

Denver Asset Building Coalition



Denver Asset Building
Coalition

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**VITA
SITES**

VITA - BASIC Exam Study Guide for the 2020 Filing Season

Basic Scenario 1: Sheldon & Odessa Sanford

Please see the interview notes, found on Page 33 of IRS Publication 6744 for 2020 returns.

Question 1. Sheldon must take a required minimum distribution from his retirement plan by December 31, 2020 to avoid an additional tax due.

- a. True
- b. False

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: Pub 4491 is electronic only this season and can be found at:
<https://www.irs.gov/pub/irs-pdf/p4491.pdf>

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

Basic Scenario 1: Sheldon & Odessa Sanford

Please see the interview notes, found on Page 33 of IRS Publication 6744 for 2020 returns.

Question 2. Sheldon and Odessa's standard deduction is \$_____.

See Pub 4012, Page F-1 for a breakdown of the standard deduction amounts for 2020 returns.

Page F-2 continues the discussion for people born before January 2, 1956 (i.e. age 65 or older) and people who are blind.

Use the chart on Page F-2 and apply the facts: Sheldon is 73 and Odessa is 64 years old. Neither is blind.

Basic Scenario 2: Marsha Perry

Please see the interview notes, found on Page 34 of IRS Publication 6744 for 2020 returns.

Question 3. Which of the following statements is true?

- a. Marsha is required to file a tax return.
- b. Marsha is not required to file a tax return, but should file a tax return to claim a refund of her federal income tax withholding.
- c. Marsha does not qualify for the earned income credit because she is under the age of 25.
- d. Both a and c.

Key Facts:

- Marsha cannot be claimed by anyone else as a dependent.
- Marsha has a dependent, Shelby.
- Marsha is 23 years old.
- Marsha made \$18,500 in 2020.

Page A-1 of Pub 4012 provides a chart to determine who has a filing requirement.

If Marsha's earned income was less than her standard deduction amount, she will not be required to file. However, even if she is not required to file, often times it can be beneficial to file in order to claim a refund.

Basic Scenario 2: Marsha Perry

Please see the interview notes, found on Page 34 of IRS Publication 6744 for 2020 returns.

Question 4: Marsha Qualifies for the recovery rebate credit of \$500 for Shelby.

- a. True
- b. False

See Pub 4491, Page vi, under the heading “Coronavirus Aid, Relief, and Economic Security (CARES) Act changes:

“EIPs are technically an advance payment of a new temporary tax credit (recovery rebate credit) that eligible taxpayer can claim on their 2020 return.”

This means that although taxpayers received EIP payments in 2020, later events, such as the birth of a child, can impact the total amount the taxpayer is entitled to receive.

Also note that the amount Marsha already received was for her as a single filer on her 2019 tax return.

Basic Scenario 3: Aiden & Sophia Duke

Please see the interview notes, found on Page 35 of IRS Publication 6744 for 2020 returns.

Question 5: What is the most advantageous filing status allowable that Sophia can claim on the tax return for tax year 2020?

See Pub 4012, Page B-8 and the “Determination of Filing Status - Decision Tree” and apply the facts.

Key Facts:

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

- Aiden died in 2020.
- The taxpayers always filed MFJ in previous years.
- Sophia has not remarried.

Basic Scenario 3: Aiden & Sophia Duke

Please see the interview notes, found on Page 35 of IRS Publication 6744 for 2020 returns.

Question 6: What amount can Sophia deduct as a charitable contribution adjustment?

This question involves another important change for 2020 tax returns.

See the bottom of Page vii of Pub 4491.

See also Page F-1 of Pub 4012.

Key Facts:

- Sophia will not itemize and thus will take the standard deduction.
- Sophia made a \$500 cash charitable contribution to a qualified charitable organization in 2020.

- a. \$0
- b. \$250
- c. \$300
- d. \$500

Basic Scenario 4: Benjamin & Amelia Hopkins

Please see the interview notes, found on Page 36 of IRS Publication 6744 for 2020 returns.

Question 7: Which credit(s) can the Hopkins claim on their 2020 tax return?

- a. Child tax credit for Harper
- b. Credit for other dependents for Evelyn
- c. Both a and b
- d. Neither a nor b

For information about the Child Tax Credit, see Pub 4012, Page G-2. The requirements to claim the credit are listed toward the top of the page. You can also use the chart on Page G-3.

Key Facts - Child Tax Credit for Harper:

- Harper, age 9, is a US citizen with a valid Social Security number.
- Benjamin and Amelia file MFJ and have combined earned income of \$40,000.

For information about the Credit for Other Dependents, see Pub 4012, Page G-4. Note that this credit applies to any dependent who does not qualify for the Child Tax Credit.

Key Facts - Credit for other dependents for Evelyn:

- Evelyn is a resident alien with an ITIN (i.e. no social security number).
- Evelyn live with, and was supported by, her parents all year.

Basic Scenario 4: Benjamin & Amelia Hopkins

Please see the interview notes, found on Page 36 of IRS Publication 6744 for 2020 returns.

Question 8: Are the Hopkins eligible to claim the earned income credit?

See Pub 4012, Page I-2 under the Earned Income Credit tab.

The chart provides a summary of EIC Eligibility requirements.

Part A provides the rules for every taxpayer involved in the EIC analysis.

Each child will have their own separate analysis to determine their eligibility for the Earned Income Credit:

- a. Yes, because Benjamin has a Social Security number.
- b. Yes, because everyone has a taxpayer identification number.
- c. No, because their income is too high.
- d. No, because Amelia has an ITIN.

- Analysis 1: Parents + Child 1
- Analysis 2: Parents + Child 2

Basic Scenario 5: Lucas & Abigail Brown

Please see the interview notes, found on Page 37 of IRS Publication 6744 for 2020 returns.

Question 9: The Browns qualify for which of the following credits?

- a. Earned Income Credit
- b. Child and dependent care credit
- c. Both a and b
- d. Neither a nor b

For the Earned Income Credit analysis, see the chart in Pub 4012, Page I-2.

Key Facts - Earned Income Credit:

- Lucas, Abigail, Mason, Logan, and Warren all have valid Social Security Numbers.
- The Browns had a combined income of \$55,000 (see Part D of the chart in Pub 4012, Page I-2).

For the Child and dependent care credit analysis, see Pub 4012, Page G-9, which provides an overview of the credit.

Key Facts - Child & Dependent Care Expenses:

- Mason and Logan are 4 years old.
- Mason and Logan lived with their parents all year.
- The parents, Lucas and Abigail, both worked.

Basic Scenario 5: Lucas & Abigail Brown

Please see the interview notes, found on Page 37 of IRS Publication 6744 for 2020 returns.

Question 10: The refundable additional child tax credit is limited to \$1,400 per child.

- a. True
- b. False

Information about the refundable additional child tax credit can be found in Pub 4012, Page G-2, which (ironically) is under the nonrefundable credits tab.

Key Facts:

- This particular question doesn't require you to apply the facts. Rather, it is asking for the amount the credit is limited to by law.
- Please review the general eligibility requirements found in the middle of Page G-2 of Pub 4012.

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 11: What is the amount of Daniel & Avery's standard deduction?

\$ _____

Review the charts on Pages F-1 and F-2 of Pub 4012.

Key Facts:

- Daniel and Avery will file MFJ.
- Daniel is age 64 and Avery is 53.
- Neither is blind, as shown on their interview form (Form 13614-C).

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 12: What is the total amount of adjustments on the Emory's tax return?

- a. \$250
- b. \$925
- c. \$1,175
- d. \$1,475

Key Factors to Note:

- Schedule 1, Part II is entitled "Adjustments to Income".
- However, Form 1040, Page 1, 10(c) lists the "Total Adjustments to Income," which will add one more possible adjustment to the total.
- That adjustment is the newly enacted \$300 cash charitable contribution for taxpayers who take the standard deduction.
- The Emorys will not itemize.
- The Emorys made a \$350 cash charitable contribution.

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Education credits are computed on Form 8863 of the taxpayer's return.

Key Factors:

- Based on Jackson's eligibility, the Emory's do qualify for the American Opportunity credit.
- The credit has two components, refundable and nonrefundable, found on Page 1 of Form 8863.
- When calculating the amount of Qualified Education expenses, do as follows:
 - Box 1: add additional qualified expenses to the total in Box 1. Include any costs that are required for the course.
 - Were the books required for the course (textbooks and online book)? It's safe to assume they were.
 - Was the parking sticker required *for the course*?
 - Was the meal plan required *for the course*?
 - Subtract the Box 5 total from the adjusted Box 1 total.
 - Put the total on Line 27 of Page 2 of Form 8863.

Question 13. What is the total amount of the Emorys' refundable American Opportunity Credit?

\$ _____

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 14. Jackson qualifies Daniel and Avery to claim the credit for other dependents.

- a. True
- b. False

Recall that the Credit for Other Dependents is available for all dependents who are not eligible for the Child Tax Credits.

Determine if Jackson meets the requirements to be a dependent. Review the age requirements for the Child Tax Credit.

Key Facts:

- Jackson is 19.
- Although Jackson lives away from home most of the year, review Footnote 2 of Page C-1 of Pub 4012, which discusses “Temporary Absences”.
- The parents paid more than half of Jackson’s support.

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 15. What is the total amount of federal income tax withholding?

- a. \$1,525
- b. \$1,935
- c. \$1,945
- d. \$3,880

On the taxpayer's 1040, Page 2, please see Line 25. Part d lists the total withholding amount.

Some important things to note:

- This question is only looking for the federal withholding amount - which DOES NOT include the \$500 estimated payments or any refundable credits.
- Review the tax documents for withholding amounts.
- Use Line 25(d) for your answer.

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

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

Question 16. How much of Daniel's Social Security is taxable?

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

- a. \$0
- b. \$3,750
- c. \$6,375
- d. \$7,500

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.

Basic Scenario 6: Daniel & Avery Emory

Please see the interview notes, found on Page 38 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 17. Daniel and Avery cannot claim Jackson for the earned income credit because he did not live with them for more than half the year and does not meet the residency test.

- a. True. Jackson only lived with his parents during the summer, which was less than six months.
- b. False. Attendance at school is considered a temporary absence and those months are counted as time that Jackson lived with his parents for the earned income credit.

Footnote 2 of Page C-1 of Pub 4012 discusses “Temporary Absences”.

Temporary absences are also discussed on Page I-4 of Pub 4012 in Footnote 2.

Key Facts:

- Jackson is 19 years old and lived with his parents when not in school.
- Jackson’s parents paid more than half the cost of maintaining a home and support for Jackson.
- Jackson is a full-time student.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 18. Emma's disability pension is reported as wages and considered earned income for the purposes of the earned income credit.

- a. True
- b. False

See Pub 4012, Page I-1 for the Earned Income Table, as it pertains to the Earned Income Credit.

Note that "[t]axable long-term disability benefits received prior to minimum retirement age" are included as earned income.

Key Facts:

- Emma received disability pension benefits, which are taxable.
- Emma has not reached the minimum requirement age.

Taxwise: In order to get the EIC to calculate, you must check the box on the 1099-R that says "Check if disability and the taxpayer is disabled."

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 19. What is Emma's most advantageous filing status allowable?

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

The facts say she is single and the Intake sheet has the "never married" box checked. Therefore, Married Filing Separately and Qualifying Widow(er) are not options here.

Please note that it is always best to avoid Married Filing Separately whenever possible because some tax benefits, such as the earned income credit, are lost.

So we have narrowed it down to Single or Head of Household. If one (or both) of Emma's children qualify as a dependent for tax purposes, her most advantageous filing status will be Head of Household.

Review the facts and determine if one (or both) of the children qualify as a dependent.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 20: Which of the following statements are true?

- a. Qualified dividends are ordinary dividends.
- b. Qualified dividends qualify for lower, long-term capital gains tax rates.
- c. Qualified dividends are reported on Form 1099-DIV.
- d. All of the above.

See Pub 4491, Page 8-11 under the heading “How do I handle dividends?” That section explains what form qualified dividends are reported on.

Also look at Page 8-12 and note the “What are qualified dividends” section.

Reviewing these pages should provide enough information to answer the question correctly.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 21. Poppy and Sebastian are dependents on Emma's tax return.

- a. True
- b. False

Review the Overview of the Rules for Claiming a Dependent on Page C-1 of Pub 4012.

Note that a qualifying child does not have an income limitation; however, a qualifying relative does.

This means that if a dependent does not qualify as "qualifying child," you must analyze their dependent status under the "qualifying relative" rules, and their income becomes a factor.

Key Facts:

- Sebastian is 25 years old and is not a full-time student.
- Sebastian is not totally and permanently disabled.
- Sebastian earned \$4,500 in income.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 22. What is the amount of gambling winnings Emma must report on her 2020 tax return?

- a. \$0
- b. \$5,800
- c. \$6,500
- d. \$7,200

Gambling winnings must be reported on the taxpayer's return, whether they are reported on Form W-2G or not.

However, gambling losses can only be used if the taxpayer itemizes deductions. And in that event, the losses can only offset the winnings (i.e. you can reduce your gambling winnings to zero by taking into account losses, but you cannot go below that to create a loss).

Key Facts:

- Emma's gambling winnings are reported on her W-2G.
- Emma does not have enough deductions to itemize.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 23. Emma can prevent having a balance due next year by using the Tax Withholding Estimator at IRS.gov and then adjust her withholding.

- a. True
- b. False

See Pub 4491, Page 30-14 and the “Adjusting Tax Withholding” section.

Basic Scenario 7: Emma Davis

Please see the interview notes, found on Page 48 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 24. Emma has a balance due of
\$_____ on her 2020 tax return.

In order to get the correct answer here, all of the taxpayer's information must be entered correctly.

Key Facts:

- Determine whether or not Sebastian can be claimed as a dependent as a qualifying relative;
- Determine if the gambling losses can be taken into consideration, in light of the fact that Emma will not itemize her deductions (i.e. will take the standard deduction);
- Note the \$100 cash charitable contribution, which will go on Page 1 of Form 1040, instead of Schedule A, because she is not itemizing.
- Note the \$100 withholding on Form 1099-R and, if using Taxwise, don't forget to check the box that says "Check if disability and the taxpayer is disabled."

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 25. Aioki qualifies for the retirement savings contribution credit.

- a. True
- b. False

See Pub 4012, Page G-13 for an overview of the Retirement Savings Contributions.

Note Aioki's W-2: Box 12a has the letter "D" in the amount of \$4,000. This means the taxpayer contributed \$4,000 to a retirement plan.

Run through the table on Page G-13 to determine if Aioki is eligible for the Retirement Savings Contribution Credit.

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 26. The amount of taxable unemployment compensation is _____.

- a. Taxable income
- b. Reported on Form 1099-G, Certain Government Payments
- c. Subject to Federal Income Tax Withholding
- d. All of the above

Taxable Income?

- See Pub 4012, Page D-1, which provides an Income Quick Reference Guide. Review the Tables A & B to determine which category unemployment compensation falls into.

Reported on Form 1099-G, Certain Government Payments?

- Review the taxpayer's documents and determine which form Aioki's unemployment compensation is reported on.

Subject to Federal Income Tax Withholding?

- Review Aioki's tax document related to unemployment compensation. Review Box 4.

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 27. Aioki must pay an additional _____
tax on the early distribution from her IRA.

- a. 0%
- b. 5%
- c. 10%
- d. 15%

Whether or not a taxpayer will receive an early distribution penalty will be dictated by the distribution code listed in Box 7 of Form 1099-R.

See Pub 4012, Page D-40 for a breakdown of each of the Distribution Codes. See the Explanations section for the amount of the additional tax on early distributions.

Review Aioki's Form 1099-R. Note the distribution code in Box 7 and compare it to the chart on Page D-40.

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 28. Aioki qualifies for which of the following credits?

- a. Child tax credit
- b. Child and dependent care credit
- c. Earned income credit
- d. All of the above

Child Tax Credit: See Pub 4012, Page G-2.

- Sofia is 7 years old and lived with her mother the entire year.
- Aioki paid more than half the cost of keeping up a home and support for Sofia.
- Sofia is a US citizen and has a valid Social Security number.

Child & Dependent Care Credit: See Pub 4012, Page G-10.

- Consider Aioki's filing status. Note that a married person who lives apart from their spouse for the last 6 months of the year can claim Head of Household status if there is a dependent. How long did Aioki and John live together during the tax year?
- If Aioki is unable to claim Head of Household, she must either file Married Filing Jointly or Married Filing Separately. The facts say that she does not want to file a joint return. Some tax benefits are lost when taxpayer's file Married Filing Separately.

Earned Income Credit: See Pub 4012, Page I-2 and look at Part A of the Chart.

- Again, we want to consider Aioki's filing status. If she is unable to file as Head of Household and does not want to file a joint return, she may be stuck with an unfavorable status that could cause her to lose benefits.

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 29. Aioki can split her refund using Form 8888, Allocation of Refund (Including Savings Bonds purchases).

- a. True
- b. False

See Pub 4491, Page 30-3, under the heading “Can the refund be deposited into more than one account?”

See Pub 4491, Page 30-5, near the bottom, for a discussion about Savings Bonds purchases and the form used used to purchase them.

Basic Scenario 8: Aioki Ellis

Please see the interview notes, found on Page 55 of IRS Publication 6744 for 2020 returns.
Note that you will need to prepare a tax return for this scenario.

Question 30. Aioki must use the most current IP PIN to file her 2020 tax return.

- a. True
- b. False

See Pub 4491, Pages 1-4 and 1-5, for a discussion of the Identity Protection PIN (IP PIN) program.

Practice Tip: Form 13614-C (i.e. the Intake Form) asks the taxpayer if they have been a victim of identity theft.