**Adjusted Gross Income**

**Modified Adjusted Gross Income**

In calculating personal income tax, it's important to understand the relationship between the terms adjusted gross income (AGI) and modified adjusted gross income (MAGI), as they can affect the amount of taxes that you owe. By subtracting certain deductions from your gross income, AGI can reduce the amount of your taxable income.﻿

MAGI, on the other hand, can take away some of those deductions because, as your income increases, the Internal Revenue Service (IRS) begins to disallow certain deductions and credits.

﻿ You may want to think of AGI as "giving" deductions and MAGI as "taking away" those deductions.

**Key Takeaways**

* Adjusted gross income (AGI) and modified adjusted gross income (MAGI) are calculations that help the IRS to determine whether taxpayers may take advantage of certain credits and deductions.
* AGI can reduce the amount of your taxable income by subtracting certain deductions from your gross income.
* But MAGI can add back those deductions, where the IRS disallows certain deductions and credits as income increases.

**Tools of the U.S. Tax Code**

The IRS allows individual taxpayers to use tax [deductions](https://www.investopedia.com/terms/d/deduction.asp) and applicable credits based on AGI and MAGI calculations to reduce their total tax liability. It's normal for an individual's MAGI to be similar to or the same as his AGI. However, these calculation tools may result in small differences that can affect an individual's tax return greatly. Specifically, these differences will dictate whether an individual is eligible for certain benefits as outlined by the [Affordable Care Act](https://www.investopedia.com/terms/a/affordable-care-act.asp), as it stands today.﻿

**Adjusted Gross Income**

[Gross income](https://www.investopedia.com/terms/g/grossincome.asp) is the sum of all that you earn in a year, including wages, dividends, alimony, capital gains, interest income, royalties, rental income, and retirement distributions. Adjusted gross income is a modification of gross income; it factors in allowable deductions from your gross income to reach the figure for which your income taxes will be calculated.1﻿ Generally, AGI is more useful than gross income for individual tax purposes.

**Calculating AGI**

To reach AGI, you add all income earned during the year and subtract any allowable adjustments, such as self-employed retirement or [individual retirement account](https://www.investopedia.com/terms/i/ira.asp) (IRA) contributions, alimony payments, and interest on student loans.4 You also may use 50% of any self-employment taxes paid, self-employed health insurance premiums, and qualified tuition to arrive at AGI.

**AGI's Effects on Your Taxes**

Your AGI directly influences your eligibility to claim many of the deductions and credits available on your tax return. Both the earned-income credit and the child/dependent-care credit depend on AGI calculations. Similarly, tax deductions including mortgage insurance premiums, medical deduction allowances, and total itemized deductions are based on your AGI.

You may want to think of AGI as "giving" IRS tax deductions and MAGI as "taking away" those deductions.

**Modified Adjusted Gross Income**

Adjusted gross income is an important but intermediate step in determining how much of one's gross income is taxable. MAGI modifies the adjusted gross income by adding back certain items such as foreign earned income, tax-exempt interest, and the excluded portion of Social Security benefits.

**Calculating MAGI**

To calculate MAGI, taxpayers add certain adjustments back to the AGI total to determine whether they can take full advantage of tax perks, according to the IRS. Tuition-related costs or deductions, losses from rental properties, 50% of [self-employment tax](https://www.investopedia.com/terms/s/selfemploymenttax.asp) paid, and student loan interest are common adjustments added back to arrive at MAGI.6﻿ At certain income levels, the IRS begins to phase out deductions for items such as IRA contributions, expenses related to education, and losses from rental properties.

**MAGI's Effects on Your Taxes**

Most notably, the IRS uses the MAGI figure to determine how much of an individual's IRA contribution is deductible and whether an individual is eligible for premium tax credits. The higher the MAGI, the fewer deductions you can take on IRA contributions.If the MAGI is too high, IRA deductions can even reach zero. If this happens, you can still contribute to an IRA plan, but cannot deduct any of the contributions on the following year's taxes.﻿

Source: Investopedia

<https://www.investopedia.com/ask/answers/051115/what-difference-between-magi-modified-adjusted-gross-income-and-adjusted-gross-income.asp>