

***National Tax
Training Committee
Workbook
Quiz Answers***

Tax Year 2021

Tax Law Changes Quizzes 2021

Tax Law Changes	ANSWERS
1. Vejay elected to spread his coronavirus-related IRA distribution of \$15,000 over 3 years on his 2020 return (\$5,000 for each year). He was able to repay \$7,500 back into his IRA in November 2021. How will this affect him?	Vejay's repayment is first applied to the amount taxable in 2021 of \$5,000, which is reduced to -0- and he has an excess repayment of \$2,500. He can choose to file an amended return for 2020 to reduce the amount taxable in 2020 or to carry forward the excess repayment to 2022 to reduce that taxable amount. He will file Form 8915-F with his 2021 return to report his repayment.
2. Uri's student loan lender forgave \$10,000 of Uri's student debt. Will Uri have cancelation of debt income to report on his tax return?	No. There is an exclusion available for such debt cancelations for tax years 2021-2025.
3. Yuan's school gave her an emergency financial aid grant of \$7,500 to her to help out during the COVID-19 pandemic. How will she report the grant on her tax return?	Yuan will not need to report the grant – it is not includible in gross income. Further, she does not need to reduce her qualified education expenses for the grant.
4. Economic Impact Payments (EIP) are advances for the 2021 refundable recovery rebate credit (RRC). True/False	True
a. If the 2021 return shows an RRC larger than the EIP received, the additional credit will be added to their refund. True/False	True
b. If the 2021 return shows an RRC smaller than the EIP they received, the excess credit will be subtracted from their refund. True/False?	False, excess EIP does not need to be repaid.
c. Ex-spouse A claims a dependent. The other ex-spouse B received the EIP for the dependent. Can A claim the RRC for the dependent on their 2021 return?	Yes. A can claim the RRC for a properly claimed dependent, even if another taxpayer received the EIP for the same individual.
5. Filing MFS may help get more rebate recovery credit. True/False	True. If the combined income triggers the phase-out, the phase out may not affect the spouse with the lower income on a MFS return so long as other benefits are not adversely affected (taxability of Social Security, credits, etc.). Each spouse will report ½ of the total amount of EIP issued to either spouse on their separate return.
6. All business meals are fully deductible for 2021. True/False	False. Self-employed individuals can deduct 100% of meals purchased in a restaurant only. Other food purchases are not eligible for the 100% deduction. The miscellaneous itemized deduction for unreimbursed employee expenses is suspended through 2025.

Tax Law Changes	ANSWERS
7. Frank and Ana received emergency rental assistance to help with their housing expenses during the pandemic. How will they report this?	The assistance payments are not taxable for federal purposes. However, they cannot claim a deduction for interest or taxes paid by or reimbursed by the assistance payments.
8. Credits for sick or family pay for self-employed individuals was for 2020 only. True/False	False. The 2020 round of credits goes through March 31, 2021, and a second round of credits is available for the April 1, 2021 to September 30, 2021 period. See the 2021 Form 7202.
9. If you don't itemize your deductions on Schedule A, you can still deduct some charitable contributions in 2021. True/False	True, up to \$300 (\$600 for MFJ) of cash contributions can be deducted in addition to the standard deduction if you don't use Schedule A.
10. When itemizing deductions, medical expenses that exceed 7.5% of AGI can be deducted. True/False	True. This provision was made permanent.
11. Enrique is 23 and a full-time student. He has a job and is self-supporting. Can he claim the earned income credit in 2021?	No. The prior minimum age of 25 was reduced to 24 for students. He is 23 and is too young.
12. Wanda, age 18, is on her own and was homeless for most of 2021 but managed to get a part-time job. Can she claim the earned income credit?	Yes. The minimum age for a qualified former foster youth or homeless youth is set to age 18 for tax year 2021. She does not need to have a qualifying child to claim EIC.
13. A taxpayer can choose to use their prior year (2020) earned income to compute their earned income credit for 2021. True/False	False. A taxpayer can use their 2019 earned income if it is more than their 2021 earned income. Generally, enter the 2019 earned income into the software and it will select the best option.
14. Sergio's MAGI is 450% of the FPL for 2021, but earlier in the year he was approved for and collected unemployment for 2 weeks. Will he get any PTC assuming he bought his health coverage on the Marketplace? What if Sergio did not get any unemployment?	Yes. There is a special rule for 2021 that disregards MAGI over 133% (used for PTC purposes) for those who were approved for unemployment. If Sergio was not approved for unemployment, he would be an applicable taxpayer and eligible for some PTC. But if he has excess APTC, the repayment cap will not apply and he will have to repay all of the excess.
15. LaToya files as HoH with her son, DeMarco, who is 5 years old. Her wage income is offset by her standard deduction and she did not have any income tax withheld. Does she need to file?	Yes, she is likely eligible for sizeable refundable credits in 2021: the earned income credit, the refundable CTC, the refundable child care credit if she paid child care expenses, and the recovery rebate credit if she did not receive her full EIP.
16. Zev is 23, supports himself, and has no dependents. His wage income was \$10,000 for 2021. Does he need to file?	Yes, he is likely eligible for earned income credit as the threshold age is 19 for 2021 (not a student and not a foster/homeless youth).

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17. Tomiko is 67 and her primary income is Social Security. She has a part-time job that paid her \$3,000. Does she need to file? What if Tomiko's earned income for 2019 was more?	Yes. She will likely get earned income credit for 2021. There is no upper age limit for 2021. Tomiko can use her 2019 earned income if it is more than her 2021 earned income. Enter her 2019 earned income on the personal information page of Taxslayer.
18. Luigi received AdvCTC for his two young children (both under age 6) of \$3,600. If his MAGI exceeds \$130,000, will he have to repay some of the AdvCTC?	Maybe. The phaseout of the refundable CTC starts at \$112,500 for HoH. Enter the amount of AdvCTC received into the software and the number of children upon which the AdvCTC was based (see IRS Letter 6419 that the taxpayer should receive in January 2022). TaxSlayer will compute the allowable refundable CTC and excess AdvCTC or additional refundable CTC.
19. The enhanced child tax credit for 2021 is available for a dependent child who is 18 years of age as of December 31, 2021. True/False	False. Children who are age 17 or younger are eligible for the refundable CTC.
20. Pierre and Marie are U.S. citizens who normally live in Canada; but spend the winters in Arizona. They have two young children who are also U.S. citizens. Are they eligible for the enhanced CTC?	No. Taxpayers must have a principal place of abode in the U.S. more than half of 2021 to claim the refundable CTC. They are eligible to claim the regular CTC/ACTC.
21. A taxpayer that cannot claim the enhanced child tax credit is out of luck. True/False	False. If the taxpayer cannot claim the refundable CTC because they did not have a principal place of abode in the U.S. for more than half of 2021 or if their income is too high may claim the old CTC/ACTC so long as they satisfy those requirements.
22. To get the refundable enhanced CTC, does a taxpayer need to have earned income in 2021?	No. Unlike the regular refundable ACTC, there is no earned income requirement for 2021's refundable CTC.
23. Gunther paid for child care for his young son so he could work. His income (wages) is fully offset by the HoH standard deduction. Since he has no tax, he will not get any benefit from the child and dependent care credit. True/False	False. For 2021, the CDCC is made refundable so long as the taxpayer has a principal place of abode in the United States for more than half the tax year.
24. Tomasz's employer provided him with tax-free dependent care benefits of \$7,500. Since it is tax-free, he does not have to declare it on his tax return. True/False	False. The dependent care benefit will appear in box 10 of Tomasz's W-2 and will reduce his child care expenses that he can claim for the CDCC. If the benefit is more than the amount he spent on care, the excess is taxable income to Tomasz.

Tax Law Changes	ANSWERS
<p>25. Reggie is the certified Counselor preparing Tony's 2021 tax return. The IRS redetermined his 2020 tax to exclude \$10,200 of unemployment. In a second redetermination, IRS gave Tony EIC (he has no qualifying children). Should Reggie do anything further for Tony and his 2020 return?</p>	<p>Maybe. Reggie can start by opening Tony's 2020 return (if filed at his site) in TaxSlayer. Reggie could look at Tony's 2019 tax return to see if his earned income was more than his 2020 earned income for EIC and add that to TaxSlayer if not already done. The software will update for unemployment, excess PTC, and affected credits. Reggie can compare the updated return to Tony's printed copy plus adjustments by the IRS, if any. This will highlight if there is any reason to file a federal amended return. Reggie can also determine whether a state amended return is appropriate. The final decision on whether to amend or not is, of course, Tony's.</p>

General Quizzes 2021

Quizzes can be a useful tool for Instructors. Use them to reinforce lesson material, supplement self-study and evaluate student knowledge and training effectiveness. To reinforce use of resources, volunteers should write down where they found the answer to the question. Some suggested uses include:

- Assign as homework before or after a lesson to the entire class. Alternatively, assign questions to specific volunteers to research and then brief the class at the beginning of the next day.
- Use as “sunrisers” to get the volunteers motivated at the beginning of the day.
- Assign to volunteers certifying through self-study as another measure of their performance.
- Use them during a lesson to reinforce the tax law and drive home the use of resources such as Pub 4012, Pub 4491, and the Scope Manual.
- Add questions on your state tax law differences and tax software entries.

Policy and Procedure	Answers
1. The Intake & Interview form is nice but not required if the taxpayer doesn't want to use it. True or False?	False. Counselors must complete the Intake & Interview form for any parts that the taxpayer has not answered and for all the shaded areas.
2. Carryforward information that the software brings from the prior year is always correct and the Counselor should not change it. True or False?	False. Taxpayers may move and otherwise change their information. The current year's return must reflect the most recent data.
3. A grateful taxpayer wants to give the Counselor \$20. What should the Counselor do?	The Counselor must refuse the gratuity, nicely of course.
4. The Counselor's brother is a professional Medicare advisor. What happens if the Counselor refers taxpayers to the brother?	The Counselor has violated the Volunteer Standards of Conduct and may be banned from the program.
5. A taxpayer is very unhappy with the results of their taxes and makes a scene at the site. Eventually, security is called to escort the taxpayer out of the building. What should be done?	The Local Coordinator or their designee should complete an incident report and submit it to their local leadership and eventually to the National office. Most likely, the volunteers behaved properly; but, the National office should be aware of the situation in case the taxpayer contacts them.
6. The consent for global carryforward means that any preparer using any tax software will have access to the taxpayer's data in the next year. True or False?	False. Only volunteer sites using the IRS-provided software will get the carryforward information after entering the taxpayer's Social Security number.
7. Taxpayers must answer all demographic questions. True or False.	True. However, they can answer that they prefer not to answer any or all demographic questions.

Policy and Procedure	Answers
8. The Intake Booklet gives the taxpayer a good explanation on how to use the booklet. True or False.	True. Taxpayers should be referred to the fifth page of the booklet so they can read this handy information for themselves.
9. When a taxpayer consents to disclose/ use their information to the AARP Foundation it means that their information will be sold to marketers. True or False.	False. The AARP Foundation uses the information to assist in program development and help support the Tax-Aide program.
10. A taxpayer can consent to receive AARP Foundation information but decline to disclose/ use their information to the AARP Foundation. True or False.	False. The AARP Foundation is not permitted to use any of the taxpayer's information (including their address) if the taxpayer does not agree to disclose their data to the Foundation.
11. A taxpayer does not want to agree to any of the consents. How does this impact the preparation of their tax return?	There is no impact to the return when a taxpayer does not agree to any of the three consents.
12. A site should retain the Intake Booklet to document the answers for each return. True or False?	False. A site should not keep any taxpayer information or document. The booklet is put in the documents envelope with the taxpayer's copy of their return and all the other tax documents the taxpayer brought in. A site may maintain a list of taxpayers to facilitate return transmission and follow up if rejected. That list must not have any sensitive information, such as Social Security numbers.

CORE – Scope	In scope	Out of scope	Maybe **	Answers
1. Student loan interest	X			In scope. Maximum of \$2,500 will be deductible.
2. Form 1099-S for sale of rental property		X		Out of scope. Involves depreciation—whether taken or not.
3. W-2 with code Q in Box 12			X	Maybe—Military certification required
4. Schedule K-1			X	Maybe—Limited to taxable and tax-exempt interest, dividends, royalties, capital gains and associated foreign tax credits only
5. Form 1098-MA		X		Out of scope
6. Moving expenses			X	Maybe—requires Military certification and for active duty military taxpayers only
7. Form 1099-LTC	X			In scope
8. Qualified adoption expenses		X		Out of scope

CORE – Scope	In scope	Out of scope	Maybe **	Answers
9. UBER driver income			X	Maybe—expenses must be less than \$35k, not result in a loss
10. Self-employed health insurance adjustment to gross income			X	Maybe—not if the premium tax credit applies
11. Loss from storm damage from federally declared disaster area		X		Out of scope—casualty loss
12. Form 1099-R Box 7 code L1	X			In scope
13. A social security pension from Germany	X			In scope—only from U.S., Germany or Canada, but do not confuse with other retirement benefits that are not treated as social security
14. Taxpayer with a small business making and selling jewelry at local craft fairs			X	Maybe—if no inventory carried over from prior years, no employees, no equipment being depreciated, expenses less than \$35k and no loss

** Answer “maybe” if scope may be limited.

COMPREHENSIVE – Scope	In scope	Out of scope	Maybe **	Answers
15. Form 1099-C cancellation of car loan		X		Out of scope—only personal credit card debt and qualified principal residence indebtedness are in scope
16. Charitable donation of a painting appraised for \$4,500			X	Maybe. Out of scope if value is greater than what taxpayer originally paid (capital gain property)
17. Prior year Social Security lump sum payments	X			In scope but need to have prior year returns on hand [Pub 4012 Tab D, Form SSA-1099]
18. Parents have a child with unearned income over \$1,100			X	Maybe—if child’s unearned income is less than \$2,200, the child’s return is in scope. If greater than \$2,200, out of scope if the kiddie tax applies – whether income is included on parents’ return or child’s own return. [Pub 4012 Tab A, Chart B and below it]

CORE – Who must file	Answers
1. List three reasons a person should file a return, even though they have no taxable income.	<ul style="list-style-type: none"> • Claim a refund of withholding, estimated tax payments, extension payment, or

CORE – Who must file	Answers
	<p>overpayment from last year applied to this year's taxes</p> <ul style="list-style-type: none"> • Claim the earned income credit • Claim the refundable child tax credit • Claim the refundable child and dependent care credit • Claim the recovery rebate credit • Claim the American opportunity tax credit • Claim additional premium tax credits • Received Form 1099-B and meet other conditions • Received Form 1099-S • Qualify for federal tax on fuels (out of scope) <p>[Pub 4012 Tab A, Chart D]</p>
<p>2. If you were born on January 1, 1957, you follow the guidelines for under 65 for purposes of determining whether you must file a return for 2021? Yes/No</p>	<p>False—Those who turn 65 on Jan 1, 2022 can use “65 or over” rules on 2021 returns. [Pub 4012, Tab A Chart A]</p>
<p>3. Ahmet is 17 years old and earned \$1,350 in wages from his summer job (reported on a W-2). Must he file a return? Yes/No</p>	<p>No. Ahmet has no unearned income and his earned income is less than his standard deduction, so he is not required to file. He may choose to file a return to claim a refund of income tax that was withheld, if any. [Pub 4012 Tab A, Chart B]</p>
<p>4. Donald and Sally are 66 and 61, respectively. Their income is under \$20,000, but they also received a Form 1099-B from their broker reporting non-covered transactions with proceeds of \$21,500 from stock transactions. They tell you they didn't withdraw any money from the account as they bought other securities. Should they file a return? Yes/No</p>	<p>Yes. Donald and Sally should file a return so they can report their net gain or loss in the non-covered transactions. Otherwise, the IRS will deem their basis to be zero and consider the entire amount taxable. [Pub 4012 Tab A, Chart D]</p>

COMPREHENSIVE – Who must file	Answers
<p>5. Keanu is 10 years old. He has a gain of \$1,500 from a stock transaction in a trust account held by his grandmother that is reported under his SSN. Must he file a return? Yes/No</p>	<p>Yes. Keanu's unearned income is greater than \$1,100, so either he must file a return or his income must be included on his parents' return. His return is out of scope if the kiddie tax applies or if the parents choose to include Keanu's income on their return. [Pub 4012 Tab A]</p>

CORE – Wages	Answers
1. What will happen if the Employer Identification Number (EIN) or business name on a W-2 is entered incorrectly in TaxSlayer?	If the EIN and the first four letters of the name do not match the IRS database, the e-filed return will be rejected. [Pub 4012 Tab D, Form W-2 Instructions]
2. Where can you find the definition of the codes for Box 12?	W-2 box 12 codes can be found on the back of the form, in Pub 4012 Tab D, and in Form W-2 Instructions among other places. [Pub 4012 Tab D, Form W-2 Instructions]
3. If a W-2 has a Code DD in box 12 what does that mean?	Code DD indicates the cost of employer sponsored health coverage. It includes both the taxpayer's share and the employer's share.
4. Information in Box 14 on a W-2 must be reported in TaxSlayer exactly as it appears on the W-2. True/False	False. You may have to use the "Other" category if you cannot match exactly. (Pub 4012 Tab D, Form W-2 Instructions)
5. If a W-2 has a Code D in Box 12, what form might be generated as a result? What probing questions should you ask?	Code D indicates a voluntary contribution to an employer's defined contribution plan (e.g., 401(k)). If the income is low enough, this will generate Form 8880 Retirement Savings Credit. Probing questions should include: a) Was the taxpayer and/or spouse a full-time student any part of five months last year? b) Did the taxpayer and/or spouse take any distributions from IRAs or qualified retirement plans such as 401(k), Thrift Savings Plans, etc. during the past three years including up to the filing deadline of the current tax year? [Pub 4012 Tab G])
6. Difficulty of care payments (also called Medicaid waiver payments "MWP") can be excluded from income but included as earned income for earned income and additional child tax credit purposes. True/False	True, but all MWP income must be treated the same for the year. Refer to Pub 4012 for the software entries. The 2021 refundable CTC may not apply if the taxpayer's principal place of abode was not in the U.S. more than half the year. In this case, the old CTC/ACTC rules apply.

COMPREHENSIVE – Wages	Answers
7. If a taxpayer can't get his W-2 from an employer, what can we do?	File a substitute W-2 (Form 4852) after the taxpayer has tried to contact the employer. [Pub 4012 Tab D, Form W-2 Instructions]
8. If an employer provides multiple W-2s for the same taxpayer with different amounts or	Ask the taxpayer if they know why they have more than one form and check for differences. Check to see if one is a corrected copy and use

COMPREHENSIVE – Wages	Answers
different states, do you put them all on the same W-2 in TaxSlayer?	the corrected copy only. Check to see if there are two different states in the State Info section. If so, use multiple state lines in the TaxSlayer input screen. Note: Corrections can be issued on either a W-2 with a check in the “Corrected” box or a W-2c. [Pub 4012 Tab D, Form W-2 Instruction]
9. If the taxpayer tells you they have unreported tips, how would you enter them in TaxSlayer?	Enter unreported tips on the wages input screen in TaxSlayer, after box 11 input. Note that tips less than \$20 in any month are subject to income tax; but, they do not have to be reported to the employer and are not taxable for Social Security or Medicare purposes. Open Form 4137 (from TaxSlayer’s Other Taxes menu) and enter the total of less-than-\$20-in-a-month tip amount again so that Social Security and Medicare taxes are not computed. [Pub 4012 Tab D, Form W-2 Instructions]
10. How can you tell from the W-2 that it represents a Medicaid Waiver payment?	You can’t. You need to ask if the wages are for caring for someone (often a disabled family member) in the taxpayer’s home. [Pub 4012 Glossary and Tab D, Entering Medicaid Waiver Payments]
11. If Box 13 is marked “Third Party Sick Pay,” income in Box 1 of a W-2 is reportable but not taxable. True/False	False. Form W-2 box 1 is taxable. If there is no amount in Box 1 but income tax was withheld, you will need to enter \$1 or the software will not let you complete the form. (Pub 4012 Tab D, Form W-2 Instructions)

CORE – Interest	Answers
1. Early withdrawal penalties are adjustments from income. Is the entry for them made in the Deduction>Adjustments section of TaxSlayer or in the Income>Interest and Dividends section?	In TaxSlayer the early withdrawal penalty can be entered with the Form 1099-INT input, OR it can be entered in the Deductions (Adjustments) Section of TaxSlayer – but you should not enter it twice. [Pub 4012 Tab D, Interest and Dividend Income]
2. The terms tax-exempt, non-taxable and tax-free interest can be used interchangeably and usually mean that the interest income is reportable but not federally taxable. True/False	True. Tax-exempt interest (generally from municipal bonds or mutual funds) is not taxable on the federal return but it may be taxable on the state return. It must be reported. [Pub 4012 Tab D, Interest Income]

CORE – Interest	Answers
3. When a taxpayer sells his home and carries the buyer's mortgage, he or she receives interest from the buyer (payer). What information is required to enter seller-financed mortgage interest received?	The payer's name, address and social security number. [Pub 4012 Tab D, Seller Financed Mortgage Interest]
4. The difference between the price of a savings bond and the face value received at maturity is interest and is reported to the taxpayer on Form _____.	1099-INT or a bank statement labeled "Substitute 1099-INT" [Pub 4012 Tab D, Interest Income]

COMPREHENSIVE – Interest	Answers
5. If a bond is issued at a price lower than its stated redemption value, the difference is called original issue discount (OID) and is simply a form of interest. The issuer of the bond reports a portion of OID each year to the bondholder on Form 1099-OID and we enter it in the Interest and Dividends section of TaxSlayer. True/False	True. Original issue discount (OID) attributed to the tax year is treated as normal interest. If the taxpayer says amount reported as OID is only partially taxable then the return is out of scope. Brokers generally make all the calculations for covered securities. (Pub 4012 Tab D, Interest Income)
6. Interest on life insurance dividends is not taxable, but it must be reported. True/False	False. Interest on life insurance dividends is taxable. The dividends themselves are not. [Pub 4012 Tab D, Income Quick Reference Guide, Tables A and B]
7. Charlie has \$9.35 in dividends from his credit union account. He did not get a document reporting the amount from his credit union. You should report the amount as qualified dividends in the dividend section of TaxSlayer. True/False	False. Credit union dividends are actually interest. If the amount had been \$10 or more, the credit union would have issued a Form 1099-INT. Once the taxpayer has told you about the income, it must be entered in the return in the interest section. [Pub 4491 Chapter 9, Where do I get interest]

Dividends	Answers
1. Ordinary and qualified dividends are both taxed in the same way. True/False	False. Qualified dividends are taxed at the lower capital gain rate. [Pub 550 Investment Income and Expenses]
2. Capital gains distributions reported on a Form 1099-DIV can only be entered in the capital gains and losses section of TaxSlayer. True/False	False. Capital gain distributions can be entered on the dividend income input screen or, from the capital gains page, on the additional capital gain distributions screen in TaxSlayer. (Pub 4012 Tab D, Enter your Dividend Income (Form 1099-DIV))
3. Form 1099-DIV shows \$86 in Box 3 [non-dividend distributions]. Since it is not an	False. A non-dividend distribution is input on the dividend income screen in TaxSlayer; but, it

Dividends	Answers
ordinary dividend it is eligible to be treated the same as a qualified dividend. True/False	is not taxable and will not appear on the return. The taxpayer or broker has to keep track of the non-dividend distribution as it reduces the basis of the stock in a future sale. [Pub 4012 Tab D, Dividend Income]
4. Is there a limit on the total amount of foreign taxes paid during the year for an in-scope return? Yes/No	Yes, when the foreign tax relates to passive (usually investment) income only and the total amount is \$300 (\$600 if MFJ) or less, we can use the simplified limitation election. If the amount exceeds those limits or the foreign tax relates to other types of income, the election is not available to the taxpayer. The taxpayer can choose to deduct the foreign taxes on Schedule A, if itemizing, or can claim foreign tax credits by completing Form 1116. Form 1116 requires International Certification. Entering a lower amount to skirt the law is not allowed. [Pub 4012 Tab G-2, Form 1116 – Foreign Tax Credit]
5. Tax-exempt interest dividends (Form 1099-DIV Box 10) are not taxable and do not show up on the tax return. True/False	False. Tax-exempt interest dividends are entered on the dividend screen but show up on the tax return as tax-exempt interest. [Pub 4012 Tab D, Dividend Income]
6. Sean claims that since his dividend was part of a reinvestment plan to purchase more shares he does not have to declare the dividend. Is his statement true or false?	False. Dividends (other than return-of-capital distributions) used to buy more stock must be reported even though the taxpayer receives no cash. It is then the basis for the new shares.

CORE – Self-employment business income	Answers
1. List five requirements for a taxpayer’s self-employment income to be in scope for Tax-Aide.	<ul style="list-style-type: none"> • No depreciation, • No home office, • No employees or contract laborers, • No net loss, and • Less than \$35,000 in expenses. [Pub 4012 Scope of Service]
2. If your self-employment income is very low, you are not required to pay self-employment taxes. What is that threshold amount?	There is no Self-Employment Tax for self-employment income under \$433. [Pub 4012 Tab A, Chart C]
3. Dmitry just started his own business as a painter last year. He tells you that sometimes he does house painting for only one client at a time and other times he may have two or more jobs going on the same day. He also	He can deduct mileage between jobs and to and from the paint store. A trip to a worksite that begins or ends at home is considered commuting. If “commuting” miles are significant, Tom should consider creating a home office and

CORE – Self-employment business income	Answers																																		
<p>tells you that he often makes separate trips to the paint store for supplies. He has meticulous records of all the miles he drives for his business (i.e., between home and client, between clients, and to the paint store). He is unsure what miles he is allowed to deduct. What do you tell him?</p>	<p>having his return prepared by a paid professional (Home office, even with the simplified method, is out of scope). [Pub 4012 Tab C, Car and Truck Expenses]</p>																																		
<p>4. Zehra works as an UBER driver on weekends to supplement her income. She provides you with the list of expenses below. Which of the following expenses are allowable business deductions?</p> <table border="0" data-bbox="201 646 769 1230"> <tr> <td>a. Business miles</td> <td>2,500</td> </tr> <tr> <td>b. Car insurance</td> <td>\$950</td> </tr> <tr> <td>c. Business cards</td> <td>\$50</td> </tr> <tr> <td>d. Liability insurance purchased to protect against his increased risk</td> <td>\$225</td> </tr> <tr> <td>e. Tolls</td> <td>\$125</td> </tr> <tr> <td>f. Gas for the car</td> <td>\$300</td> </tr> <tr> <td>g. Commissions and expenses on UBER statement</td> <td>\$950</td> </tr> <tr> <td>h. Speeding tickets incurred while driving clients</td> <td>\$50</td> </tr> <tr> <td>i. Cell phone used only for UBER calls per month</td> <td>\$15</td> </tr> <tr> <td>j. Regular car washes</td> <td>\$1,200</td> </tr> </table>	a. Business miles	2,500	b. Car insurance	\$950	c. Business cards	\$50	d. Liability insurance purchased to protect against his increased risk	\$225	e. Tolls	\$125	f. Gas for the car	\$300	g. Commissions and expenses on UBER statement	\$950	h. Speeding tickets incurred while driving clients	\$50	i. Cell phone used only for UBER calls per month	\$15	j. Regular car washes	\$1,200	<p><u>Allowed:</u></p> <table border="0" data-bbox="824 478 1468 894"> <tr> <td>a. 2,500 business miles x the standard rate</td> <td></td> </tr> <tr> <td>c. Business cards</td> <td>\$50</td> </tr> <tr> <td>d. Extra liability insurance (if it is separate coverage from other insurance)</td> <td>\$225</td> </tr> <tr> <td>e. Tolls</td> <td>\$125</td> </tr> <tr> <td>g. Commissions and expenses on UBER statement</td> <td></td> </tr> <tr> <td></td> <td>\$950</td> </tr> <tr> <td>i. Business cell phone</td> <td>\$180</td> </tr> </table> <p><u>Not Allowed:</u></p> <p>b. Car insurance (included in the standard mileage rate)</p> <p>f. Gas (included in the standard mileage rate)</p> <p>h. Speeding tickets are never deductible</p> <p>j. Regular car washes are included in standard mileage rate</p> <p>[Pub 4012 Schedule C – General Expenses and Car and Truck Expenses]</p>	a. 2,500 business miles x the standard rate		c. Business cards	\$50	d. Extra liability insurance (if it is separate coverage from other insurance)	\$225	e. Tolls	\$125	g. Commissions and expenses on UBER statement			\$950	i. Business cell phone	\$180
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<p>5. Yvette is self-employed and pays for her own health insurance. Where can this be deducted?</p>	<p>Yvette may claim the Self-Employed Health Insurance (SEHI) deduction as an adjustment to gross income. As a self-employed individual, the insurance can be in her business' name or in her name. Note that Yvette may be better off taking an itemized deduction (instead of the SEHI deduction). If she is itemizing, you'll need to check both ways. [Pub 4012 Tab E, Self-Employed Health Insurance Deduction]</p>																																		

COMPREHENSIVE – Self-employment income	Answers
<p>6. Diego has a Form 1099-MISC from his church with \$2,750 reported in box 3 Other Income. Upon questioning about the reason for the income, he states that he does handyman tasks for the church and for others regularly. How do you report this income in TaxSlayer?</p>	<p>Although Diego’s Form 1099-MISC reported the income in box 3 Other Income, it is clear from the interview that this was payment for work performed as part of an ongoing business and is therefore self-employment income which must be reported on Schedule C. In TaxSlayer you must enter that income in the Non-Employee Compensation Form 1099-NEC along with any handyman business income he received and then create a new Schedule C when prompted. You should also ask Diego if he had any expenses associated with this work. [Pub 4012 Tab D, Form 1099-NEC, and Pub 17 Chapter 1, Self-Employed Persons]</p>
<p>7. Jose is a full-time insurance agent and provides you with a W-2 that is marked as a statutory employee in Block 13. How is this income reported?</p>	<p>In TaxSlayer, enter the W-2 and check “Statutory employee” in Box 13. TaxSlayer will then ask you to create a Schedule C where you can enter associated business expenses. Because Social Security and Medicare taxes have already been withheld, statutory employee income is not subject to the self-employment tax, even though it is reported on Schedule C. John may also be able to claim a qualified business income deduction. [Pub 4012 Tab D, Form W-2 Instructions]</p>

Capital gains or losses	Answers
<p>1. Which form is used to report sales of stocks or mutual funds to the taxpayer?</p>	<p>Brokers or transfer agents use Form 1099-B to report sales proceeds and other information as required. They often use their own substitute form as part of the brokerage statement. [Pub 4012 Tab D, Capital Gains Transaction]</p>
<p>2. Short term transactions occur when the taxpayer has owned the stock for one year or less. True/False</p>	<p>True [Pub 4012 Tab D, Entering Capital Gains and Losses]</p>
<p>3. A “covered security” means the broker has reported the sales amount but not the basis to the IRS. True/False</p>	<p>False. A “covered security” means both the proceeds and the basis have been reported to the IRS. For a “noncovered security,” the basis is not reported to the IRS. [Pub 4012 Glossary]</p>
<p>4. If a taxpayer does not know the basis for stock sold, what can they do?</p>	<p>Contact the broker to get the basis, determine the basis from the date it was purchased or inherited, or use zero.</p>

Capital gains or losses	Answers										
	[Pub 4012 Tab D, Entering Capital Gains and Losses]										
5. Inherited stock sold within one year is a short-term transaction. True/False	False. Sale of an inherited asset is always long term. The taxpayer will need to supply the basis information. [Pub 4012 Tab D: Entering Capital Gains and Losses]										
6. Which of the following sales are in scope for Tax-Aide? a. Sale of a personal residence b. Inherited stock c. Stock received as a gift d. No cost basis on the broker statement e. The sale of rental property f. Sale of stock options g. Purchase of a virtual currency	In or out of scope: a. In scope (unless the exclusion will be prorated for less than 2-year ownership/occupancy) b. In scope only if the taxpayer provides the basis c. In scope only if the taxpayer provides the acquisition date and basis (which determines whether the disposition is at a gain, a loss, or neither) d. In scope if taxpayer provides the basis or uses zero e. Out of scope – even if no depreciation has been taken f. Out of scope (not a stock) g. Out of scope (not a stock) – taxable events may occur while owned (e.g. a hard fork), even if not sold [Pub 4012 Scope of Service]										
7. Taxpayer(s) can exclude up to \$250,000 (\$500,000 if MFJ) of gain on the sale of their main home if: a. They have owned and lived in the home at least ___ of the last ___ and b. Have not excluded the gain on another home in the last _____.	a. Two of the last five years b. Two years [Pub 4012 Tab D: Capital Gains or Losses Sale of Main Home]										
8. Tom and Helen sold their home and want to know which of these can be added to their original purchase price: a. New fence \$3,400 b. New deck \$2,900 c. Exterior painting \$900 (not part of a home improvement) d. Remodeled kitchen \$20,600 e. Refinished wood floors \$1,100	Repairs and maintenance do not increase basis. The following are allowable improvements that increase basis: <table data-bbox="867 1654 1468 1856"> <tr> <td>New fence</td> <td>\$3,400</td> </tr> <tr> <td>New deck</td> <td>\$2,900</td> </tr> <tr> <td>Remodeled kitchen</td> <td>\$20,600</td> </tr> <tr> <td>2nd roof replacement</td> <td><u>\$4,200</u></td> </tr> <tr> <td></td> <td>\$ 31,100</td> </tr> </table> [Pub 4012 Tab D: Capital Gains or Losses Sale of Main Home]	New fence	\$3,400	New deck	\$2,900	Remodeled kitchen	\$20,600	2 nd roof replacement	<u>\$4,200</u>		\$ 31,100
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Capital gains or losses	Answers
<p>f. Roof replaced in 1984 for \$1,600 and again in 2006 for \$4,200</p> <p>g. Annual maintenance on the heating and air conditioning system \$370</p>	
<p>9. Tomasz, aged 75, has a capital loss carry forward of \$78,000 and is thinking he won't file next year as he doesn't think he'll live long enough to use up his capital loss. He receives \$18,000 in Social Security, a \$9,000 pension, has more stock to sell and owns a piece of land in Georgia. Should he file a return?</p>	<p>Tomasz should file a return. When he sells the land or other stocks, he may have a capital gain that can be offset by his capital loss carry forward. Even a small gain or capital gains distribution will alter the carry forward amount. If he fails to file, he may forget about the carry forward in future years.</p>

CORE – Retirement	Answers
<p>1. List three situations when the taxable amount needs to be calculated on Form 1099-R?</p>	<ul style="list-style-type: none"> • Simplified method if after-tax dollars were deposited into the retirement account. • If the recipient is a retired public safety officer, up to \$3,000 of health insurance (withdrawn from his pension check) can be subtracted from the pension amount. • If the taxpayer made nondeductible contributions to his IRA in the past, Form 8606 can be completed to determine how much of this distribution is taxable. • If a qualified charitable deduction (QCD) was made from an IRA, its value can be subtracted from the IRA distribution. • The taxpayer rolled over a part, but not all, of the distribution to another qualified account. <p>[Pub 4012 Tab D: Form 1099-R]</p>
<p>2. The taxpayer, a retired public safety officer (PSO), provides you a copy of his Form 1099-R and tells you or has a detail statement telling him health insurance premiums of \$3,786 were withheld (may be shown in Box 5 of Form 1099-R). How do you properly report this in TaxSlayer?</p>	<p>The amount paid directly from a public safety officer's pension (PSO) for health insurance reduces the taxable amount. Enter the amount eligible for the PSO exclusion (no more than \$3,000). [Pub 4012 Tab D, Form 1099-R]</p> <p>Enter the remainder of the insurance premium (\$786) as a medical itemized deduction. Be sure to make a note on the I/I form for the Reviewer.</p> <p>[Pub 4012 Tab D, Taxable Amount Not Determined]</p>
<p>3. Form 1099-R shows a code "3" in Box 7. What probing questions do you ask? Why? What do</p>	<p>Code 3 in Box 7 indicates that this is a disability pension. Ask the taxpayer what the minimum</p>

CORE – Retirement	Answers
<p>you do if there is also an entry in box 9b on the Form 1099-R?</p>	<p>retirement age is for that employer. If the taxpayer is younger than the minimum retirement age, check the box in TaxSlayer to report the income as wages on Form 1040. This may qualify the taxpayer for earned income credit. Even though there is an entry in box 9b, Employee Contributions, the entire amount is taxable until the minimum retirement age is reached. The taxpayer does not start recovering their contributions (simplified method) until they reach the minimum retirement age and it becomes a normal pension.</p>
<p>4. An early distribution is not subject to the 10% early distribution penalty if it has one of the following codes in Box 7: 2, 3, or 4. True/False</p>	<p>True. There are also a number of exceptions to the 10% addition to tax when code 1 appears. [Pub 4012 Tab H, Other Taxes and Payments]</p>
<p>5. A taxpayer presents a Form 1099-R with Distribution Code 1, what probing questions do you ask? What if the taxpayer is 70 years old?</p>	<p>Read the list of exceptions to the early distribution addition to tax, explain them and ask if any apply. The information needed for the exception for medical or higher education expenses may be in other parts of the return. The medical expenses over 7.5% of AGI can be used for the medical exception even though the standard deduction or self-employed health insurance deduction is used on the return. If the taxpayer is over 59½, use exception 12. [Pub 4012 Tab H: Early Distribution Exceptions]</p>
<p>6. In determining the retirement savings credit, which distributions offset contributions to a qualified retirement plan?</p>	<p>A distribution this year or in the preceding two years from any qualified retirement plan to which the taxpayer (or spouse if applicable) could have voluntarily contributed offsets any current contribution to a qualified plan for purposes of determining the Retirement Savings credit. [Pub 4012 Tab G: Retirement Savings Contributions Credit]</p>
<p>7. If the taxpayer is allowed to make a qualified charitable distribution and the entire distribution amount is \$4,500 while the contribution portion is \$2,000, how would you handle the transaction in TaxSlayer?</p>	<p>The amount of the qualified charitable distribution (QCD) reduces the taxable amount. [Pub 4012 Tab D, Form 1099-R] Check the appropriate box on the IRA/Pension Distributions > Nontaxable Distributions screen. [Pub 4012 Tab D, Form 1099-R Nontaxable Income] The QCD is not limited to the RMD amount and can be the full amount of the</p>

CORE – Retirement	Answers
	distribution shown on Form 1099-R. It is only required that the individual be over age 70 ½ and total QCDs are limited to \$100,000 per person per year. [Pub 4012 Tab D: Form 1099-R]
8. The retiree died before starting to collect on his pension. It was a joint and survivor benefit policy. When using the simplified method, do you use the ages of both the employee and spouse, just the employee or just the surviving spouse?	Use the age(s) of the beneficiaries that are alive <u>at the time the pension begins</u> . In this case just the spouse. [Pub 4012 Tab D: Form 1099-R Simplified Method]
9. What code on Form 1099-R shows that the person is a retired public safety officer eligible for the PSO exclusion?	There is no code showing this. If the taxpayer is retired from a governmental entity (such as Town of Wakefield, Sumter County, State of Oregon, or federal government or agency) you should ask the taxpayer if they are a retired public safety officer. If so, determine if the person is eligible for the PSO exclusion.

COMPREHENSIVE – Retirement	Answers
10. A taxpayer has an IRA Form 1099-R with Distribution Code 1 and tells you that he took the distribution to buy a new car, but then changed his mind and put the money back into another IRA. What probing questions do you ask and how do you enter this information in TaxSlayer?	<ul style="list-style-type: none"> • Determine whether he completed the rollover within 60 days from the date of distribution. • If some of the money was not re-deposited within 60 days, determine if the taxpayer can self-certify the rollover. [Pub 4012 Tab D: Form 1099-R Rollovers and Rev Proc 2016-47] • Confirm there were no other rollovers during the 12-months prior to the date of distribution. • Determine if he re-deposited the entire amount, or was some withheld (and not re-deposited) for income taxes. • If some of the money was not re-deposited within 60 days, determine if any of the exceptions to the 10% extra tax applies. • Enter the gross distribution in Box 1, the taxable amount (amount not rolled over timely) in Box 2, and then mark the “Rollover” box near the bottom of the TSO screen.
11. The taxpayer takes a distribution from his IRA and tells you he had made non-deductible contributions in prior years. How would you enter the non-taxable portion of the current distribution into TaxSlayer?	You will need Form 8606 from the prior year’s tax return, if there is one. Otherwise, the taxpayer will need to have kept good records of their basis and you can use their amount. Use the basis information to complete the Form

	8606 input screen and calculate the taxable portion of the distribution. The taxable amount is then entered in box 2a of the Form 1099-R input screen. Note: Form 8606, Parts I and II are in scope for Tax-Aide. [Pub 4012 Tab D: Form 1099-R]
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Other income	Answers
1. Mohamed received \$20 per day for twenty days of jury duty and said that he received his full wages during that time but was required to turn over to his employer all the jury duty pay he received after the first ten days. How do you report this on his return?	Mohamed must report the jury duty pay as other income; but, he is allowed an adjustment to gross income for the jury duty pay turned over to his employer. Use the Other Adjustments input screen in TaxSlayer and select Jury Duty Pay. [Pub 4012 Tab D: Other Income and Tab E: Adjustment to Income]
2. When asked if they had any other income during the year, John and Mary inform you that they rented their home to a group of fans for one week during the Masters Golf tournament and received \$6,000. They also paid a maid service \$500 to clean the home after the group left. Is this in scope?	Rentals are generally out of scope for Tax-Aide. Renting a residence for less than 15 days can be excluded from gross income. A residence is a home used by the taxpayer for at least 15 days during the year. Of course, if the exclusion is taken, related expenses (other than interest and taxes) are not deductible. Qualified home mortgage interest and property taxes can be deducted on Schedule A if itemizing. [Pub 4012 Tab D: Entering Rental and Royalty Income in TaxSlayer]
3. Ella provided nonmedical support services for her cousin Siri who lives with her. She received a Form 1099-MISC with an amount in Box 3 from a certified Medicaid provider under a Medicaid waiver program in her state. How do you report this income?	The Medicaid waiver payments can be excluded from gross income but included as earned income for the calculation of EIC and ACTC (if the refundable CTC does not apply for 2021). Enter the amount on the 1099-Misc and test to see whether marking the box “Do you want to include Medicaid Waiver payments in the calculation of earned income?” improves the taxpayer’s situation. [Pub 4012 Tab D: Entering Medicaid Waiver Payments]
4. Bjorn has a W-2G showing that he won \$3,000 at a local casino and he says he was told that he only has to report \$2,000 because he had \$1,000 in losses last year. What do you tell him?	Bjorn cannot subtract his losses from his winnings; but if Bjorn itemizes his deductions, he can claim a miscellaneous deduction for the gambling losses. The per-session rule does not apply because Bjorn has not kept the required records. [Pub 4012 Tab F: Schedule A – Miscellaneous Deductions]]

Other income	Answers
5. Denzel provides a Form 1099-C for cancellation of credit card debt. What probing question do you ask?	First, confirm that Denzel agrees with the amount of debt discharged and that the debt was personal (not business related). Next, confirm that Denzel was solvent at the time of the discharge. If so, the discharged debt is fully taxable. If Denzel was not solvent, part or all of the discharged debt may be excludible; but it would be out of scope. [Pub 4012 Tab D, Screening Sheet for Nonbusiness Credit Card Debt Cancellation and the following page]
6. When asked if she had any other income, Beyoncé tells you that she did receive \$10,650 from a small life insurance policy. It included \$650 of interest. She may have gotten a tax form; but can't find it. How do you report this income?	Death benefits paid under a life insurance policy are excludible. The interest paid is taxable and must be reported. Beyoncé should have received a Form 1099-INT for the interest. [Pub 4012 Tab D, Table B – Examples of Nontaxable Income]

CORE – Standard and itemized deductions	Answers
1. What factors determine the standard deduction amounts?	Filing status, age, whether blind, and whether taxpayer can be claimed as a dependent of another taxpayer. [See Pub 4012 Tab F: Standard Deduction]
2. Charles and Maria file MFJ. They paid the following bills. Which items are eligible deductions? a. Prescription drugs from Canada b. False teeth c. Medical insurance premiums deducted from Maria's gross pay d. Oxygen equipment and oxygen e. Nutritional supplements recommended by their doctor to treat diabetes f. Lodging expenses while receiving medical care g. The cost to remove lead paint from their home h. Vitamins and dietary supplements i. Medical marijuana prescribed by a doctor	a. No, unless they are legally imported and on the FDA's list of legally importable drugs b. Yes c. No, if deducted pre-tax; yes, if deducted after tax (very rare) d. Yes e. Yes, because they are recommended by a medical practitioner as a treatment for a specific medical condition diagnosed by a physician f. Yes, but with limitations g. Yes h. No, unless recommended by a medical practitioner for a specific medical condition i. No. Not as long as it is a controlled substance for federal purposes [Pub 4012 Tab F: Schedule A – Itemized Deductions]
3. Which taxes are deductible on Schedule A? a. Sales tax for the purchase or lease of a car	a. Yes, it can be added to general sales tax table amount (assuming the state sales tax

CORE – Standard and itemized deductions	Answers
<ul style="list-style-type: none"> b. Real-estate transfer taxes (or stamp taxes) c. Excise tax on gasoline, alcohol or tobacco d. Federal income taxes paid during the tax year e. State or local real estate tax f. Foreign real estate tax g. Special real estate assessment 	<p>deduction is better than the state income tax deduction).</p> <ul style="list-style-type: none"> b. No. c. No. d. No. e. State or local real estate tax? Yes. f. No. Foreign real estate taxes can be deducted only when they relate to a business (on Schedule C) or for the production of income (Schedule E). g. A special assessment for a single property generally relates to an improvement to the property, such as curbs or sidewalks, or for services, such as sanitation, and is not deductible. If the special assessment is levied on all the properties in the particular district, then it is a deductible tax. <p>[Pub 4012 Tab F: Schedule A – Itemized Deductions and Pub 17 Chapter 11]</p>
<p>4. For 2021, what is the limit on state and local sales, income, and property taxes (SALT)?</p>	<p>The limit on total state and local taxes shown in Pub 4012 (Congress may change the cap and how it is applied). The limit does not apply to taxes related to a business (claimed on Sch C) or for the production of income (claimed on Sch E or Sch A). Note that all state income taxes are subject to the cap and can be claimed on Sch A only; they cannot be claimed on Sch C or Sch E.</p> <p>[Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>
<p>5. Which of the following types of interest paid are deductible and within the scope of the Tax-Aide Program?</p> <ul style="list-style-type: none"> a. Home mortgage interest incurred and paid by taxpayer b. Mortgage interest paid on son's mobile home while he is in college (son is sole owner of the mobile home) c. Points paid to acquire a mortgage on the purchase of taxpayer's home d. Mortgage insurance premiums for contract that commenced December 21, 2010 	<p>In scope so long as the item satisfies the requirements for deductibility:</p> <ul style="list-style-type: none"> a. Yes, if it is qualified home mortgage interest where the loan proceeds are used to buy, build, or improve the main or a second home. b. In scope but not deductible by the parents if the parents had no ownership interest and were not liable for the loan. Could be deducted by the son, if he files a return. Would be considered a gift by the parents, deductible by the son. c. Yes. d. Yes, the contract began after 2006.

CORE – Standard and itemized deductions	Answers
<p>e. Margin interest shown on the brokerage statement</p> <p>f. Student loan interest paid by the student’s parent</p> <p>g. Home equity loan used to pay off credit card debt</p>	<p>e. Margin interest: This is investment interest and not in scope if the taxpayer is itemizing deductions on Schedule A.</p> <p>f. Yes, as an adjustment on the parent’s return if the parent is liable for the debt. Else, it can be considered a gift to the student and deducted on his/her return.</p> <p>g. The mortgage proceeds were not used to buy, build, or improve the home so the interest on the loan is not deductible. [Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>
<p>6. Sho has a reverse mortgage on his primary residence. He received a lump sum payment and \$100 per month from the reverse mortgage lender. Interest is accruing and will be paid at some date in the future.</p> <p>a. Is the amount he received in a lump sum reportable as income? Yes/No</p> <p>b. Can he take an interest deduction for the interest that is accruing? Yes/No</p>	<p>a.No. The amounts Sho receives are loan proceeds and not taxable.</p> <p>b.No. Sho cannot take a deduction for interest until it is paid; and then only as permitted for qualified or nonqualified home mortgage interest, based on the law when the interest accrued. (Pub 936) [Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>
<p>7. Alice and Bill are senior citizens who have itemized their deductions for many years. They have no receipts or record of their cash contributions. They tell you these contributions added up to \$260. Can they deduct \$260 as a cash contribution this year?</p>	<p>Charitable contributions require some evidence, such as a cancelled check, a bank record, credit card statement or receipt. If Alice and Bill do not have any evidence, they cannot deduct their contributions. [Pub 526, Charitable Contributions]</p>
<p>8. Maricel is 81 years old and made a \$10,000 qualified charitable distribution from her IRA to Goodwill Industries. The distribution was made directly by the trustee of her IRA to Goodwill. How much of the \$10,000 will she take as a charitable itemized deduction on Schedule A?</p>	<p>None. The distribution is nontaxable and the charitable contribution is not deductible to the extent of the QCD. The advantage to this approach is a lower AGI which affects other deduction limitations, such as medical expenses. [Pub 4012 Tab D: Form 1099-R Nontaxable Income]</p>
<p>9. Liz has non-cash contributions that she wishes to claim. She has brought her receipts that show she wishes to claim amounts of \$225, \$350 and \$450. Where should you enter the contributions? What information is required?</p>	<p>Form 8283 needs to be completed since the total is more than \$500 [Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>

COMPREHENSIVE – Itemized deductions	Answers
<p>10. Harry and Sally are filing married filing jointly (MFJ). They paid the cost of keeping Sally’s father, George, in a nursing home. The entire cost of the nursing home was \$18,000, of which \$8,900 was for medical care. A primary reason for George being in the nursing home was for medical care. George is their dependent. How much of the nursing home costs can Harry and Sally claim as a medical expense?</p>	<p>\$18,000. If you, your spouse or your dependent is in a nursing home, and a principal reason for being there is for medical care, the entire cost, including meals and lodging is a medical expense. [Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>
<p>11. How do you deduct mortgage interest paid for a seller-financed mortgage in TaxSlayer?</p>	<p>From the Schedule A Interest menu, select “Mortgage Interest Not Reported on Form 1098” and enter the seller’s name, address and social security number. [Pub 4012 Tab O Navigating TaxSlayer]</p>
<p>12. Winston bought his home in 2019 with a mortgage of \$850,000. How much interest can he deduct in 2020?</p>	<p>Winston can claim the interest paid on up to \$750,000 of mortgage in each year. As he pays down the principal each month, the deductible portion will not decrease until the mortgage balance falls below \$750,000. [Pub 4012 Tab F: Schedule A – Itemized Deductions]</p>
<p>13. Pablo, age 72, made a direct charitable donation from his IRA for \$10,000 for the first time. He also made a \$7,000 contribution to his traditional IRA. How should these events be reported on his tax return?</p>	<p>Pablo’s charitable contribution is a QCD. However, he must reduce the QCD by the cumulative amount of deductible IRA contributions (starting 2020). His net QCD is therefore only \$3,000. He will report \$7,000 as a taxable IRA distribution, claim an adjustment to gross income for his \$7,000 IRA contribution, and a charitable contribution deduction for the \$7,000 donation that could not be treated as a QCD. [Pub 4012 Tab D: Form 1099-R Nontaxable Income]</p>

Education Benefits	Answers
<p>1. List four eligibility criteria for the American Opportunity Credit.</p>	<ul style="list-style-type: none"> • Pursuing a degree or other recognized credential at an eligible post-secondary institution; • Within first four years of post-secondary study (usually a bachelor’s degree as determined by the school) and • No more than four tax years; • No felony drug conviction; and,

Education Benefits	Answers
	<ul style="list-style-type: none"> • At least half-time student. [Pub 4012 Tab J, Education Credits, Comparison of Education Credits]
2. Who can claim an education credit?	<p>The taxpayer when the taxpayer, spouse or any person claimed as a dependent on the tax return is the student with qualified expenses attending an eligible post-secondary education institution. [Pub 4012 Tab J, Education Credits, Who Can Claim the Credit?]</p>
3. Name at least two options for claiming educational expenses?	<ul style="list-style-type: none"> • Education credits – American opportunity or lifetime learning (Pub 4012 Tab J) • Reduce the amount of a taxable grant or scholarship income (Pub 4012 Tab J) • Business education expenses as a Schedule C expense (Pub 4012 Tab D) • Educator deduction for professional development expenses, if an educator [Pub 4012 Tab E: Highlights of Education Expenses]
4. How do you decide which of the options is right for the taxpayer?	<p>The one where the taxpayer fulfills the criteria and that is most beneficial to the taxpayer. You may have to calculate each of them to see which is best.</p>
5. Last year David paid \$3,000 in tuition, \$500 for textbooks that he bought through eBay, \$100 for an athletic participation fee, and \$50 for safety goggles that were required for his chemistry course. Assuming he meets all eligibility requirements, how much can he claim for 1) Lifetime Learning Credit, or 2) American Opportunity Credit?	<p>Lifetime Learning Credit is based on the tuition he paid, \$3,000. American Opportunity Credit includes tuition, textbooks, and equipment; not the athletic participation fee (unless it was required to enroll): $\\$3,000 + \\$500 + \\$50 = \\$3,550$. [Pub 4012 Tab J: Comparison of Education Credits]</p>
6. Grandma pays the eligible educational expenses for her grandson who is claimed on the parent's return as a dependent. Who can claim the payment amount and where?	<p>The parents can claim amounts paid by Grandma for the American opportunity or lifetime learning credit because the student is their dependent. The paid expenses are treated as though the student paid them, so the parents can claim them. [Pub 4012 Tab J: Who Can Claim the Credit?]</p>
7. When are scholarships and grants taxable?	<p>Scholarships or grants are taxable when they are used (or deemed used) for non-qualified expenses unless there is a provision saying the grant is not taxable, such as Emergency</p>

Education Benefits	Answers
	Financial Aid Grants under the CARES act. [Pub 4012 Tab J, Worksheet 1-1]
8. Taxpayer pays for his son's tuition, but the son is not claimed on the taxpayer's return. Can he claim the tuition he pays for his son as an education credit? Yes/No	No, education credits can be claimed only if the student is the taxpayer, the spouse or a dependent. The son can claim education credit on his own tax return (assuming no other taxpayer claims the son as a dependent). [Pub 4012 Tab J: Who Can Claim the Credit?]

Earned Income Credit	Answers
1. Assume you meet all the eligibility tests to receive EIC. What are three factors that determine the amount of EIC you will receive?	Number of qualifying children, filing status, and either earned income or AGI (whichever gives the smaller credit). [Pub 4012 Tab I: Summary of EIC Eligibility Requirements]
2. Which of the following items are considered EARNED income for EIC? a. Taxable wages b. Pensions/annuities c. Worker's compensation benefits d. Union strike benefits e. Medicaid waiver payments f. Long-term disability benefits received prior to minimum retirement age g. Social Security/Railroad Retirement Benefits h. Unemployment compensation i. Self-employment gross earnings j. Alimony k. Work release wages	a. Yes. b. No. c. No. d. Yes. e. Yes. f. Yes. g. No. h. No. i. Yes, but they are reduced by related expenses. j. No. k. No. [Pub 4012 Tab I: Earned Income Table]
3. Mario and Lucia are divorced. Lucia does not work but receives alimony and has custody of their son Miguel who lives with her except for one month during the summer when he lives with his father. Mario provides more than half of Miguel's support and per the divorce decree claims Miguel as a dependent on his return. Who can claim Miguel for EIC? Why?	No one can claim Miguel for EIC. Mario cannot claim Miguel for EIC because Miguel does not live with him for more than half the year. Lucia cannot claim EIC at all because she has no earned income. [Pub 4012 Tab C: Table 3]
4. Bruno is otherwise eligible to claim EIC but realized a capital gain of \$5,655 during 2021. Is Bruno eligible to claim EIC?	Yes. The maximum investment income was increased starting with 2021 to \$10,000 (it was \$3,650 for 2020). That figure will be adjusted for inflation for future years.
5. Tatiana, age 26, is unmarried. She and her five-year-old daughter Tracey live with	Only Tatiana can claim Tracey as a qualifying child. Doreen's AGI is not greater than the

Earned Income Credit	Answers
<p>Tatiana's mother, Doreen, 63. Tatiana and Doreen provide Tracey's support. Tatiana worked as a clerk and earned \$16,000. Doreen has a part-time job and earned \$8,000 to supplement her Social Security income. Who can claim Tracey for EIC?</p>	<p>parent's. [Pub 4012, Tab I: Qualifying Child of More than One Person]</p>
<p>6. Ruben is separated from his wife. What rules apply to him to allow him to claim EIC?</p>	<p>Married but separated spouses can choose to be treated as not married for EIC purposes. To qualify, the spouse claiming the credit cannot file jointly with the other spouse, cannot have the same principal residence as the other spouse for the last six months of the year (or is legally separated from the other spouse and doesn't live with the spouse at the end of the year) and must have a qualifying child living with them for more than half the year.</p>