income up to **\\$3,000** (**\\$1,500** MFS), with remainder carrying forward **indefinitely**.

RMDs begin at age **73** under SECURE 2.0; the failure-to-take penalty is **25%** of the shortfall, reduced to **10%** if corrected within 2 years.

## DEDUCTIONS AND CREDITS

4 items

QBI phase-in begins at taxable income of **\\$197,300** single/HoH/MFS and **\\$394,600** MFJ for 2025.

CTC is **\\$2,000** per qualifying child under 17 with up to **\\$1,700** refundable as ACTC, and ODC is **\\$500** for other dependents.

Acquisition mortgage interest is deductible on debt up to **\\$750,000** for loans after 12/15/2017 and **\\$1,000,000** grandfathered for pre-12/16/2017 loans.

The 2025 SALT cap is **\\$10,000** combined (**\\$5,000** MFS) across state income, sales, real estate, and personal property tax.

## TAXATION

4 items

Form 2210 safe harbor: pay **90%** of current-year tax or **100%** of prior-year (**110%** if prior AGI > \$150,000).

Schedule H 2025: cash wages of **\\$2,800** to one household employee triggers FICA; **\\$1,000** in any quarter triggers FUTA on the first **\\$7,000**.

NIIT is **3.8%** and Additional Medicare is **0.9%**, both keyed to thresholds of **\\$200,000** single / \$250,000 MFJ / \$125,000 MFS.

2025 AMT exemption: **\\$88,100** single, **\\$137,000** MFJ, with phaseout starting at AMTI **\\$626,350** single / \$1,252,700 MFJ.

## ADVISING THE INDIVIDUAL TAXPAYER

4 items

2025 gift annual exclusion is **\\$19,000** per donee, with a lifetime gift/estate exemption of **\\$13.99M** reported on Form **709**.

§72(t) **10%** early-withdrawal penalty applies before age **59½**; first-time homebuyer IRA exception is capped at **\\$10,000** lifetime.

§6654 estimated-tax safe harbor: pay **90%** current or **100%** prior, rising to **110%** if prior AGI exceeds **\\$150,000**.

§6511 refund claim deadline is later of **3 years** from filing or **2 years** from payment, filed on Form **1040-X**.

The 2025 unified gift/estate exemption is **\$13.99M** with a **\$19,000** annual gift exclusion per donee and a top rate of **40%**.

Under §2040(b), spousal JTWR0S includes exactly **50%** in the first decedent's gross estate regardless of who furnished consideration.

A foreign gift from a nonresident individual exceeding **\$100,000** triggers **Form 3520** reporting, but is not taxable income to the recipient.

Form 706 is due **9 months** after the date of death, and Form 4768 grants a **6-month** extension to file.