**8505. How does a taxpayer compute yearly tax liability?**

A taxpayer computes the amount of tax owed using the following basic steps:

1. Gross income for the taxable year is determined (see Q 8508);

2. Certain deductions are subtracted from gross income (above the line deductions) to arrive at adjusted gross income (see Q 8515 to Q 8517);

3. The deduction for personal and dependency exemptions is determined (see Q 8511 to Q 8514);

4. Itemized deductions are totaled (see Q 8518), compared to the standard deduction and the additional standard deduction, if applicable (see Q 8515), and (generally) the greater amount, along with the deduction for exemptions, is deducted from adjusted gross income to arrive at taxable income;

5. The proper tax rate is applied to taxable income to determine the tax (see Q 8506);

6. The following amounts are subtracted from the tax to determine the net tax payable or overpayment refundable: (1) credits (see Q 8528 and Q 8529), and (2) prepayments toward the tax (e.g., overpayments or credits from a prior tax year carried over, tax withheld by an employer or estimated tax payments).

In some cases, there may be an alternative minimum tax liability. The steps in calculating the alternative minimum tax are explained in Q 8537.