

Denver Asset Building Coalition



Denver Asset Building
Coalition

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**VITA
SITES**

VITA - ADVANCED Exam Study Guide for the 2020 Filing Season

Advanced Scenario 1: Rebecca Washington

Please see the interview notes, found on Page 71 of IRS Publication 6744 for 2020 returns.

Question 1. What is the most beneficial filing status allowable for Rebecca?

- a. Single
- b. Married Filing Jointly
- c. Head of Household
- d. Qualifying Widow(er)

This questions explores the interplay between the various filing status options. Pub 4012, Page B-8 provides a “Determination of Filing Status - Decision Tree” that is very useful to help determine the correct filing status.

Key facts from our scenario:

- Doug passed away in 2019.
- Rebecca and Doug always filed jointly in previous tax years.
- Rebecca has two dependent children, Sara and David.
- Rebecca has not remarried.
- Rebecca paid all the cost to keep up her home and support for Sara and David.

Advanced Scenario 1: Rebecca Washington

Please see the interview notes, found on Page 71 of IRS Publication 6744 for 2020 returns.

Question 2: Rebecca has \$3,100 in qualifying child care expenses for the child and dependent care credit.

- a. True
- b. False

Review the rules for the Child & Dependent Care Expenses.

The qualifying expenses paid for each child must be evaluated separately to determine if the payments are eligible for the credit.

Key Factors:

- The age of the children.
- The amount paid for each child.
- The purpose for paying the expense.

Advanced Scenario 2: Pat & Terri Jefferson

Please see the interview notes, found on Page 72 of IRS Publication 6744 for 2020 returns.

Question 3: Pat and Terry are eligible for which of the following credits? Select the best answer.

- a. Credit for other dependents
- b. Child tax credit
- c. Earned income credit
- d. Both (a) and (b)

For this question, Pat and Terry are eligible for the credit, as long as either child qualifies.

To determine if either child is eligible for the Credit for Other Dependents or the Child Tax Credit, you can use the table in Pub 4012, Page G-3, Table 1: Does Your Qualifying Child Qualify You for the Child Tax Credit or Credit for Other Dependents. Review for both children.

For an analysis of the Earned Income Credit, please see Pub 4012, Page I-2, Summary of EIC Eligibility Requirements. Pay particular attention to Part A - Rules for Everyone.

Advanced Scenario 2: Pat & Terri Jefferson

Please see the interview notes, found on Page 72 of IRS Publication 6744 for 2020 returns.

Question 4: Pat's unemployment compensation is not taxable this year because it was received as a result of the coronavirus pandemic.

- a. True
- b. False

For 2020 tax returns, there were many changes in some areas, while others remained the same.

The newest version of Pub 4012 provides an Income Quick Reference Guide, that will be useful during the upcoming filing season, as well as to answer this question.

Advanced Scenario 3: Janice Billings & Andrew Noble

Please see the interview notes, found on Page 73 of IRS Publication 6744 for 2020 returns.

Question 5: Which of the following statements is true?

- a. Janice's Medicaid waiver payments must be included in order to be considered earned income when calculating the earned income credit.
- b. Janice's Medicaid waiver payments can never be considered earned income when calculating the earned income credit.
- c. Janice's Medicare [sic] waiver payments are not included in taxable income and are never considered earned income when calculating the earned income credit.
- d. Janice's Medicaid waiver payments are not included in taxable income but can be considered earned income for calculating the earned income credit.

For an overview of Medicaid Waiver Payments, please see Pub 4012, Page D-59.

Practice Pointer: Note that Medicaid Waiver Payments require that the care provider and the care recipient reside in the same home. Although it is not relevant to this particular questions (because Dorothy and Janice live together), this often comes up during tax season.

Advanced Scenario 3: Janice Billings & Andrew Noble

Please see the interview notes, found on Page 73 of IRS Publication 6744 for 2020 returns.

Question 6: What is the amount of Andrew's HSA deduction on Form 8889, Part I, Line 13?

See Pub 4012, Page E-6 for an overview of HSAs and a helpful chart to determine eligibility.

In Pub 4491, on bottom of Page 17-11, there is additional information regarding who can contribute to a taxpayer's HSA.

- a. \$1,500
- b. \$2,000
- c. \$2,500
- d. \$3,455

Advanced Scenario 3: Janice Billings & Andrew Noble

Please see the interview notes, found on Page 73 of IRS Publication 6744 for 2020 returns.

Question 7: Andrew can identify the employer's HSA contribution by the Code W in Box 12 on his Form W-2.

See Pub 4491, Page 17-11, Employer Contributions, to determine how employer contributions are reported on the taxpayer's Form W-2.

- a. True
- b. False

Advanced Scenario 3: Janice Billings & Andrew Noble

Please see the interview notes, found on Page 73 of IRS Publication 6744 for 2020 returns.

Question 8: What is the total unreimbursed qualified medical expenses reported on Form 8889, Part II?

- a. \$2,025
- b. \$2,153
- c. \$2,321
- d. \$2,400

On Pub 4491, Page 17-13, there is a discussion of new changes to rules for HSA qualified medical expenses.

Take a look at the example on Page 17-13, as well. Note that expenses for general health improvement are not considered qualified medical expenses.

Advanced Scenario 4: Barbara Williams

Please see the interview notes, found on Page 75 of IRS Publication 6744 for 2020 returns.

Question 9: Which individuals can make an agreement on who can claim Molly as a dependent?

- a. Barbara and Jenny
- b. Barbara and Claire
- c. Jenny and Claire
- d. Barbara, Jenny, and Claire

For this questions, first, review the chart in Pub 4012, Page C-1. Note that Molly qualifies as a dependent child of more than one person here.

Page C-2 provides additional information, as well. Take a look at the discussion near the bottom about AGI and the child's parents' ability to let someone else claim the child as a dependent.

Also take note of who provided the cost of keeping up the home for the year.

Advanced Scenario 4: Barbara Williams

Please see the interview notes, found on Page 75 of IRS Publication 6744 for 2020 returns.

Question 10: Who can claim the earned income credit for Molly?

- a. Claire, because she has the lower AGI
- b. Jenny, because she is Molly's mother
- c. Barbara, if Jenny allows

Things to consider:

- Who can claim Molly as a dependent?
- Who has earned income?

Advanced Scenario 5: Robert Adams

Please see the interview notes, found on Page 76 of IRS Publication 6744 for 2020 returns.

Question 11: If Robert chooses to itemize, which of the following is he eligible to claim as a deduction on Schedule A?

- a. \$700 GoFundMe donation
- b. \$3,500 Gambling losses
- c. \$120 Homeowners Association fee
- d. \$260 Mortgage Insurance Premiums (PMI)

GoFundMe Donation: Charitable donations must be made to a qualified organization. Take a look at Pub 4491, Page 20-8. Read the tips and the difference between an organization and an individual in terms of charitable donations.

Gambling Losses: Gambling losses are included as a miscellaneous deduction on Schedule A. However, see Pub 4491, Page 20-11 for more information and take a look at the “Caution” message.

HOA Fee: Take a look at Pub 4491, Page 20-4 for a discussion of real estate taxes and associated deductible and nondeductible costs.

Mortgage Insurance Premiums: The deductibility of this item hinged on a Legislative Extenders bill. Please see Pub 4491, Page 2-1 for a discussion.

Advanced Scenario 5: Robert Adams

Please see the interview notes, found on Page 76 of IRS Publication 6744 for 2020 returns.

Question 12: If Robert chooses not to itemize, what is the amount that he can deduct as an above-the-line charitable contribution adjustment in 2020?

- a. \$250
- b. \$300
- c. \$350
- d. \$1,050

See Pub 4491, Page 17-18 for an important new tax law change for charitable contributions for 2020 returns.

Sidebar Discussion: What is ‘the line’? The term refers to adjusted gross income (AGI), which is listed on Line 11 of the 2020 Form 1040 tax returns. On the return itself, there is an actual line just below your AGI.

The Importance: Above the line deductions (referred to in IRS terms as “adjustments”) reduce your AGI.

Below the line deductions, on the other hand, come in after your AGI has been calculated and they reduce your taxable income. Itemized deductions are below the line deductions.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 13: What is the amount of Carly's student loan interest deduction on Form 1040, Schedule 1?

\$ _____

We can see from Carly's Form 1098-E that she paid a total of \$3,960 in student loan interest in 2020. The question is whether some, all or none of the student loan interest paid is deductible.

Take a look at Pub 4491, Page 17-14 for a discussion on student loan interest deductions and the limitations therein.

There are also modified adjusted gross income limitations, which are good to be aware of but generally will not impact VITA taxpayers due to our income guidelines. See Pub 4491, Page X.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 14: How do educator expenses affect Carly's tax return?

- a. Carly can claim these expenses as a miscellaneous itemized deduction on her Schedule A.
- b. These expenses cannot be claimed on her 2020 tax return because she does not meet the requirements to claim the educator expenses.
- c. \$250 is deducted as an adjustment to income on Form 1040, Schedule 1.
- d. Carly is entitled to deduct the full \$375 as an adjustment to income on Form 1040, Schedule 1.

Please see Pub 4012, Page E-4 for a quick-reference guide to Educator Expenses. See also Pub 4491, Page 17-2.

Pay close attention to the definition of "Eligible Educators" and the amount that can be deducted.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 15: What is the amount of qualified child care expenses used in the calculation of the Franklin's Form 2441, Child and Dependent Care Expenses?

- a. \$0
- b. \$750
- c. \$1,500
- d. \$2,250

For a review of Child & Dependent Care Expenses, please see Pub 4012, Page G-9.

Also see Pub 4491, Page 20-1 for a further breakdown.

For this question, keep in mind the work-related rule and the fact that expenses can qualify for part of the year but not all of it.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 16: The refundable portion of the American Opportunity Credit located on Form 8863, Education Credit is \$_____.

Education credits are reported on Form 8863, which is a two-page document, with school and student information appearing on Page 2.

Note that the American Opportunity Credit has both a refundable and nonrefundable element.

By contrast, the Lifetime Learning Credit (generally used for graduate students and those increasing their job skills), is nonrefundable only.

When calculating the qualified education expenses, keep in mind that only required course materials are included when calculating the total amount of expenses.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 17: The amount of the Franklin's net premium tax credit on Form 8962, Premium Tax Credit is \$_____

Answer: \$1,646

Source: Answer provided by Link&Learn.

The answer for this question was provided by Link & Learn. By contrast, the answer I got was \$1,787, so if you got that, it is technically correct.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 18: The Franklins can claim a recovery rebate credit of \$_____ for Cristina on their 2020 tax return.

See Pub 4012, Page H-8 for information about the Recovery Rebate Credit. See also Pub 4491, Page VI.

Note that although some taxpayers received their stimulus payments early in the year, the credit applies to the entire 2020 tax year. Consider how this could impact a family with a child born late in the year, like in the example.

Advanced Scenario 6: Harris & Carly Franklin

Please see the interview notes, found on Page 78 of IRS Publication 6744 for 2020 returns.

Question 19: Do the Franklins qualify for the earned income credit?

- a. Yes, they meet all the requirements to receive the credit.
- b. No, their income is too high.

See Pub 4012, Tab I for information related to the EIC and the requirements therein.

You can also take a look at the practice tax return you prepared for the client to determine if the EIC was applied. There are a few places to look (amount of EIC should be the same on both lines below on the return):

- Form 1040, Page 2 - Line 27
- Sch EIC Worksheet, Line 9

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 20: The Kennedy's standard deduction on their 2020 tax return is \$_____.

Please review the chart in Pub 4012, Page F-2. This chart takes the taxpayers' filing status, age, and blindness into consideration.

Key Factors:

- Travis is 72 years old.
- Sylvia is 71 years old.
- They will file as Married Filing Jointly.
- Sylvia is blind (see the Intake Sheet).

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 21: What is the amount of taxable interest reported on the Kennedy's Form 1040?

- a. \$0
- b. \$30
- c. \$110
- d. \$140

Take a look at Pub 6744, Page 95, which shows the Kennedy's investment statement. Look at Form 1099-INT, Lines 1 & 10. What do you do with the market discount?

Although Pubs 4012 & 4491 do not deal directly with the issue of market discount, the IRS does offer some guidance on its website, which states:

- "...market discount is a form of interest that is includible in taxable income."
- Feel free to email Thomas for the direct link to the page.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 22: What is the total net amount of capital or gain (or loss) reported on Form 1040?

- a. (\$3,000)
- b. \$250
- c. \$10,680
- d. \$10,930

Note the long-term carryover loss mentioned in the client notes. When preparing the return, please make sure you include this amount on the return, on Schedule D, Line 14. Enter as a positive (i.e. do not include a “-” or parentheses).

Note the capital loss limitation rule in Pub 4491, Page 10-9, which discusses the amount per year that can be claimed on a taxpayer’s return.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 23: What is the taxable portion of Travis' pension from Pinto Corporation using the Simplified Method?

\$ _____

In Taxwise, the Simplified Method can be found at the bottom of Form 1099-R.

Make sure you enter Box 9b - Total Employee Contributions. Then make your way to the bottom of the form to compute the Simplified method. Enter the information as follows:

- Line 1: \$38,957 (line 9b employee contribution)
- Line 2: 121-130 (combined age is 129)
- Line 5: \$9551 (amount already recovered)

The rest should compute automatically and your answer can be found on Form 1040, Line 5b. Note that, even after using the Simplified Method, the taxable amount does not show up on Form 1099-R, Box 2.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 24: Sylvia is eligible to make a contribution to her traditional IRA by the due date of her tax return.

- a. True
- b. False

There are some new changes to the tax code involving age limit for making IRA contributions.

This question, however, is testing us over the traditional rule regarding IRA deduction timing rules.

Information can be found in Pub 4012, Page E-10 and Pub 4491, Page 17-7 for the eligibility requirements.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 25: What are the Kennedy's total gambling winnings reported on their Form 1040, Schedule 1?

- a. \$215
- b. \$763
- c. \$2,500
- d. \$2,715

Take a look at the Income Quick Reference Guide in Pub 4012, Page D-1.

See also Pub 4491, Page 15-2 and the discussion about gambling winnings.

Key Facts:

- Sylvia won \$2,500 from the casino.
- She also won \$215 from lottery winnings.
- She lost \$1,902 from the casino and spent \$50 in lottery ticket purchases.
- The Kennedy's will not itemize.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 26: The taxable portion of the Social Security Benefits on the Kennedy's Form 1040 is \$17,850.

- a. True
- b. False

The taxable portion of Social Security can be found on Line 6b of Page 1 of the taxpayer's Form 1040.

In order to get the correct calculation, you will need to enter all of the taxpayer's income and tax information into the return.

Key Factors:

- The taxpayer's filing status is MFJ.
- Using Taxwise, the calculation used to determine the taxable amount of Social Security is found on Worksheet 1. Amounts entered on this worksheet 1 will transfer onto the Form 1040, Page 1, Lines 6a and 6b. It is recommended to enter Social Security amounts onto Worksheet 1 instead of entering the amounts directly onto Form 1040.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 27: What are the total payments reported on the Kennedy's Form 1040?

\$ _____

In order to get the correct answer here, you must enter all of the withholding information AND the estimated tax payment information correctly.

Once everything has been entered correctly, your answer will appear on Form 1040, Page 2 - Line 33.

Advanced Scenario 7: Travis & Sylvia Kennedy

Please see the interview notes, found on Page 88 of IRS Publication 6744 for 2020 returns.

Question 28: When must Sylvia take a required minimum distribution (RMD) from her traditional IRA?

- a. By December 31, 2020, because she does not qualify for a waiver.
- b. By December 31, 2021, because the RMD was waived for tax year 2020.
- c. By April 1 and December 31, 2022, the year after she turns age 72.
- d. Sylvia will never be required to take the RMD from her traditional IRA.

For 2020 returns, there are important changes regarding required minimum distribution dates.

Please see the bottom of Page VII of Publication 4491, which discusses Coronavirus Aid, Relief, and Economic Security (CARES) Act changes to the tax Code.

Note the special rule that pertains to taxpayers who are required to take a required minimum distribution in 2020.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 29: Richard's most beneficial filing status allowable is Head of Household?

- a. True
- b. False

Since Richard is not married, his best options are to file Single or as Head of Household. If he is eligible, Head of Household is the best option because it has a higher standard deduction than a Single filer.

To determine if Richard's mother qualifies as a dependent, review Pub 4012, Page C-4. Take a close look at Step 2 and the Note related to the relatives listed in step 2.

Then use the chart in Pub 4012, Page B-10 to determine if Richard's mother qualifies him for Head of Household status.

Key Facts:

- Richard provides over half of his mother's support.
- Richard and his mother do not live together.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 30: Which item(s) can be deducted by Richard as a business expense?

- a. Work gloves
- b. Work clothes (suitable for everyday use)
- c. Rake
- d. Both (a) and (c)

This question is testing us over Schedule C business expenses. We know this is because Richard has received a 1099-NEC (formerly Form 1099-MISC, Box 7 - Non-Employee Compensation).

Pub 4491, Page 21-4 and 21-5, for a discussion of allowable expenses and expenses that do not qualify.

Note that work clothes that are not suitable for everyday use are deductible, such as a uniform.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 31: What is the qualified business income (QBI) deduction on the Richard's tax return?

- a. \$0
- b. \$648
- c. \$718
- d. \$3,857

To get the correct answer here, be sure to calculate all Schedule C income and expenses correctly.

Note that Richard received \$325 in addition to the amount listed on Form 1099-NEC.

Review the rules for deducting business meals found in Pub 4012, Page 9-9 and note their relationship to traveling out of town.

Business Mileage: See Pub 4012, D-20 & D-21 for a breakdown for calculating vehicle mileage.

Once everything has been entered into Schedule C, check Form 1040, Page 1 - Line 13 for your answer.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

**Question 32: Richard must report
\$_____ of his canceled debt on
his 2020 tax return.**

See Pub 4491, Page 2-11 for a discussion of Cancellation of Debt (COD) income.

Key Facts:

- Richard has \$775 of COD income.
- Richard is solvent.

Practice Tip: A taxpayer can get out of owing income tax on cancellation of debt income to the extent they are insolvent.

- A sample Insolvency Determination Worksheet can be found in Pub 4012, Page D-61.
- However, determining insolvency is out of scope for VITA tax returns :(

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 33: Richard is required to pay a 10% additional tax on the early distribution from his IRA account in 2020.

- a. True
- b. False

See Pub 4491, Page 11-11 for a discussion about the early distribution tax on IRAs.

Generally, taxpayers are subject to the 10% tax, unless they qualify for an exception. The exceptions are listed in the Instructions to Form 5329 and are numbered from 01-12.

There is a special rule for this year that is discussed in Pub 4012, Page H-6.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 34: Richard has been assigned an Identity Theft Protection PIN by the IRS. How does this affect preparation of Richard's tax return?

See Pub 4491, Page 1-4, for a discussion of Identity Protection PINs.

- a. The PIN must be entered during tax return preparation.
- b. The PIN will appear on Richard's Form 1040.
- c. Failure to enter the PIN will cause Richard's e-filed return to be rejected by the IRS.
- d. All of the above.

Advanced Scenario 8: Richard Roosevelt

Please see the interview notes, found on Page 98 of IRS Publication 6744 for 2020 returns.

Question 35: Which of the following statements is true?

- a. Richard is able to defer half the taxpayer and employer share of Social Security tax until December 31, 2021 and the other half until December 31, 2022.
- b. Richard is able to defer half of the taxpayer share of Social Security tax until December 31, 2021 and the other half until December 31, 2022.
- c. Richard is able to defer half of the employer share of Social Security tax until December 31, 2021 and the other half until December 31, 2022.
- d. Richard does not have the option to defer half of his share or the employer share of Social Security tax.

This is a new rule for the upcoming tax returns. Please see Pub 4491, Page VIII for a discussion about these deferred payments.

Note that although a person may be deemed self-employed, the amount of self-employment tax they owe is still technically broken down between employer and employee portions (even though that might not be intuitive - at least for me!)