Module 1: Preliminary Work with Taxpayer Data

The course's own whiteboard summaries, key numbers and common traps for the lessons open so far (11 of 11). Separate from the PrepPass book.

Tax year 2026. Exams taken through Feb 28, 2027 cover tax year 2025. This course teaches 2026.

For your own study. Please do not share.

1.1 The return map

About 4 minutes of narration.

BOARD 1 Where does it land? 1.1

W-2 · 1099-INT · K-1 · tuition bill

- One map for every item

Income – adjustments = AGI

AGI – deductions = taxable income

Tax – credits + other taxes – payments

BOARD 2 Income: worldwide 1.1

- Citizens and residents: worldwide income

Form 1040: wages, interest, dividends, pensions

Schedule 1: business, rents, K-1, other

Form 8949 and Schedule D: property sales

- Alimony received: pre-2019 instruments only

✓ Gifts, inheritances: generally not income

Instructions for Form 1040 (2025) · Pub. 525 (2025)

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BOARD 3 Exclusions and adjustments 1.1

- Exclusion: stays out · Adjustment: comes off

Form 2555: foreign earned income exclusion

- Pre-tax 401(k) deferrals: not in W-2 box 1

Schedule 1, Part II: adjustments

- HSA · half of SE tax · SE health insurance
- IRA · pre-2019 alimony paid · student loan interest

Schedule 1 (2026 early release) · Pub. 54 (2025)

BOARD 4 Deductions 1.1

- Standard or itemized

Single or separate $16,100

Joint $32,200

Head of household $24,150

- Schedule 1-A: tips, overtime, car loan, seniors
- QBI deduction: with standard or itemized

They cut taxable income, not AGI

Rev. Proc. 2025-32 §4.14 · IRC §§62, 63 · Schedule 1-A (Form 1040)

BOARD 5 Credits 1.1

- Credit: dollar for dollar
- Nonrefundable: stops at zero tax
- Foreign tax · dependent care · lifetime learning
- Refundable: can exceed the tax
- Earned income · premium tax credit
- Child tax credit: nonrefundable, plus a refundable part

Instructions for Form 1040 (2025) · Schedule 8812

BOARD 6 Payments 1.1

- Payments: already paid in
- Withholding: W-2s and Forms 1099
- Estimated tax, and last year's overpayment applied
- Payment sent with Form 4868
- Excess Social Security withheld

Total tax – payments = balance or refund

Instructions for Form 1040 (2025) · Form 1040 (2026 early release)

BOARD 7 Work it: a short return 1.1

Income $70,000 + $1,000 = $71,000

AGI $71,000 – $3,000 = $68,000

$68,000 – $16,100 = $51,900

Tax $6,130

$6,130 – $1,000 = $5,130

$6,000 – $5,130: refund $870

Example inputs are invented · Rev. Proc. 2025-32 §§4.01, 4.14

BOARD 8 Common trap: wrong layer 1.1

✗ ~~$1,000 credit = $1,000 deduction~~

$1,000 × 22% = $220

✗ ~~Adjustments only if you itemize~~

✗ ~~Tax-exempt interest: left off the return~~

BOARD 9 Recap 1.1

- Income – adjustments = AGI
- AGI – deductions = taxable income
- Tax – credits + other taxes = total tax
- Then payments and refundable credits

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Key numbers and formulas

1.1

- Income − adjustments = AGI
- AGI − deductions = taxable income
- Tax − credits + other taxes − payments
- Form 1040: wages, interest, dividends, pensions
- Schedule 1: business, rents, K-1, other
- Form 8949 and Schedule D: property sales
- Form 2555: foreign earned income exclusion
- Schedule 1, Part II: adjustments
- They cut taxable income, not AGI
- Total tax − payments = balance or refund
- AGI $71,000 − $3,000 = $68,000
- $68,000 − $16,100 = $51,900
- Tax $6,130
- $6,130 − $1,000 = $5,130
- $6,000 − $5,130: refund $870
- $1,000 × 22% = $220

Common traps: each line is a wrong belief

1.1

✗ $1,000 credit = $1,000 deduction

✗ Adjustments only if you itemize

✗ Tax-exempt interest: left off the return

Why the tempting answers fail (from the section practice) 1.1

1. Which of the following is generally EXCLUDED from a taxpayer's gross income? 1.1

   Right: A $5,000 cash gift from a parent. A gift is generally not income to the recipient.

   - A $5,000 prize won in a radio contest: Prizes are income.
   - $5,000 of state unemployment compensation: Unemployment compensation is taxable.
   - $5,000 of interest on a savings account: Savings interest is taxable.

2. A credit differs from a deduction in that a credit: 1.1

   Right: Reduces the tax owed dollar for dollar. That is what a credit does.

   - Is refundable if it exceeds the tax owed: Only some credits are refundable.
   - Reduces taxable income at the marginal rate: That describes a deduction.
   - Reduces gross income to figure AGI: That describes an adjustment.

3. Adjustments to income (above-the-line deductions) are important because they: 1.1

   Right: Reduce gross income to arrive at adjusted gross income. Adjustments are the step between gross income and AGI.

   - Reduce AGI to arrive at taxable income, like itemized deductions: That describes deductions below AGI.
   - Reduce the tax owed directly, like a nonrefundable credit: They reduce income, not tax directly.
   - Are available only to taxpayers who itemize deductions: Non-itemizers take them too.

4. Gil had $3,000 of tax-exempt municipal bond interest in 2026. Where, if anywhere, does it appear on his Form 1040? 1.1

   Right: On line 2a, even though it is not taxed. Tax-exempt interest is reported on line 2a, and it is not taxed.

   - On line 2b, as taxable interest: Line 2b is for taxable interest.
   - On Schedule B, as a subtraction from taxable interest: It is not a Schedule B subtraction.
   - Nowhere, because it is exempt: It is still shown, because other figures use it.

5. Hana's 2025 return showed a $1,500 overpayment, which she elected to apply to her 2026 estimated tax. How is it treated on her 2026 return? 1.1

   Right: As a 2026 estimated tax payment. An overpayment applied forward counts as an estimated payment.

   - As a refund she receives when she files for 2026: She chose to apply it, so it is not refunded.
   - As 2025 income that must be reported again: An applied overpayment is not income.
   - As a credit only if she also made a payment in January 2027: No extra payment is needed.

6. Which item goes in the adjustments part of Schedule 1, rather than being an exclusion or an itemized deduction? 1.1

   Right: Self-employed health insurance. It is an adjustment to income.

   - Pre-tax 401(k) deferrals: Those stay out of W-2 box 1, so nothing is adjusted.
   - Home mortgage interest: Mortgage interest belongs on Schedule A.
   - The foreign earned income exclusion: That is an exclusion on Form 2555.

1.2 Last year's return, letters, ID

About 4 minutes of narration.

BOARD 1 Before you enter a number 1.2

- New client, one folder
- Prior return · IRS letters · identity

✓ All three can change the return

BOARD 2 Why last year's return 1.2

- Comparison · accuracy · carryovers
- Compare: what vanished, what is new
- Carryovers: capital loss, charitable, NOL
- AMT credit · passive losses · Form 8606 basis
- Overpayment applied to this year

Prior-year AGI or PIN signs an e-filed return

Instructions for Form 1040 (2025) · Instructions for Schedule D (2025)

BOARD 3 Work it: a loss carryover 1.2

Carryover from 2025: $7,000

2026 long-term gain: $2,000

$2,000 − $7,000 = net loss $5,000

Deduct $3,000

Carries on $2,000

- No prior return: carryover missed

Example inputs are invented · Instructions for Schedule D (2025)

BOARD 4 IRS letters 1.2

✓ Ask for every IRS letter

- CP2000: mismatch, proposed change
- Not a bill: answer by the date
- Agrees, nothing else to report: no Form 1040-X

Notice of deficiency: 90 days to petition

- Credit denied earlier: maybe Form 8862

IRS, Understanding your CP2000 series notice · Pub. 5 · Pub. 1 · Instructions for Form 8862

BOARD 5 Work it: answering a CP2000 1.2

CP2000: Form 1099-B left off

✓ Agrees: follow the notice, no Form 1040-X

- Basis ignored: she disagrees

✓ Disagrees: reply by the date, with support

✗ ~~Ignore it, as it is only a proposal~~

IRS, Understanding your CP2000 series notice · Example inputs are invented

BOARD 6 Personal data that matters 1.2

- Name and number match SSA records
- Date of birth drives age rules

Born before Jan 2, 1962: 65 for 2026

- Marital status: last day of the year
- Dependents: number, relationship, tests

Form 1040 (2026 early release) · Pub. 501 (2025) · Pub. 1345

BOARD 7 The Identity Protection PIN 1.2

- IP PIN: 6 digits, from the IRS
- New number every year
- Issued but left off: e-file rejected
- Joint return: each spouse's own PIN
- It does not replace the signature

Instructions for Form 1040 (2025) · IRS, Get an Identity Protection PIN

BOARD 8 Proof of identity 1.2

- Confirm identities and numbers

Unknown client: (2) forms of ID

✓ Photo ID preferable

- Name and current or recent address
- See the SSN cards or ITIN letters

Pub. 1345, Verifying Taxpayer Identity

BOARD 9 Common trap: skipping the folder 1.2

✗ ~~CP2000 = a bill to pay~~

✗ ~~Use last year's IP PIN~~

✗ ~~The IRS tracks your carryovers for you~~

BOARD 10 Recap 1.2

- Prior return: comparison, accuracy, carryovers
- CP2000: a proposal, with a date
- IP PIN: new each year
- Two IDs, photo preferred

Key numbers and formulas 1.2

- Prior-year AGI or PIN signs an e-filed return
- $2,000 − $7,000 = net loss $5,000
- Deduct $3,000
- Carries on $2,000

Common traps: each line is a wrong belief 1.2

✗ Ignore it, as it is only a proposal

✗ CP2000 = a bill to pay

✗ Use last year's IP PIN

✗ The IRS tracks your carryovers for you

Why the tempting answers fail (from the section practice) 1.2

1. Ed was born on January 1, 1962. For his 2026 return, is he entitled to the additional standard deduction for age? 1.2

   Right: Yes, because he is treated as 65 at the end of 2026. Someone born on January 1 is treated as turning 65 the day before.

   - No, because he turned 65 only in 2027: He is treated as 65 on December 31, 2026.
   - No, because the enhanced senior deduction replaced it: The senior deduction is in addition to it.
   - Yes, but only half the additional amount: There is no half amount.

2. Last year the IRS mailed Dan a 6-digit Identity Protection PIN. A new one was issued for 2026. How does the IP PIN affect his 2026 return? 1.2

   Right: He enters the new IP PIN; an e-filed return without it is rejected. Each year has a new number, and an e-filed return without it is rejected.

   - He enters the same IP PIN he used last year: Last year's number has been replaced.
   - He no longer signs the return, because the IP PIN replaces a signature: He still signs.
   - Nothing; an IP PIN is needed only for paper returns: It applies to e-filed returns as well.

3. A new client brings her 2025 return. It shows a $7,000 capital loss carryover and a $2,000 charitable contribution carryover. Why does the preparer need the 2025 return to prepare 2026? 1.2

   Right: The carryovers come from it and can reduce 2026 income. Carryovers start from the prior year and the taxpayer claims them.

   - Only to copy her address and filing status: It does far more than that.
   - Because the IRS requires a prior-year return to be attached: No prior-year return is attached.
   - To compare refunds; carryovers are tracked by the IRS: The taxpayer tracks them, not the IRS.

4. A new client's 2025 earned income credit was denied after an audit for reasons other than a math error. She is eligible for 2026. What must the preparer include to claim the credit for 2026? 1.2

   Right: Form 8862. Form 8862 is needed after that kind of denial.

   - Form 8867 only, since the preparer is responsible: Form 8867 alone does not meet the rule.
   - Nothing, because each year is judged separately: The earlier denial has a follow-up requirement.
   - Form 1040-X for 2025 reclaiming the credit: An amended 2025 return does not claim the 2026 credit.

5. A client gets a CP2000, agrees with every proposed change and has nothing else to report. What should she do? 1.2

   Right: Reply by the date on the notice, with no Form 1040-X. She responds to the notice, and the IRS makes the change.

   - File a petition with the Tax Court: Nothing here needs a petition.
   - File Form 1040-X at once and ignore the notice: With nothing else to report, she does not need to amend.
   - Wait for an appointment letter from the IRS: A CP2000 is a mailed proposal, with no appointment.

6. A client received a CP2000 but thinks the Form 1099-B basis was left out. What is the right step? 1.2

Right: Reply by the date shown, with a statement and documents. If she disagrees, she answers with her explanation and records.

- Ignore it, since it is only a proposal: Silence leads to further IRS action on the proposed change.
- File a new Form 1040 for that year: A new original return is the wrong form.
- Pay the proposed amount, then file a petition: Paying and petitioning is not the first step.

1.3 Residency status

About 4 minutes of narration.

BOARD 1 Resident or not? 1.3

No green card · (150) days this year

- Taxed on worldwide income?
- Residency decides the return

BOARD 2 Two tests, two returns 1.3

- Aliens: resident or nonresident

✓ Green card at any time: resident

- No green card: count days

Resident: Form 1040, worldwide

Nonresident: Form 1040-NR, U.S. income

Pub. 519 (2025), ch. 1

BOARD 3 Substantial presence 1.3

At least (31) days this year

Weighted count at least (183) days

This year × all

Last year × 1/3

Year before × 1/6

Pub. 519 (2025), ch. 1 · IRC §7701(b)(3)

BOARD 4 Work it: the weighted count 1.3

2026: 150

2025: 120

2024: 90

150 + 40 + 15

205 ≥ 183: resident

Your turn: worked step by step in lesson 1.3.

BOARD 5 Days that do not count 1.3

- Exempt days do not count

Students: 5 calendar years

Teachers, trainees: 2 of 6 years

Form 8843

- Closer connection: Form 8840, under 183 days

Pub. 519 (2025), ch. 1

BOARD 6 Work it: the student 1.3

F-1 since 2025, compliant

2026: 300 days

Year 2 of 5: counts no days

Nonresident alien

Form 1040-NR if required · Form 8843

Example inputs are invented · Pub. 519 (2025)

BOARD 7 ITINs and the spouse election 1.3

- ITIN: no SSN available

Form W-7

- Unused 3 years in a row: expires

✓ Election: treat the spouse as a resident

- Both: worldwide income, whole year

Pub. 519 (2025), ch. 1 · IRC §6013(g)

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BOARD 8 Dual-status years 1.3

- Part nonresident, part resident: dual-status
- Year of arrival or departure
- Generally no joint return, no standard deduction

✓ The joint election can cover the whole year

Pub. 519 (2025), chs. 1, 6

BOARD 9 Common trap: raw days 1.3

✗ ~~150 + 120 + 90 = 360~~

✗ ~~Student here 300 days: resident~~

✗ ~~Few days here, so the green card is ignored~~

✗ ~~An ITIN never expires~~

BOARD 10 Recap 1.3

- Green card: resident
- 31 days, then weighted 183
- Exempt days do not count
- Form 1040 or Form 1040-NR

Key numbers and formulas 1.3

- Resident: Form 1040, worldwide
- Nonresident: Form 1040-NR, U.S. income
- This year × all
- Last year × 1/3
- Year before × 1/6
- 150 + 40 + 15
- 205 ≥ 183: resident
- Form 8843
- Year 2 of 5: counts no days
- Nonresident alien
- Form 1040-NR if required · Form 8843
- Form W-7

Common traps: each line is a wrong belief 1.3

✗ 150 + 120 + 90 = 360

✗ Student here 300 days: resident

✗ Few days here, so the green card is ignored

✗ An ITIN never expires

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Why the tempting answers fail (from the section practice) 1.3

1. Ravi, a citizen of India with no green card, was present in the U.S. for 150 days in 2026, 120 days in 2025 and 90 days in 2024. No exception applies. How many days count toward the 2026 substantial presence test? 1.3

   Right: 205. 150 + 40 + 15 = 205.

   Steps: 2026: 150 × 1 = 150 → 2025: 120 × 1/3 = 40 → 2024: 90 × 1/6 = 15 → Total 205

   - 190: That counts last year at one third and drops the earliest year.
   - 150: That counts only this year.
   - 360: That adds raw days.

2. Mei entered the U.S. in 2025 on an F-1 student visa and has complied with its terms. She was present 300 days in 2026. What is her 2026 residency status and filing obligation? 1.3

   Right: Nonresident alien; she files Form 1040-NR if required, with Form 8843. Her days are exempt, so she stays nonresident.

   - Dual-status alien, resident from the day she passed 183 days: She never meets the test, so no dual status arises.
   - Resident alien, because she was present more than 183 days: Exempt days do not count.
   - Resident alien, but only for the months she attended classes: Residency is not figured by months of class.

3. Jorge has an ITIN. He last used it on a return for tax year 2022 and filed no federal returns for 2023, 2024 or 2025. He must file a 2026 return. What should he do first? 1.3

   Right: Renew the ITIN on Form W-7. An ITIN unused for 3 years in a row must be renewed on Form W-7.

   - File using his foreign passport number instead: A passport number is not a taxpayer number.
   - Apply for a new ITIN with a different number: Renewal keeps his existing number.
   - File the 2026 return with the ITIN; it never expires: ITINs can expire.

4. Rhea, a U.S. citizen, marries Ian, a nonresident alien with no U.S. income, in 2026. She wants to file jointly. Which step allows it? 1.3

   Right: Both elect to treat Ian as a U.S. resident for the whole year. That election allows a joint return.

   - Rhea files as head of household with Ian as her dependent: That is not a joint return, and a spouse is not a dependent.
   - Ian applies for a green card before the return is filed: An application does not create a joint return.
   - Nothing; a nonresident alien spouse may never be on a joint return: The election exists for this case.

5. Which return does a resident alien generally file, and on what income? 1.3

   Right: Form 1040, on worldwide income. A resident alien is taxed like a citizen.

   - Form 1040-NR, on U.S. income: That describes a nonresident.
   - Form 1040-NR, on worldwide income: Form 1040-NR is for nonresidents.
   - Form 1040, on U.S. income: A resident reports income from every country.

6. Which person's days are generally exempt from the substantial presence count? 1.3

Right: A teacher on a J visa, in her second year here. Teachers on J or Q visas are generally exempt for 2 of 6 years.

- A tourist on a B visa, here 200 days: Tourists are not exempt individuals.
- A green card holder, here 100 days: A green card holder is a resident without the day count.
- A worker on an H-1B visa, here 300 days: H-1B workers are not exempt individuals.

1.4 Who must file, and when

About 4 minutes of narration.

BOARD 1 Does she have to file? 1.4

Single · age 67 · $17,500

- Status + age + gross income
- Gross income: not exempt from tax

BOARD 2 The 2026 thresholds 1.4

Status	Under 65	65+
Single	$16,100	$18,150
Head of household	$24,150	$26,200

Joint or surviving spouse $32,200

One 65+: $33,850 · both: $35,500

Separate, any age: $5

Computed from Rev. Proc. 2025-32 §4.14, using the Form 1040 instructions' method

BOARD 3 Dependents have their own test 1.4

- Dependents: separate test

Unearned over $1,350

Earned over $16,100

- Or gross income over the larger of:

$1,350, or earned income + $450

Rev. Proc. 2025-32 §4.14(2) · Instructions for Form 1040 (2025), Chart B

BOARD 4 Filing no matter the income 1.4

- Must file regardless:

SE earnings $400 or more

Church employee income $108.28 or more

- Advance premium tax credit paid
- Special taxes: IRA additional tax, uncollected tips

✓ Refund due: file to claim it

Instructions for Form 1040 (2025), Chart C

BOARD 5 Work it: three clients 1.4

Opal: under $18,150, no filing

Tim: wages $14,000 · interest $500

$14,500 over $14,450

Tim: must file

Zoe: SE profit $600

Zoe: over $400, must file

Example inputs are invented

BOARD 6 When it is due 1.4

Due April 15, 2027

Form 4868: to October 15, 2027

- File later: yes · Pay later: no

Abroad: automatic to June 15, 2027

- Interest still runs from the April date
- Weekend or holiday: next business day

Form 4868 · Pub. 54 · IRC §7503

BOARD 7 Common trap: the wrong test 1.4

✗ ~~Age 62 uses the 65+ line~~

✗ ~~Dependents never have to file~~

✗ ~~Form 4868 moves the payment date~~

✗ ~~Separate filers use $16,100~~

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BOARD 8 Recap 1.4

- Lines follow the standard deduction
- Dependents: own test
- SE: $400 or more
- April 15; October to file, not to pay

Key numbers and formulas 1.4

- Separate, any age: $5
- $1,350, or earned income + $450
- Opal: under $18,150, no filing
- $14,500 over $14,450
- Tim: must file
- Zoe: over $400, must file
- Form 4868: to October 15, 2027

Common traps: each line is a wrong belief 1.4

✗ Age 62 uses the 65+ line
✗ Dependents never have to file
✗ Form 4868 moves the payment date
✗ Separate filers use $16,100

Why the tempting answers fail (from the section practice) 1.4

1. Opal, 67 and single, had 2026 gross income of $17,000, all taxable interest and a pension. Nothing in Chart C applies. Must she file a 2026 return? 1.4

   Right: No, because her gross income is below $18,150. The single line at 65 or older is $18,150.

   - No, because taxpayers 65 or older never have to file: Older taxpayers have a higher line, not an exemption.
   - Yes, because her gross income exceeds $16,100: $16,100 is the line under 65.
   - Yes, because she received pension income: A pension is not a filing trigger on its own.

2. Tim, 17, is his parents' dependent. In 2026 he earned $14,000 of wages and $500 of interest. He is not blind. Must he file a return? 1.4

   Right: Yes, because his gross income exceeds his earned income plus $450. $14,500 exceeds $14,450.

   - No, because his interest is below $1,350: Passing one test does not clear the others.
   - Yes, because any dependent with interest income must file: Interest alone is not the trigger.
   - No, because his wages are below $16,100: Passing one test does not clear the others.

3. Zoe, 19, is her parents' dependent. Her only 2026 income is $600 of net profit from dog walking. Must she file? 1.4

   Right: Yes, because of her self-employment earnings. Net SE earnings of $400 or more call for a return.

   - No, because dependents do not pay self-employment tax: Dependents do pay SE tax.
   - Yes, but only if her parents do not report the income: Parents do not report it for her.
   - No, because her gross income is under $1,350: The SE rule applies regardless.

4. Ben, a U.S. citizen, lives and works in Germany. He files his 2026 return and pays the balance due on June 15, 2027 without requesting any extension. What is the result? 1.4

   Right: The return is timely, but interest runs from April 15. The automatic two months applies, and interest still runs.

   - The return is timely only if he files Form 4868 first: The two months needs no form.
   - The return is late, and a failure-to-file penalty applies: It is within the automatic period.
   - The return and payment are both timely, with no interest: Interest still runs on the unpaid tax.

5. Liz and Sam file jointly for 2026. She is 66 and he is 60. They have no special situations. What is their gross income filing line? 1.4

   Right: $33,850. $32,200 + $1,650 for one spouse aged 65 = $33,850.

   Steps: Joint base: $32,200 → One spouse 65+: + $1,650 → Line: $33,850

   - $35,500: That is the line with both 65 or older.
   - $32,200: That is the line with both under 65.
   - $26,200: That is head of household at 65 or older.

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6. A calendar-year taxpayer files Form 4868 on time for 2026. What is the latest timely filing date? 1.4

Right: October 15, 2027. Form 4868 gives six months from April 15, 2027.

- August 15, 2027: That is not the extension period.
- June 15, 2027: That is the automatic date for those abroad.
- December 15, 2027: That goes past the extended date.

1.5 Filing status I: marital status

About 3 minutes of narration.

BOARD 1 Married on December 31? 1.5

Final decree: December 30

Married for most of the year

- One date decides it

BOARD 2 The last-day rule 1.5

- Status set on the last day of the year

It applies to the entire year

- Final decree by Dec 31: unmarried
- State law governs the decree
- Valid common law marriage: married

Pub. 501 (2025) · IRC §7703(a)

BOARD 3 The five statuses 1.5

Status	Marital status
Single	Unmarried
Joint or separate	Married
Head of household	Unmarried, or treated so
Surviving spouse	Widowed, with a child

✓ Choose the lowest tax allowed

Pub. 501 (2025). Lesson 1.6 covers the last two

BOARD 4 Joint or separate 1.5

- Joint: both agree
- Joint and several liability
- Separate: own return only
- One itemizes: the other must too
- Several credits lost or limited

Pub. 501 (2025)

BOARD 5 The year of a death 1.5

- Year of death: still married

✓ Joint allowed, if not remarried in the year

- Decedent's income: through the date of death
- Executor signs, if appointed
- None appointed: the survivor signs

Pub. 501 (2025) · Pub. 559

BOARD 6 Work it: four cases 1.5

Leo: wife died March 2026

Leo: married filing jointly

Pat: married, whole year

Decree Dec 30: unmarried

Sam: spouse nonresident, no election

Sam: married filing separately

Example facts are invented · Pub. 501 (2025)

BOARD 7 Changing your mind 1.5

✓ Separate to joint: allowed later

Form 1040-X, generally within (3) years

- Joint to separate: much harder
- After the due date: generally no
- Narrow exception: an executor

Pub. 501 (2025) · IRC §6013(b)

BOARD 8 Common trap: splitting the year 1.5

✗ ~~Married to June, single after~~

✗ ~~Spouse died in 2026: single for 2026~~

✗ ~~Living apart = unmarried~~

BOARD 9 Recap 1.5

- Dec 31 sets the year
- Final decree: unmarried
- Joint: joint and several
- Year of death: joint allowed

Key numbers and formulas 1.5

- It applies to the entire year
- Leo: married filing jointly
- Pat: married, whole year
- Decree Dec 30: unmarried
- Sam: married filing separately
- Form 1040-X, generally within 3 years

Common traps: each line is a wrong belief 1.5

✗ Married to June, single after

✗ Spouse died in 2026: single for 2026

✗ Living apart = unmarried

Why the tempting answers fail (from the section practice) 1.5

1. A taxpayer's filing status for the year is generally determined as of: 1.5

   Right: The last day of the tax year. Status is set on the last day of the year.

   - The first day of the tax year: The first day does not set it.
   - The date of the taxpayer's last marital change: A change matters only through its effect on the last day.
   - The date the return is filed: The filing date does not set it.

2. Leo's wife died in March 2026. He has not remarried and has no children. What is his best available filing status for 2026? 1.5

   Right: Married filing jointly. The year of death allows a joint return.

   - Qualifying surviving spouse: That status covers later years, and needs a child.
   - Single: He is treated as married for 2026.
   - Head of household: He has no qualifying person.

3. Sam, a U.S. citizen, is married at year end to a nonresident alien. They make no §6013(g) election, and Sam has no children or other dependents. Which filing status must Sam use? 1.5

   Right: Married filing separately. He is married, and with no election no joint return is allowed.

   - Head of household, as considered unmarried: He has no qualifying person.
   - Married filing jointly: The election is needed first.
   - Single: He is still married.

4. A couple obtains a final divorce decree on December 30. Their federal filing status for that entire tax year is determined as: 1.5

   Right: Unmarried: single, or head of household if qualified. A final decree by year end means unmarried for the year.

   - Married for the whole year, since they were married most of it: The last day decides, not the larger part of the year.
   - Married for the months before the decree and single afterward: The year is not split.
   - Married filing separately, since the decree was issued so late: The timing within the year does not matter.

5. Who can sign a final joint return if no executor or administrator has been appointed? 1.5

   Right: The surviving spouse, noting the death. The survivor signs and notes the death.

   - No one, so no joint return is allowed: A joint return is still allowed.
   - The decedent's oldest child: A child has no such authority.
   - The paid preparer: A preparer cannot sign for the taxpayer.

1.6 Head of household, surviving spouse

About 3 minutes of narration.

BOARD 1 Better than single 1.6

- A home, and a qualifying person

Head of household $24,150

Surviving spouse $32,200, joint rates

Single $16,100

Rev. Proc. 2025-32 §§4.01, 4.14

BOARD 2 Head of household: three tests 1.6

- 1 Unmarried, or considered so
- 2 Over half the cost of the home

✓ Rent, interest, taxes, insurance, repairs, utilities, food

- Not clothing, education, medical, transport
- 3 Qualifying person, over half the year

Pub. 501 (2025)

BOARD 3 Considered unmarried 1.6

- Still married, but treated as unmarried if:
- Separate return · over half the cost

Spouse out for the last 6 months

- Child's main home, over half the year
- Can claim the child, or released the claim

Pub. 501 (2025)

BOARD 4 Who is a qualifying person 1.6

- Qualifying child
- Dependent relative who lives with you

✓ Dependent parent: need not live with you

- Pay over half the cost of the parent's home
- Multiple support dependent: does not count

Pub. 501 (2025), Table 4

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BOARD 5 Work it: cost and separation 1.6

Nita: apart since March, no decree

Son with her April to December

$16,000 of $30,000: over half

Considered unmarried

Nita: head of household

Example inputs are invented · Pub. 501 (2025)

BOARD 6 Qualifying surviving spouse 1.6

2 years after the year of death

- Not remarried
- Dependent child or stepchild, in the home all year
- Foster child: does not count
- Over half the cost of the home
- Joint return was possible that year

Pub. 501 (2025)

BOARD 7 Work it: the timeline 1.6

Death 2023 · daughter 10 · pays the home

2023: joint

2024, 2025: surviving spouse

2026: head of household

Death in 2024: 2026 still qualifies

Example inputs are invented · Pub. 501 (2025)

BOARD 8 Common trap: the release 1.6

✗ ~~Released the child: no head of household~~

✓ Custodial parent keeps the status

✗ ~~Must live apart all year~~

✗ ~~Widowed = surviving spouse, child or not~~

BOARD 9 Recap 1.6

- Unmarried · cost · person
- Last 6 months apart
- Parent can live elsewhere
- Surviving spouse: 2 years, dependent child

Key numbers and formulas 1.6

- $16,000 of $30,000: over half
- Considered unmarried
- Nita: head of household
- 2023: joint
- 2024, 2025: surviving spouse
- 2026: head of household
- Death in 2024: 2026 still qualifies

Common traps: each line is a wrong belief 1.6

✗ Released the child: no head of household

✗ Must live apart all year

✗ Widowed = surviving spouse, child or not

Why the tempting answers fail (from the section practice) 1.6

1. Which requirement must be met to file as head of household? 1.6

   Right: Unmarried or considered so, paying over half a home's cost for a qualifying person. Unmarried or considered so, over half the home's cost, and a qualifying person.

   - Unmarried or married, as long as the taxpayer pays over half the cost of the home: A married person must be considered unmarried.
   - Unmarried, with a dependent of any kind, whether or not the dependent lives in the home: Generally the person must live in the home.
   - Unmarried, paying over half the support of a qualifying person living anywhere: The test is the cost of the home, not support.

2. For head of household, the qualifying person generally must have lived with the taxpayer for more than half the year, EXCEPT that a dependent parent: 1.6

   Right: Need not live with the taxpayer, who must pay over half the cost of the parent's home. That is the parent exception.

   - Must live with the taxpayer for more than half the year like any other qualifying person: A parent is the exception.
   - Qualifies only if the taxpayer pays more than half the cost of the taxpayer's own home: It is the cost of the parent's home.
   - Need not live with the taxpayer, but only if the parent has no gross income of any kind: A dependent parent can have some income.

3. Leo's wife died in 2024. He has not remarried and his daughter, 10, lived with him and was his dependent all of 2026. He paid all the home costs. What is Leo's best 2026 filing status? 1.6

   Right: Qualifying surviving spouse. 2026 is the second year after the death.

   - Head of household: That is good, but surviving spouse is better.
   - Married filing separately: He has no spouse for 2026, and a better status is open.
   - Married filing jointly: A joint return was possible only for 2024.

4. Nita and her husband separated in March 2026 but are not divorced. Her son, her dependent, lived with her from April through December, and she paid all costs of her home. Can she file as head of household? 1.6

   Right: Yes; she is considered unmarried. She meets all the considered-unmarried tests.

   - No, because only a legal separation decree allows it: No decree is needed.
   - Yes, but only if her husband files separately too: His filing choice is not one of the tests.
   - No, because she is still married on December 31: Considered unmarried covers this case.

5. Nia is divorced and her son lived with her all of 2026. She signed Form 8332 so that her ex-husband could claim the son as a dependent. She paid all the costs of the home. Can Nia file as head of household? 1.6

   Right: Yes; the release does not affect head of household status. The custodial parent keeps head of household.

   - No, because the head of household status transfers with Form 8332: The form moves only the dependency claim.
   - No, because she cannot claim the son as a dependent: The release does not cost her the status.
   - Yes, but only if her ex-husband files as single: His status does not matter.

6. The cost of Ken's home for the year is $24,000, including $6,000 of utilities. He paid $11,000, and his adult brother paid the rest. Does Ken meet the head of household cost test? 1.6

   Right: No, he paid under half of the $24,000. He needed to pay more than $12,000.

   Steps: Half of $24,000 = $12,000 → Ken paid $11,000, which is under $12,000

   - No, a brother can never pay any costs: Others may pay part, as long as he pays over half.
   - Yes, he paid over half of the utilities: The test covers the whole cost, not one item.
   - Yes, he paid at least $6,000: $6,000 is not the test.

1.7 Dependents I: qualifying child

About 4 minutes of narration.

BOARD 1 Whose child is it? 1.7

Kay 25 · son 4 · her mother

- One home, all year
- Who may claim him?
- Tests first, then tie-breakers

BOARD 2 Before any child test 1.7

- Three rules for every dependent
- A dependent cannot claim a dependent
- Joint return: generally no

✓ Exception: refund claim only

- Citizen, national, resident, Canada, Mexico

Pub. 501 (2025)

BOARD 3 The five child tests 1.7

- Relationship: child, sibling, descendant

Under (19), or student under (24), and younger

✓ Disabled: any age

- Lived with you over half the year
- Child did not give over half own support
- No joint return, except for a refund

Pub. 501 (2025) · IRC §152(c)

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BOARD 4 Tie-breakers 1.7

- Only one person may claim

✓ Parent beats non-parent

- Two parents: more nights
- Equal nights: higher AGI parent
- No parent can claim: highest AGI
- Parent passes: non-parent's AGI must be higher

Pub. 501 (2025) · IRC §152(c)(4)

BOARD 5 Work it: Kay's son 1.7

- Qualifies for both

Kay $18,000 · her mother $45,000

Kay claims: Kay wins

Kay passes: her mother may claim

- Mother's AGI lower: she cannot

Example inputs are invented · Pub. 501 (2025)

BOARD 6 Work it: age and nights 1.7

Sam: 24, full-time student

Not a qualifying child

$6,000 over $5,300: no

Not a dependent

Nights 200 and 165

200 nights wins

Example inputs are invented · Rev. Proc. 2025-32 §4.23

BOARD 7 Details of the tests 1.7

- Temporary absences count as home
- Born or died in the year: can still qualify

Student: part of (5) calendar months

- Foster child: placed by an agency or court

Pub. 501 (2025)

BOARD 8 One child, one set of benefits 1.7

- One child: one set of benefits
- Status · child credit · care · earned income

The other person: none of them

✗ ~~You take the credit, I take the status~~

- Form 8332: next lesson

Pub. 501 (2025), Qualifying Child of More Than One Person

BOARD 9 Common trap: the support test 1.7

✗ ~~You must pay over half of the child's support~~

✓ Child test: the child's own share

✗ ~~Higher AGI always beats a parent~~

✗ ~~Qualifying child: income under $5,300~~

BOARD 10 Recap 1.7

- Three rules, five tests
- Relationship · age · residency · support · joint
- Parent, then nights, then AGI
- No income limit

Key numbers and formulas 1.7

- Kay claims: Kay wins
- Kay passes: her mother may claim
- Not a qualifying child
- $6,000 over $5,300: no
- Not a dependent
- 200 nights wins
- The other person: none of them

Common traps: each line is a wrong belief 1.7

✗ You take the credit, I take the status

✗ You must pay over half of the child's support

✗ Higher AGI always beats a parent

✗ Qualifying child: income under $5,300

Why the tempting answers fail (from the section practice) 1.7

1. Kay, 25, lived all of 2026 with her son, 4, and her mother. Kay's AGI is $18,000 and her mother's is $45,000. Kay chooses not to claim her son. Who may claim him as a qualifying child? 1.7

   Right: Her mother, because her AGI is higher than Kay's. A non-parent may claim if the parent does not, and her AGI is higher.

   - Kay only, because a parent always has priority: Kay gave up the claim.
   - Either, whichever files first: Filing first does not decide it.
   - No one, because Kay is his parent: The rules let a higher-AGI grandparent claim.

2. Sam, 24, is a full-time graduate student who lived with his parents all of 2026. He earned $6,000 and his parents provided more than half his support. Can his parents claim him as a dependent? 1.7

   Right: No; he is neither a qualifying child nor a qualifying relative. He fails the age test, and the $5,300 income limit.

   - Yes, as a qualifying relative, because they provided over half his support: He fails the income limit.
   - Yes, but only if they file jointly: Filing jointly does not help.
   - Yes, as a qualifying child, because he is a full-time student: He is too old for the student rule.

3. The citizen or resident test for a dependent generally requires that the dependent be: 1.7

   Right: A U.S. citizen, national or resident, or a resident of Canada or Mexico. Citizen, national or resident, or a resident of Canada or Mexico.

   - A U.S. citizen or resident, or a resident of Canada or the Philippines: The Philippines is not named.
   - A U.S. citizen or resident, or a resident of a treaty country: Treaty countries in general are not named.
   - A U.S. citizen or national only, regardless of where the person lives: Residents and Canada or Mexico count too.

4. A taxpayer who can be claimed as a dependent on someone else's return: 1.7

   Right: Cannot claim any dependents of his or her own. A person who can be claimed as a dependent cannot claim anyone.

   - May claim dependents if filing head of household: Status does not lift the rule.
   - May claim his or her own children as dependents: The rule blocks it.
   - May claim dependents if his or her income exceeds $5,300: Income does not lift the rule.

5. Bo, 30, is permanently and totally disabled and lived with his parents all of 2026. Bo gave under half of his own support. Which is true of the age test? 1.7

   Right: He passes it at any age. A permanently and totally disabled child passes at any age.

   - He fails it, as he is over 24: The age limits do not apply to him.
   - He passes only if under 65: There is no upper limit.
   - He passes only if he is a student: No student rule is needed.

6. Vic is 24 and a full-time student for all of 2026, not disabled. Can he be a qualifying child? 1.7

   Right: No, he is not under 24. The student rule stops before age 24.

   - Yes, if he lived at home all year: Passing the residency test does not fix the age test.
   - Yes, if his parents pay his tuition: Paying tuition does not change the age test.
   - Yes, as a full-time student: The student rule stops before 24, and he has reached it.

7. Kay claims her son as a qualifying child. Her mother also lives with them. Can her mother take the dependent care credit based on the boy, by agreement? 1.7

   Right: No, they cannot divide the benefits. The other person can take none of the benefits based on that child.

   - Yes, if she paid for the care herself: Paying for the care does not move the benefit.
   - Yes, if Kay signs a statement agreeing: No agreement can divide these benefits.
   - Yes, as her AGI is higher than Kay's: Her higher AGI matters only if Kay does not claim him.

1.8 Dependents II: qualifying relative

About 4 minutes of narration.

BOARD 1 Not a child, still a dependent 1.8

Rita's mother, living apart

Interest $4,800 · untaxed benefits $14,000

• Qualifying relative tests

BOARD 2 The four relative tests 1.8

• Nobody's qualifying child

• Listed relative, or household member all year

✓ Listed relatives need not live with you

Gross income under $5,300

• You gave over half of the support

Pub. 501 (2025) · Rev. Proc. 2025-32 §4.23 · IRC §152(d)

BOARD 3 Who need not live with you 1.8

• Listed relatives: no living test

✓ Children, descendants, siblings, parents, grandparents

✓ Stepparents, nieces, nephews, aunts, uncles

✓ In-laws, even after death or divorce

Cousin: all year

Pub. 501 (2025), Relatives who don't have to live with you

BOARD 4 Work it: gross income 1.8

- Income that is not exempt counts

Taxable: $4,800

Social Security: left out

$4,800 under $5,300: passes

- Benefits she spends: her own support

Example inputs are invented · Pub. 501 (2025)

BOARD 5 Work it: the support test 1.8

Total support: lodging, food, clothes, medical

Total support $20,000

Her own share $9,000

$11,000 of $20,000: over half

- Exactly half: fails, as it must be over half
- Savings are not support

Example inputs are invented · Pub. 501 (2025)

- Lodging: fair rental value

BOARD 6 Multiple support 1.8

- No one pays over half; a group does

✓ One member may claim

Claimer pays over 10%

Others over 10%: sign Form 2120

Ann 40% · Ben 35% · Cal 25%

Ben and Cal sign; Ann files

Pub. 501 (2025) · Form 2120

BOARD 7 Divorced parents: Form 8332 1.8

- Custodial: more nights

Custodial parent signs Form 8332

- Other parent attaches it
- Post-2008 decree alone: not enough

✓ Custodial keeps: head of household, EIC, dependent care

Pub. 501 (2025) · Form 8332

BOARD 8 Common trap: all income counts 1.8

✗ ~~$14,000 of untaxed benefits fails the test~~

✓ Not income, but spending is support

✗ ~~Most support, so no statements needed~~

✗ ~~Friend here over half the year qualifies~~

BOARD 9 Recap 1.8

- Nobody's qualifying child
- Under $5,300
- Over half, or Form 2120
- Non-relative: all year
- Form 8332: claim only

Key numbers and formulas 1.8

- Cousin: all year
- Social Security: left out
- $4,800 under $5,300: passes
- Total support: lodging, food, clothes, medical
- $11,000 of $20,000: over half
- Others over 10%: sign Form 2120
- Ben and Cal sign; Ann files
- Custodial parent signs Form 8332

Common traps: each line is a wrong belief 1.8

✗ $14,000 of untaxed benefits fails the test

✗ Most support, so no statements needed

✗ Friend here over half the year qualifies

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Why the tempting answers fail (from the section practice) 1.8

1. Rita supports her widowed mother, who does not live with her. Her mother's 2026 gross income is $4,800 of taxable interest plus $14,000 of Social Security benefits, none of which is taxable. Does the mother meet the qualifying-relative gross income test? 1.8

   Right: Yes; her $4,800 of gross income is under $5,300. Income that is exempt from tax is not gross income.

   - No; her total receipts of $18,800 exceed $5,300: Untaxed benefits are not gross income.
   - No; her gross income must be under $4,700: The 2026 limit is $5,300, and $4,800 is under it.
   - Yes; relatives who are parents have no income test: Parents have the test too.

2. The support test for a qualifying relative requires that: 1.8

   Right: The taxpayer provided more than half of the person's total support. The taxpayer must pay more than half of the person's total support.

   - The taxpayer provided at least 10% of the person's total support: 10% belongs to multiple support.
   - The person provided less than half of his or her own support: The test measures the taxpayer's payment.
   - The taxpayer paid over half the household's costs: That is a head of household test.

3. Three siblings pay their mother's support: Ann 40%, Ben 35% and Cal 25%. No one else contributes. Which arrangement lets Ann claim her mother as a dependent? 1.8

   Right: Ben and Cal each sign a statement not to claim her, and Ann files Form 2120. Each other member over 10% signs, and Ann files Form 2120.

   - Ann claims her because she paid the most, and no signed statements are needed: Statements are required.
   - Ann claims her only if Ben and Cal each paid less than 10%: They each paid over 10%, so they sign.
   - Only Ben and Cal together may claim her, since they paid over half: Any member over 10% in the group may claim.

4. A custodial parent wishes to let the noncustodial parent claim the child as a dependent. The proper way to do this is: 1.8

   Right: The custodial parent signs Form 8332 for the other parent to attach. Form 8332 is the custodial parent's release, and the other parent attaches it.

   - The noncustodial parent attaches a copy of the custody order to the return: A custody order does not do it.
   - The custodial parent signs a Form 2120 statement not to claim the child: Form 2120 is for multiple support.
   - The divorce decree states the right, and the noncustodial parent claims it: For current decrees, the form is required.

5. A non-relative (such as a family friend) can be claimed as a qualifying relative only if the person: 1.8

   Right: Lived with the taxpayer as a household member for the entire year. A non-relative needs the whole year.

   - Is under age 19, or under 24 if a full-time student: That is the qualifying child age test.
   - Is a U.S. citizen with no gross income for the year: Citizenship and zero income do not replace living there all year.
   - Lived with the taxpayer as a household member for over half the year: Half a year is not enough.

6. Nell divorced in 2024 and still supports her former mother-in-law, who lives across town and meets the other tests. Can Nell claim her for 2026? 1.8

   Right: Yes, the tie survives the divorce. Relationships set up by marriage are not ended by death or divorce.

   - Only with Form 8332 from her former husband: Form 8332 is for a child of divorced parents.
   - No, an in-law must live with Nell all year: In-laws are on the list that need not live with you.
   - No, the divorce ended the relationship: A marriage tie is not ended by divorce for this test.

1.9 Kiddie tax

About 3 minutes of narration.

BOARD 1 Moving income to a child 1.9

- Stock moved to a child
- Low rate on the dividends

Kiddie tax: parent's rate on the excess

IRC §1(g)

BOARD 2 Who it reaches 1.9

Unearned income over $2,700

$1,350 + $1,350

- Under 18
- Or 18, earned income not over half of support
- Or student 19 to 23, same test
- Living parent · must file · no joint return

Instructions for Form 8615 (2025) · Rev. Proc. 2025-32 §4.02

BOARD 3 Work it: who is in 1.9

Each child: interest $5,000

Ana, 17: in

Ben, 18: earns $9,000 of $12,000 support

Ben: out

Cara, 21, student: earns $2,000 of $20,000

Cara: in

Instructions for Form 8615 (2025) · Example inputs are invented

BOARD 4 Work it: how much is hit 1.9

Mila: 12, interest $4,000

$4,000 − $2,700

Parent's rate on $1,300

Zoe: wages $1,500 · unearned $5,000

$5,000 − $2,700 = $2,300

Example inputs are invented

Your turn: worked step by step in lesson 1.9.

BOARD 5 Parent's election: Form 8814 1.9

- On the parent's return; child files nothing

Under 19, or student under 24

- Only interest and dividends

Over $1,350 · under $13,500

- No estimated payments, no withholding

Form 8814 · Rev. Proc. 2025-32 §4.02

BOARD 6 Work it: the election 1.9

Child's interest $5,000

$5,000 − $2,700 = $2,300 on the parent's return

- Plus a small added tax

10% × $1,350 = $135

- Simpler, but it raises the parent's income

Form 8814, Part II · Example inputs are invented

BOARD 7 Which parent's rate 1.9

- Joint: use that return
- Separate: larger taxable income
- Divorced: the custodial parent

✓ Only if higher than the child's rate

Instructions for Form 8615 (2025)

BOARD 8 Common trap: all of it 1.9

✗ ~~All $4,000 at the parent's rate~~

✗ ~~Wages in the kiddie tax~~

✗ ~~Form 8814 with wages on the side~~

✗ ~~Age 18 always ends it~~

BOARD 9 Recap 1.9

- Over $2,700: parent's rate
- Under 18; or older, by test
- Form 8814: under $13,500

Key numbers and formulas 1.9

- Kiddie tax: parent's rate on the excess
- Ana, 17: in
- Ben: out
- Cara: in
- $4,000 − $2,700
- Parent's rate on $1,300
- $5,000 − $2,700 = $2,300
- $5,000 − $2,700 = $2,300 on the parent's return
- 10% × $1,350 = $135

Common traps: each line is a wrong belief 1.9

✗ All $4,000 at the parent's rate

✗ Wages in the kiddie tax

✗ Form 8814 with wages on the side

✗ Age 18 always ends it

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Why the tempting answers fail (from the section practice) 1.9

1. The 'kiddie tax' was enacted to prevent families from: 1.9

   Right: Shifting investment income to children to use their lower rates. It taxes a child's excess unearned income at the parent's rate, which removes the gain from shifting.

   - Claiming children as dependents on two different returns: Dependency rules deal with that.
   - Making gifts to children in excess of the annual gift exclusion: Gift tax deals with that.
   - Paying children wages that exceed the value of their services: Wages are not its target.

2. In 2026 Zoe, age 15, has $1,500 of wages and $5,000 of interest and dividends. Her parents are in the 32% bracket. How much of her income is taxed at her parents' rate? 1.9

   Right: $2,300. $5,000 − $2,700 = $2,300.

   Steps: Wages stay out → Unearned $5,000 − $2,700 = $2,300

   - $3,050: No step gives this. Take $2,700 from the $5,000 of unearned income.
   - $5,000: Only the amount over $2,700 goes there.
   - $3,650: That subtracts only $1,350.

3. The kiddie tax can apply to a child who is a full-time student and: 1.9

   Right: Is under 24 and whose earned income is not more than half of his or her support. A full-time student aged 19 to 23 is in if earned income is not over half of support.

   - Is under 26 and is claimed as a dependent by a parent: 26 is not the limit.
   - Is under 24 and files a joint return with a spouse: A joint return takes the child out.
   - Is under 19 and whose earned income exceeds half of his or her support: Under 18 has no earned income test, and 18 needs earned income not over half.

4. Mila, 12, is her parents' dependent. Her only 2026 income is $4,000 of taxable interest. How much of it is taxed at her parents' rate under the kiddie tax? 1.9

   Right: $1,300. $4,000 − $2,700 = $1,300.

   - $2,700: That is the threshold, not the excess.
   - $2,650: That subtracts only $1,350.
   - $4,000: Only the excess goes there.

5. Owen's parents want to report his 2026 interest and dividends on their own return using Form 8814 instead of filing a return for him. Which requirement must be met? 1.9

   Right: Only interest and dividends, under $13,500 in total. That is the income test.

   - He had estimated tax payments applied to his account: Estimated payments block the election.
   - He is under 24, whatever kind of income he has: Income type also matters.
   - His income is under $13,500, including any wages: Wages block it.

6. Dee, 18, is not a student. She earned $6,000 toward $20,000 of support, and has $4,000 of interest. Both parents are living and she files alone. Does Form 8615 apply? 1.9

   Right: Yes, her earned income is not over half. At 18, she stays in unless earned income is over half of her support.

   - Yes, but only on the $6,000 she earned: Wages never go to the parent's rate.
   - No, the rule stops at age 18: Age 18 is still covered, with the earned income test.
   - No, she has earned income: Having earned income is not enough. It must be over half of support.

1.10 ACA and Form 8962

About 4 minutes of narration.

BOARD 1 Advance credit, then a reckoning 1.10

- Advance credit paid to the insurer
- Based on estimated income

Form 8962: advance vs real credit

- 2026: the rules changed

IRC §36B · Instructions for Form 8962 (2025) · Form 8962 (2026 early release)

BOARD 2 Household income and size 1.10

- Family size: you, spouse, dependents

Household income = your modified AGI

- Plus dependents required to file

AGI + exempt interest, foreign exclusion, untaxed benefits

Form 1095-A: premium figures

Instructions for Form 8962 (2025)

BOARD 3 Work it: household income 1.10

Family size: Hope + son

AGI $46,000

+ exempt $1,500 + untaxed $800

Modified AGI $48,300

Son, required to file: $18,000

Household income $66,300

Line for two $21,150

$66,300 ÷ $21,150: about 313%

Instructions for Form 8962 (2025) · HHS 2025 poverty guidelines · Example inputs are invented

BOARD 4 The 2026 changes 1.10

- Over 400% of poverty line: no credit

Top share of income 9.96%

Under 133%: 2.10%

Repayment caps: removed

Excess advance: repaid in full

Rev. Proc. 2025-25 §3.01 · P.L. 119-21 §71305 · Form 8962 (2026 early release), lines 6, 28, 29

BOARD 5 Work it: the credit 1.10

Family of 3 · income $53,300

$53,300 ÷ $26,650 = 200%

6.60% × $53,300 = $3,518

$12,000 − $3,518 = $8,482

- Credit cannot exceed the premium. Plan cost $14,000: stands

Example inputs are invented · HHS 2025 poverty guidelines · Rev. Proc. 2025-25 §3.01

BOARD 6 Work it: reconciling 1.10

Advance $9,500

$9,500 − $8,482

Repay $1,018

$110,000 over $106,600

Credit $0: repay all $9,500

P.L. 119-21 §71305 · Form 8962 (2026 early release) · Example inputs are invented

Your turn: worked step by step in lesson 1.10.

BOARD 7 Who else is affected 1.10

- Separate: generally no credit

✓ Exceptions for abuse or abandonment

- Affordable employer offer: generally no credit
- Advance paid: must file
- No filing: future advance at risk

Instructions for Form 8962 (2025)

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BOARD 8 Common trap: last year's relief 1.10

✗ ~~Repayment capped at $375 for a single filer~~
✗ ~~Credit at any income over 400%~~
✗ ~~Dependents' income never counts~~

BOARD 9 Recap 1.10

- Form 1095-A, then Form 8962
- Modified AGI + required filers
- Over 400%: none
- Excess: repaid in full

Key numbers and formulas 1.10

- Form 8962: advance vs real credit
- Household income = your modified AGI
- AGI + exempt interest, foreign exclusion, untaxed benefits
- Form 1095-A: premium figures
- + exempt $1,500 + untaxed $800
- Modified AGI $48,300
- Household income $66,300
- $66,300 ÷ $21,150: about 313%
- Repayment caps: removed
- Excess advance: repaid in full
- $53,300 ÷ $26,650 = 200%
- 6.60% × $53,300 = $3,518
- $12,000 − $3,518 = $8,482
- $9,500 − $8,482
- Repay $1,018
- Credit $0: repay all $9,500

Common traps: each line is a wrong belief 1.10

✗ Repayment capped at $375 for a single filer
✗ Credit at any income over 400%
✗ Dependents' income never counts

Why the tempting answers fail (from the section practice) 1.10

1. Tara enrolled in a Marketplace health plan for 2026 and received advance premium tax credit. What document does she need to complete Form 8962? 1.10

   Right: Form 1095-A from the Marketplace. The Marketplace statement supplies the figures.

   - Form 1095-B from the insurance company: That reports other coverage.
   - Form 1099-HC from her insurer: That is a state form, not the federal one.
   - Form 1095-C from her employer: That reports employer offers.

2. Hope's family of three has Marketplace coverage for 2026. Her son, 20, is her dependent and earned $18,000 of wages, enough to require him to file. How is household income figured for the premium tax credit? 1.10

   Right: Hope's MAGI plus her son's MAGI. A dependent required to file adds his MAGI.

   - Hope's MAGI only, because dependents are excluded: Only dependents not required to file are left out.
   - Hope's MAGI plus half of her son's MAGI: There is no half rule.
   - Only the son's MAGI, because he has his own income: Hope's income counts.

3. A family of four has 2026 household income of $64,300, which is 200% of the $32,150 poverty line. Its benchmark plan costs $14,000. What is the credit, if the family's plan costs more? 1.10

   Right: $9,756. 6.60% × $64,300 = $4,244, and $14,000 − $4,244 = $9,756.

   Steps: Share at 200%: 6.60% → 6.60% × $64,300 = $4,244 → $14,000 − $4,244 = $9,756

   - $10,219: That uses a share of about 5.9%, which is not the table's figure at 200%.
   - $4,244: That is the required share.
   - $14,000: That ignores the required share.

4. Which change first applies for tax year 2026? 1.10

   Right: Excess advance credit is repaid with no cap. P.L. 119-21 §71305 removes the caps.

   - Household income ignores dependents who must file: Those dependents still count.
   - The premium credit is claimed on Schedule A: It has never been a Schedule A item.
   - Form 1095-A is no longer used at all: Form 1095-A still supplies the figures.

5. A single filer's household income for 2026 is 450% of the poverty line. She received $4,000 of advance credit. What does she owe back? 1.10

   Right: $4,000. Above 400% there is no credit, so all of it is repaid.

   - $0: She received credit she cannot keep.
   - $2,000: There is no half rule.
   - $1,625: That was a 2025 cap.

6. Omar's AGI is $40,000, and he has $2,000 of tax-exempt interest. His dependent daughter earned $3,000 and need not file. What is household income? 1.10

   Right: $42,000. $40,000 + $2,000. A dependent not required to file is left out.

   - $43,000: That adds the daughter's wages and drops the interest.
   - $45,000: That adds the daughter, who need not file.
   - $40,000: That leaves out the tax-exempt interest, which modified AGI adds back.

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1.11 Other returns, foreign reporting

About 4 minutes of narration.

BOARD 1 The return is not the only form 1.11

A large gift · a foreign account

• Separate filings, separate rules

✓ Spot the trigger

BOARD 2 Other returns to spot 1.11

Gift over $19,000: Form 709

Household worker: Schedule H, W-2

• Business payments: Form 1099-NEC

Payments after 2025: $2,000

Employees: Form 941

Rev. Proc. 2025-32 §§2.15, 4.42 · Pub. 926 (2025) · Instructions for Form 709

BOARD 3 FBAR 1.11

FinCEN Form 114

Combined over $10,000 at any time

• Add each account's highest value

April 15, automatic to October 15

• Filed with FinCEN, not with Form 1040

IRS, Report of Foreign Bank and Financial Accounts · 31 CFR §1010.350

BOARD 4 Form 8938 1.11

Form 8938: attached to the return

Single, U.S.: $50,000 end · $75,000 any time

Joint, U.S.: $100,000 · $150,000

Single, abroad: $200,000 · $300,000

✓ Both can apply

Instructions for Form 8938

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BOARD 5 Other foreign forms 1.11

Form 3520: foreign gifts, trusts

Nonresident alien's gifts over $100,000

Form 5471: foreign corporations

Form 8865: foreign partnerships

• Reports, with heavy penalties

Instructions for Form 3520 · Instructions for Forms 5471 and 8865

BOARD 6 Special filing situations 1.11

Abroad: automatic to June 15

• Federal disaster: deadlines postponed

✓ Covered address: automatic

Injured spouse: Form 8379

Pub. 54 · Pub. 547 · Instructions for Form 8379

BOARD 7 Work it: two clients 1.11

Rob: $6,000 and $5,500

$6,000 + $5,500 = $11,500

Rob: FBAR required

Tia: $60,000 at year end

Tia: FBAR and Form 8938

Example inputs are invented

BOARD 8 Common trap: one form covers it 1.11

✗ ~~Form 8938 replaces the FBAR~~

✗ ~~Neither account over $10,000: no FBAR~~

✗ ~~Recipient files Form 709~~

✗ ~~File Form 4868 to get disaster relief~~

BOARD 9 Recap 1.11

- Form 709: the giver
- FBAR: combined, with FinCEN
- Form 8938: higher lines
- Disaster: automatic · Form 8379

Key numbers and formulas 1.11

- Household worker: Schedule H, W-2
- Employees: Form 941
- FinCEN Form 114
- Form 8938: attached to the return
- Form 3520: foreign gifts, trusts
- Form 5471: foreign corporations
- Form 8865: foreign partnerships
- Injured spouse: Form 8379
- $6,000 + $5,500 = $11,500
- Rob: FBAR required
- Tia: FBAR and Form 8938

Common traps: each line is a wrong belief 1.11

✗ Form 8938 replaces the FBAR
✗ Neither account over $10,000: no FBAR
✗ Recipient files Form 709
✗ File Form 4868 to get disaster relief

Why the tempting answers fail (from the section practice) 1.11

1. While preparing Leah's 2026 Form 1040, her preparer learns she gave her daughter $25,000 in cash in 2026. She made no other gifts. What other return is required? 1.11

   Right: Form 709, because the gift exceeds the $19,000 annual exclusion. The return is required above the exclusion.

   - Form 709 only if gift tax is owed after the lifetime exemption: It is due even with no tax to pay.
   - None, because the daughter reports the gift: The giver files.
   - Form 3520, because the gift exceeds $10,000: Form 3520 reports foreign gifts.

2. A hurricane is declared a federal disaster, and the IRS announces relief postponing filing and payment deadlines in Kay's county. Kay lives there. What must she do to get the postponement for her 2026 return? 1.11

   Right: Nothing; the relief is automatic. The IRS applies it to addresses in the area.

   - Write 'disaster' on the return and attach Form 911: Form 911 is not for this.
   - Request the postponement in writing within 30 days: No request is needed.
   - File Form 4868 before the regular due date: No extension form is needed.

3. Rob, a U.S. citizen living in Ohio, has two foreign bank accounts. Their highest balances in 2026 were $6,000 and $5,500, at different times. Must he file an FBAR? 1.11

   Right: Yes, because the aggregate of the maximum values exceeds $10,000. $6,000 + $5,500 = $11,500.

   - No, because the balances were never over $10,000 on the same day: The highs are added regardless of the day.
   - Yes, but only if the accounts earned more than $10 of interest: Interest is not the test.
   - No, because neither account ever exceeded $10,000: The test is the total.

4. Tia, single and living in the U.S., holds a foreign brokerage account worth $60,000 on December 31, 2026, its highest value that year. Which reports must she file? 1.11

   Right: Both an FBAR and Form 8938. She is over both lines.

   - Form 8938 only, because it replaces the FBAR: One does not replace the other.
   - An FBAR only, because Form 8938 starts above $100,000: $100,000 is the joint year-end line.
   - Neither, if she reports the account's income on Form 1040: Reporting income does not excuse them.

5. Which report is generally required for a U.S. person who receives $150,000 in gifts from a nonresident alien in 2026? 1.11

   Right: Form 3520. Foreign gifts over $100,000 go on Form 3520.

   - Form 5471: That covers foreign corporations.
   - Form 709: Form 709 is for a U.S. giver.
   - Form 8865: That covers foreign partnerships.

6. Where is an FBAR filed? 1.11

   Right: With FinCEN, not with the return. It goes to FinCEN.

   - Attached to Form 1040: Form 8938 is the one attached to the return.
   - With the foreign bank: The filer sends it to FinCEN.
   - With the state tax agency: It is federal.

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