

Rule 15.**Modified AGI Limits****Rule 15 Your Modified AGI Must Be Less Than:**

- \$31,152 if you have more than one qualifying child,
- \$27,413 if you have one qualifying child, or
- \$10,380 if you do not have a qualifying child.

Modified Adjusted Gross Income (AGI)

Modified AGI for most people is the same as AGI. AGI is the amount on line 34 (Form 1040), line 20 (Form 1040A), or line 4 (Form 1040EZ).

To find your modified AGI, you must add certain amounts to your AGI if you:

- Claim a loss on Schedule C, C-EZ, D, E, or F,
- Claim a loss from the rental of personal property not used in a trade or business,
- Received any tax-exempt interest, or
- Received certain pension, annuity, or individual retirement arrangement (IRA) distributions that were partly nontaxable.

Community property. If you are married, but qualify to file as head of household under special rules for married taxpayers living apart (see *Rule 2*), and live in a state that has community property laws, your adjusted gross income (AGI) for the EIC includes that portion of both your and your spouse's wages that you are required to include in gross income. This is different from the community property rules that apply under *Rule 6*.

Form 1040EZ. If you file Form 1040EZ, your modified AGI is the amount on line 4 of that form plus the amount of any tax-exempt interest you wrote in the space to the right of the words "Form 1040EZ" on line 2.

Form 1040A. If you file Form 1040A, your AGI is the amount on line 20 of that form. To find your modified AGI, add to your AGI any amount on line 8b of Form 1040A. Also, add the nontaxable part of any pension, annuity, or individual retirement arrangement (IRA) distribution, except any amount that is nontaxable because it was a trustee-to-trustee transfer or a rollover distribution. This is any part of the distribution that you did **not** report on lines 11b or 12b of Form 1040A (except any part that was nontaxable because you rolled it over into another account within 60 days or transferred it from one trustee to another). See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information about IRAs, and Publication 575, *Pension and Annuity Income*, for more information about pensions and annuities.

Form 1040. If you file Form 1040, your AGI is the amount on line 34 of that form. To find your modified AGI, you must add certain amounts to your AGI, including all or part of certain losses (such as 75% of certain business losses) you are claiming on your return. Use *Worksheet 3*, next, to figure your modified AGI.





Worksheet 3: Modified AGI If You Are Filing Form 1040

Form
1040

Enter losses as **positive amounts** (except for lines 7, 8, and 9). For example, if your AGI (Form 1040, line 34) is \$10,000 and you have a \$1,000 capital loss from the sale of stock (Form 1040, line 13), you will enter \$10,000 on line 1 of this worksheet and \$1,000 on line 3. If you do not have to enter any other amounts, your modified AGI is \$11,000 (\$10,000 + \$1,000).

1. Enter the amount from Form 1040, line 34. 1. _____
2. Enter any amount from Form 1040, line 8b, plus any amount on Form 8814, line 1b. 2. _____
3. Enter the amount of any loss claimed on Form 1040, line 13. (If the amount on Form 1040, line 13, is a gain, enter zero.) 3. _____
4. Enter the nontaxable part of a pension, annuity, or individual retirement arrangement (IRA) distribution (any part of the distribution that you did not report on lines 15b or 16b of Form 1040), except any amount that is nontaxable because it was a trustee-to-trustee transfer or a roll-over distribution. 4. _____
5. Enter the amount of any loss claimed on Form 1040, line 12. (If the amount on Form 1040, line 12, is a gain, enter zero.) (See instructions below for line 5.) 5. _____
6. Enter the amount of any loss claimed on Form 1040, line 18. (If the amount on Form 1040, line 18, is a gain, enter zero.) 6. _____
7. Enter the amount of any rental real estate income (or loss) included on Schedule E, line 26. (See instructions below for lines 7, 8, and 9.) 7. _____
8. Enter the amount from Schedule E, line 31. (See instructions below for lines 7, 8, and 9.) 8. _____
9. Enter the amount from Schedule E, line 39. (See instructions below for lines 7, 8, and 9.) 9. _____
10. Combine the amounts on lines 7, 8, and 9. If the result is a loss, enter it here. If the result is a gain, enter zero. (See instructions below for line 10.) 10. _____
11. Add the amounts on lines 5, 6, and 10 of this worksheet. Enter the result. 11. _____
12. Multiply the amount on line 11 of this worksheet by 75% (0.75). Enter the result. 12. _____
13. Enter the amount of any loss claimed on Schedule E, line 36. 13. _____
14. Enter any income from the rental of personal property shown on Form 1040, line 21, plus any royalty income from Schedule E, line 4. 14. _____
15. Enter any expenses from the rental of personal property deducted on Form 1040, line 32, plus any expenses from Schedule E, line 21, related to royalty income. 15. _____
16. Subtract the amount on line 15 of this worksheet from the amount on line 14. If the result is a loss, enter it here. If the result is a gain, enter zero. 16. _____
17. Add the amounts on lines 1, 2, 3, 4, 12, 13, and 16 of this worksheet. Enter the total. **This is your Modified AGI.** 17. _____

Line 5 instructions. If you have a business loss on line 12 of Form 1040, enter the amount of the loss on line 5 of this worksheet. Do this even if that loss amount is the result of combining gains and losses from more than one Schedule C.

Example. You have two Schedules C. One shows a \$2,000 gain. The other shows a \$10,000 loss. You enter the net loss of \$8,000 on line 12 of Form 1040 and on line 5 of this worksheet.

Line 7, 8, and 9 instructions. These lines are an exception to the rule that all amounts on the worksheet must be positive amounts. On these lines, enter any loss by enclosing it in parentheses.

Line 10 instructions. Combine the amounts on lines 7, 8, and 9 to arrive at the amount on line 10. For example, if you enter \$2,000 on line 7, \$1,000 on line 8, and a loss of (\$3,500) on line 9, enter the loss of \$500 as a positive figure on line 10. But if the result of combining lines 7, 8, and 9 is a gain, enter zero. For example, if you enter \$2,000 on line 7, \$1,000 on line 8, and a loss of (\$2,500) on line 9, enter zero on line 10.



Your modified AGI must be less than:

- \$31,152 if you have more than one qualifying child,
- \$27,413 if you have one qualifying child, or
- \$10,380 if you do not have a qualifying child.

If your modified AGI is too great, you cannot claim the EIC. You do not need to read the rest of this publication. You can go back and finish the rest of your tax return.

