Ladder Up Certification Test Study Guide
Tax Year 2019

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<u>Scenario 1: Tamara Dennison</u>

Issue #1 – How is Alimony treated on Tamara and her ex-husband's tax returns?

Hint: Look to see the date the divorce was finalized.

References:
See Pub4012: Alimony, page E-8
See ProSeries Tax Manual: Alimony Paid and Received – pages 111, 121-122
See ProSeries Tax Manual: What's New for 2019, page 7

Issue #2 – What resources should be used to determine client filing status?

Use the Filing Status – Decision Tree, interview tips, and chart for determining Qualifying Persons for Head of Household in your Mini Manual, Publication 4012, or TAP Client Intake and Case Reviewer Guide to determine the best filing status allowable for Tamara.

References:
Pub4012 – page B, 8-10
See TAP Client Intake and Case Reviewer Guide, pages 22-24

Issue #3 - In a multi-generational family, who is a qualifying child for the EITC?

The requirements to claim a qualifying child for EITC purposes are not the same as for claiming a person as a dependent. Check to see if either Christian and/or Kimberly meet all the tests. The rules to be a qualifying person for EITC are:

- Age (under age 19, under 24 if a student -no age requirement of the person is disabled)
- Relationship (the taxpayer's descendant, sibling, or sibling's descendent)
- Residency (the child lived with the taxpayer for more than half the year)
- **Note that there is no support requirement for qualifying child for EITC**
- Has a valid SSN

References:
See Pub4012: Earned Income Credit, page I 2-4
See ProSeries Tax Manual: Federal Information Worksheet, Part IV, page 40
See ProSeries Tax Manual: EITC, page 149-152
See TAP Client Intake and Case Reviewer Guide, page 26

<u>Scenario 2: Charlie and Samantha Collins</u>

Issue #4 & 5 - What credits are taxpayers who have ITINs eligible to claim?

ITIN holders are not eligible to claim all the same tax benefits as individuals with valid social security numbers. As of tax year 2018, qualifying children must have a valid SSN to be claimed for the Child Tax Credit. A taxpayer with an ITIN can claim the *Child Tax Credit*. The *Credit for Other Dependents* and the *Child and Dependent Care Credit* do not exclude ITIN holders. To claim the earned income tax credit (EITC), all taxpayers must have a valid SSN. To be a qualifying child for EITC, the child must have a valid SSN.

References:
See Pub4012: Earned Income Credit (EITC) – pages I, 2-4, ProSeries Tax Manual – pages 149-152
See Pub4012: Child and Dependent Care Credit, pages XX; ProSeries Tax Manual – pages 162-164
See Pub4012: Child Tax Credit, pages G 2-3; ProSeries Tax Manual – page 165
See Pub4012: Credit for Other Dependents, pages G 4-6; ProSeries Tax Manual – page 166

Scenario 3: Gail Baker

Issue #6 – Who is required to file a tax return?

First determine whether Gail can claim Tony as a dependent. A dependent is required to file in any of the following situations:

- Earned income was over $13,850 ($15,500 if 65 or older and blind)
- Unearned income was over $2,750 ($4,400 if 65 or older and blind)
- Gross income was greater than or equal to the larger of (a)$2,750, or (b)Earned income (up to $11,850) plus $2,000 ($3,650 if 65 or older and blind).
- Self-Employment earnings of $400 or more
- Other special situations apply

References:
See Pub4012: Who Must File, pages A1-3 (dependents page A-2)
See TAP Client Intake and Case Reviewer Guide, pages 11-14

Issue #7 – Who is a qualifying child for the EITC?

The rules to be a qualifying person for EITC are:

- Age (under age 19, under 24 if a student - no age requirement if the person is disabled)
- Relationship (the taxpayer's descendant, sibling, or sibling's descendant)
- Residency (the child lived with the taxpayer for more than half the year)
- Has a valid SSN
- There is no support requirement for qualifying child for EITC.

References:
See Pub4012: Earned Income Credit, page I 2-4
See ProSeries Tax Manual: EITC, page 149-152

Scenario 4: Sandra Clark

Issue #8 – Who is a qualifying relative?

Use the tables for Dependents to determine Qualifying Child and Qualifying Relative Dependents in your Mini Manual, Publication 4012, or TAP Client Intake and Case Reviewer Guide to whether Sandra can claim Debbie as a qualifying relative on her 2019 return.

References:
See Pub4012: Qualifying Child and Qualifying Relative Dependents, pages C3-5
See TAP Client Intake and Case Reviewer Guide, pages 26-31

Issue #9 – Form 1095-A and Premium Tax Credit

Determine if Sandra can claim Debra then review the rules for allocation of policy amounts in Publication 4012, page H-9.

References:
Pub4012: Allocation of Policy Amounts, page H-9
See ProSeries Tax Manual: 1095-A and Premium Tax Credit, pages 184-186

Scenario 5: Archie Hamilton

Issue #10 – Itemized Deductions, Medical Expenses

The 2017 Tax Cuts and Jobs Act ("TCJA") significantly increased the standard deduction amount, thus far fewer people will benefit from itemizing. Additionally, the act eliminated some deductions, capped others, and stepped up the threshold for medical and dental expense deductibility after 2018, all of which further reduces the number of clients who will itemize.

Note: For tax year 2019, medical and dental expenses in excess of 7.5% of the taxpayer's adjusted gross income can be deducted on Schedule A. **Please select A) TRUE as the new correct answer. The last minute year-end legislation changed the medical expense deduction floor to 7.5%. As a result of this change, the deduction is allowed over excess of 7.5%, instead of over 10% AGI.**

References:
See Pub4012: Itemized Deductions Page F-3
See ProSeries Tax Manual: Itemized Deductions, pages 132-133

Issue #11 – Itemized Deductions, state income and real estate taxes on Form 1040, Schedule A

The TCJA capped the amount taxpayers can deduct for all State and Local Taxes paid at $10,000.

References:
See Pub4012: Itemized Deductions Page F-3
See ProSeries Tax Manual: Itemized Deductions, pages 132, 134-137

Issue #12 – Itemized Deductions allowed on Form 1040, Schedule A

The TCJA eliminated the deductibility of many expenses which could be itemized previously. However, certain expenses can still be itemized.

References:
See Pub4012: Itemized Deductions Page F-3
See ProSeries Tax Manual: Itemized Deductions, page 132

Scenario 6: Jennifer Morrison

Watch Out! Some of the questions in Scenario 6 REQUIRE YOU TO PREPARE A TAX RETURN. Do not attempt to answer these questions until after you complete the tax return.

Issue #13 – How to read a check Account and Routing Numbers?

Jennifer's bank routing number and account number can be found on a blank check (typically the routing number appears on the left, and account number on the right, followed by the check number itself). Common routing numbers are also listed inside of the Mini Manual in case a client does not have this information with them.

References:
See Pub4012: page K-13
See ProSeries Tax Manual: Federal Information Worksheet Part VIII, page 43

Issue #14 – How do educator expenses affect the tax return?

If the taxpayer or spouse was an eligible educator in 2019, they can deduct qualified unreimbursed expenses that they paid or incurred during the tax year. The individual is considered to be an eligible educator if they meet the following requirements: is a K-12 teacher, instructor, counselor, principal, or aide who worked at least 900 hours during the school year.

References:
See Pub4012, page E-3
See ProSeries Tax Manual: Educator Expenses, pages 123-124

Issue #15 – Where are Child and Dependent Care expenses entered on the tax return?
Hint: Complete the tax return first. Look at Jennifer's tax return: Schedule 3, Line 2

The credit for Child and Dependent Care expenses is often beneficial for clients with younger children (under age 13) who had to pay for day care or after-school care. Remember that this is a non-refundable credit, so clients will only receive the credit if they had taxable income. The expenses must be paid for the care of the qualifying person to allow the taxpayer (and/or spouse if applicable) to work or look for work.

Child and Dependent Care expenses, such as day care expenses, are entered in TWO places in ProSeries. The dollar value(s) must be entered on the Information Worksheet, Part III, under "Qualified Child/dep care expenses…" for the appropriate dependent. The dollar values must also be entered on Form 2441 along with information about the facility/person (including tax ID number) that provided the services.

References:
See ProSeries Tax Manual: Child and Dependent Care Expenses, page 162-164

Issue #16 – What payments are allowable as "qualified educational expenses" for the American Opportunity Credit?

Qualified educational expenses are defined differently for the American Opportunity Credit and Lifetime Learning Credit. Qualified educational expenses differ slightly between the two, as both include tuition and fees, but only the American Opportunity Credit also covers books and required course materials.

In ProSeries, the educational expenses will either be directly entered or carried over from the 1098-T onto the Student Info Worksheet. The total amount of qualified expenses used in the calculation for the credits (also known as the adjusted qualified expenses) is calculated by subtracting scholarships from the total tuition amount. This amount is found on line 20 of the Student Info Worksheet.

References:
See Pub4012: pages J1-5
See Pub4491, chapter 23 https://www.irs.gov/pub/irs-pdf/p4491.pdf
See Pub 970, Chapters 2 and 3 https://www.irs.gov/pub/irs-pdf/p970.pdf
See ProSeries Tax Manual: Postsecondary Education Credits, pages 167-171
See ProSeries Tax Manual: Dependent Education Expenses (How to Enter Into ProSeries), pages 180-183

Issue #17 – How does the Form 1095-A, Health Insurance Marketplace Statement, affect a tax return?

If the client received health insurance through the Marketplace, they need to bring Form 1095-A with them. The information from this form must be included on their return to determine the correct Premium Tax Credit or the tax return will be rejected by IRS.

References:
See Pub4491, page 3-8 https://www.irs.gov/pub/irs-pdf/p4491.pdf
See ProSeries Tax Manual: 1095-A and Premium Tax Credit, pages 184-186

Issue #18 – What are the requirements for the Credit for Qualified Retirement Savings Contributions?
Hint: Complete the tax return first. Look at Jennifer's tax return, check to see if the credit was issued on Schedule 3, Line 4

If a taxpayer under a certain income level makes eligible contributions to an individual retirement arrangement (IRA) or other qualified plan, they may be able to claim a nonrefundable tax credit. Look at the taxpayer's Form W-2. An entry in Box 12 or an "x" in the Retirement Plan box is an indicator that the taxpayer may be eligible for the Retirement Savings Contributions Credit. An entry on Box 14 may also indicate a contribution to a state retirement system.

References:
See 4012: Retirement Savings Contributions Credit Screening Sheet, page G-14
See ProSeries Tax Manual: Credit for Qualified Retirement Savings Contributions, pages 158-159

Issue #19 – How is Cancellation of Debt, Form 1099-C, reported on a tax return?

All taxable income must be reported on a tax return. A cancelled debt is taxable income.

References:
See Pub4012, page D59
See ProSeries Tax Manual: Income, pages 47-49
See ProSeries Tax Manual: Form 1099-C Cancellation of Debt, pages 109-110

Issue #20 – What happens when a client is denied the Earned Income Tax Credit (or certain other credits)?

Form 8862, Information to Claim Certain Credits After Disallowance, must be completed for any taxpayer whose EIC, Child Tax Credit (CTC)/Additional Child Tax Credit (ACTC), or American Opportunity Tax Credit (AOTC), was previously reduced or disallowed due to any reason other than a math or clerical error.

References:
See Pub4012, Earned Income Credit, page I-6
See ProSeries Tax Manual: EITC, page 150

Scenario 7: Mark and Barbara Matthews

Watch Out! Some of the questions in Scenario 7 REQUIRE YOU TO PREPARE A TAX RETURN. Do not attempt to answer these questions until after you complete the tax return.

Issue #21 – If a client did not itemize in 2018, how is their State Refund treated on their 2019 tax return?

Note: ProSeries will automatically pull forward the state refund from the previous year, regardless of whether the client took an itemized or standardized deduction. The issue in this question is whether the state refund needs to be reported as part of the current 2019 tax year.

References:
See Pub4012, page D-3
See ProSeries Tax Manual: Form 1099-G: State and Local Income Tax Refunds, page 102

Issue #22 – How is taxable interest reported on the Form 1040?
Hint: Complete the tax return first. Look at the Matthew's tax return, Line 2b.

The number on Line 2b will reflect the fact that bond premium is subtracted from the total interest income, and the net is reported on the tax return.

References:
See ProSeries Tax Manual: Schedule B Interest and Dividend Income, pages 57-59

Issue #23 – What tax forms might be used to report a Capital Gain/Loss?
Hint: Complete the tax return first. Look at the Matthew's tax return, Line 6, after entering all tax documents.

The most common tax form reporting a capital gain or loss is the 1099-B (Proceeds from Broker and Barter Exchange Transactions) which is used to report the sale of stocks, bonds, and mutual funds. However, capital gains may also result from the sale of a home (where the taxpayer does not meet the criteria to exclude income from the sale of a principal residence) and may be reported on other tax forms, such as the 1099-DIV, as a capital gain distribution.

References:
See ProSeries Tax Manual: Schedule D (1099-B), pages 80-87
See ProSeries Tax Manual: Schedule B (1099-DIV), page 60

Issue #24 - What information is needed in order to use the Simplified Method for calculating the taxable amount of a retirement distribution?
Hint: Complete the tax return first. If using ProSeries and the Simplified Method, and the annuity is payable based on the life of more than one individual, enter the combined ages of the annuitant AND survivor on Line 6, and make sure to check the box on Line 2 to ensure a correct calculation.

When Box 2a of the 1099-R is blank and/or if the taxable amount not determined box is checked, the tax preparer should evaluate what the taxable amount of the retirement distribution should be. In addition, if the 1099-R has an employee contribution amount in Box 9b, a portion of the distribution may not be taxable. In these cases, you will need to use the Simplified Method to determine how much of the distribution is taxable. When asked about the age(s), make sure to calculate the *age(s) when the first distribution was paid*, not the age(s) at the end of the tax year.

References:
See Pub4012, page D36
Also see https://cotaxaide.org/tools/Annuity%20Calculator.html
See ProSeries Tax Manual: IRAs, Pensions, Annuities, and Retirement, pages 98-99

Issue #25 – How is the taxable amount of Social Security determined?
Hint: Complete the tax return first. Look at the Matthew's tax return, Line 5b, after completing the entire tax return.

Social Security benefits are reported on Form SSA-1099 (Social Security Benefit Statement) (not to be confused with 1099-SA which is related to Health Savings Accounts). Depending on what other sources of income a taxpayer has and their filing status, a portion of their Social Security income may be taxable. Make sure you finish the tax return in its entirety – enter all income, complete all worksheets, etc. before answering this question. Once all income has been entered, the tax software will calculate the taxable amount of social security (if any) and report it on line 5b of the 1040.

References:
See Pub4012 – pages D32, D43
See ProSeries Tax Manual: Form SSA-1099, pages 106-107

Issue # 26 - Can tax refunds be split between two or more accounts?

Taxpayers who receive a refund can split the refund into one or multiple accounts (e.g., checking and savings), or receive a paper check. Additionally, taxpayers can use their refund to purchase U.S. Savings Bonds.

References:
See Pub4012, page K-13
See ProSeries Tax Manual: Client Refund Due, pages 200-202

Issue #27 – What contributes to the total federal income tax withholding reported on the Form 1040?
Hint: Complete the tax return first. Look at the Matthew's tax return, Line 17, after entering all tax documents.

Taxpayers typically have withholding from their wages, which is reported on their W-2. However, taxpayers may elect to have withholding from other income sources, including: pensions, gambling winnings, social security, interest and dividend income, other government payments, etc. Check through all tax documents for the words "Federal income tax withheld" accompanied by a dollar amount, and check to see that you have entered this information into the software correctly. The total federal income tax (federal withholding) amount will appear on the Form 1040, Line 17.

<u>Scenario 8: Ramon Torrez</u>

Watch Out! Some of the questions in Scenario 8 REQUIRE YOU TO PREPARE A TAX RETURN. Do not attempt to answer these questions until after you complete the tax return.

Note: Many resources can be found here: https://www.vitaresources.net/rideshare-info.html
*Technically this scenario is out of scope because Ramon's expenses exceed the $25,000 limit but approach it as you normally would and answer the questions.

Issue #28 – What income must be reported by self-employed individuals on Schedule C?

Taxpayers generally must report all of the income that they receive, including cash, regardless of whether or not the income is reported on a form 1099-MISC (Miscellaneous Income) or 1099-K (Payment Card and Third Party Network Transactions). Where to report the income on the tax return depends on what type of income it is. On the Schedule C Worksheet in ProSeries software, volunteers can enter income not reported on a tax document (i.e. cash income) on Line 1a, 1099-MISC is reported on Line 1b, and 1099-K income is reported on Line 1c.

References:
https://www.vitaresources.net/rideshare-info.html
See ProSeries Tax Manual: Schedule C, page 65

Issue #29 – How is the mileage expense deduction calculated?

The 2019 standard mileage rate is 58 cents per business mile. In general, mileage can be claimed only while on a job and between work locations. Mileage from home to a first job site, and from the last job site to home is considered commuting and is not deductible business mileage. Mileage is entered on the Schedule C (Profit or Loss from Business), Part II Expenses line 9 "Car and Truck." This will link to a Car-Truck worksheet in which you will enter the information for the client's mileage. The details of how to do this are shown in the referenced pages of the Manual. Remember, if clients want to claim actual expenses on the car (gas, oil, repairs, etc.) or if they claimed actual expenses on the car in a prior tax year, then the return is Out-of-Scope and the client should be referred to a paid preparer. Clients who use the standard mileage rate method can also claim the business portion of amounts paid for tolls, parking, car washes, and auto loan interest. If the client claimed actual expenses on the car in a prior tax year, then the return is Out-of-Scope and the client should be referred to a paid preparer.

References:
See Pub4012: page D-20-21.
See ProSeries Tax Manual: Schedule C Car and Truck Worksheet, pages 70-72.

Issue # 30 – How much Student Loan Interest can be deducted?
Hint: Complete the tax return first. Look at Ramon's tax return, Schedule 1, Line 20

If you enter the student loan interest in the ProSeries worksheet the software will calculate the deduction for you.

References:
See Pub4012: Student Loan Interest Deduction at a Glance, page E-10
See ProSeries Tax Manual: pages 117-118

Issue #31 – How is the Self-Employment tax calculated?
Hint: Complete the tax return first. Look at Ramon's tax return, Schedule 2 line 4 and Schedule 1 line 14.

Taxpayers who are self-employed must pay their own Social Security and Medicare taxes (for employees, these taxes are equally split between the employer and employee). These are calculated and paid as part of the submission of form 1040 (U.S. Individual Income Tax Return) and are referred to as the self-employment tax. ProSeries will calculate the tax which will appear on Schedule SE (Self-Employment Tax) and on line 4 of Schedule 2 of Form 1040, provided that self-employment income and expenses are properly reported on Schedule C (Profit or Loss from Business).

Once you have completed the Schedule C, you should be able to see the self-employment tax on Form 1040, Schedule 2, line 4. Since the taxpayer is paying the employer portion of the Social Security and Medicare tax, one-half of the self-employment tax is deducted on line 14 of Schedule 1 of Form 1040. ProSeries will automatically calculate and insert this deduction into the tax return.

References:
See ProSeries Tax Manual: Self-Employment Tax, pages 119-120

Issue #32 – How does the Qualified Business Income deduction affect the tax return?
Hint: Complete the tax return first. See Ramon's return on Form 1040, line 10.

The Qualified Business Income deduction was introduced in the 2018 tax year. This deduction can be used by anyone with self-employment income from a Schedule C, but also those with income reported on a K-1 from S-corporations or partnerships (which are both Out-of-Scope for VITA programs). The Qualified Business Income deduction reduces taxable income by 20% of business income or 20% of taxable income before QBID, whichever is less.

References:
See ProSeries Tax Manual: Qualified Business Income Deduction, pages 130-131

Issue #33 – How does health insurance coverage affect the Shared Responsibility Payment in the 2019 tax year?

The Tax Cuts and Jobs Act reduced the Shared Responsibility Payment to zero for all taxpayers for the 2019 tax year.

References:
See ProSeries Tax Manual: What's New for 2019, page 6

Issue #34 – How does an Identity Protection PIN affect the tax return?

Identity theft is becoming more frequent and Ladder Up is seeing more clients with identity protection PINS. It is important to handle these correctly in order to protect the client and avoid unwelcome delays in processing their return.

References:
See Pub4012, page P2-P3
See ProSeries Tax Manual: Federal Information Worksheet, pages 36, 39, & 42

Issue #35 – What criteria must be met in order to qualify for the Earned Income Tax Credit?

The earned income credit can be very valuable to our clients, but it is not always obvious whether they qualify or not. If a client does not get the earned income credit and you think they should, it is important to understand why they did not. Pages I2-I5 of Publication 4012 have charts that give the qualification criteria and pages 149 - 151 of the ProSeries Tax Manual cover this topic as well.

References:
See Pub4012, Earned Income Credit, pages I1-6
See ProSeries Tax Manual: EITC, pages 149-151