Updated 10/23/2022

Basic Study Guide TY2022

Read each scenario carefully, what are they asking you for? Use your PUB 4012 to help guide you with the answers. (At the time I am updating this guide, the TY2022 PUB 4012 is not yet available. I am referencing TY2021 page numbers—so it should be close to what the 2022 book will have) irs.gov/pub/irs-pdf/p4012

Don't forget, vitaresources.net is a great resource for information on all topics covered on the test—click on training checklist!

Basic Scenario 1: Tom Brown

1. Remember entering the filing status wrong can have a huge impact on the outcome. Please USE YOUR DECISION TREE on PUB 4012 page B-10 or tables B-11 through B-12 as appropriate. Follow from the top-don't skip a step.
2. See Standard deductions in PUB 4012 pages F1 through 2*

Basic Scenario 2: Lewis and Oneida Monroe

3. See PUB 4012 pages I- 2 through 3 *****There have been some significant changes to EITC for TY2021 –but they were only temporary due to COVID. The EITC rules have reverted back to what they were prior to 2021. Everyone should review the rules for the EITC credit in PUB 4012 Section I.**
4. Visit PUB 4012 section I for EITC eligibility requirements for TY2022.

Basic Scenario 3: Sebastian and Ashley Miller

5. Review PUB 4012 page G-1 through G-5 for information on Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents to see which credits they may qualify for. (TIP-If you enter all your dependents information correctly into the software, the system will automatically select the correct credits.)
6. See PUB 4012 page F-10 for information on claiming charity contributions

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Basic Scenario 4: Clay and Marian Washington

7. Review PUB 4012 page G-1 through G-5 for information on Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents to see which credits they may qualify for. (TIP-If you enter all your dependents information correctly into the software, the system will automatically select the correct credits.)
8. Visit PUB 4012 section I for EITC eligibility requirements for TY2022.

Basic Scenario 5: Isabela Rincon

9. Visit PUB 4012 section I for EITC eligibility requirements for TY2022.
10. To answer this question, you can look in PUB 4491 page 11-12 (TY2022); I personally don't like this question. I am not a financial advisor. As a tax preparer, clients come to me already having taken distributions. They also receive Form 5498 in the Spring/Fall that advises them how much they need to withdraw. Of course, if they have multiple accounts they have to think about that as well—but most of ours don't. IRS LINK TO PAGE ON RMD (this link seems to work and stop working a lot—paste

this in search field if needed: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds

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Basic Scenario 6: Leon Martin

11. If unsure, a good place to reference would be PUB 4012 D-1 and D-3; also check out PUB 4491 page 8-2
12. It is best to look at the qualifications for each of these credits and see if Leon qualifies (don't just assume you know the answer):
    - Earned Income Credit See PUB 4012 page I-2 through I-3
    - Lifetime Learning Credit and/or American Opportunity Credit? See PUB 4012 pages J5 through J-6
13. Student loan interest deduction PUB 4012 page E-11

Scenarios 7 -9

Tip: Before you begin these next scenarios, read them carefully, they will cover a lot of different little situations to put as much stuff in one return as possible. So, don't rush. And don't just assume that you just type everything in. Like in real life, you must determine if they can claim the credits/adjustments etc. and if there is some more information you need to complete the return—so know your books and ask your teammates—once you do a few it will be easy peasy, I promise!

Also—please note Practice Lab does not have all the functions as the real site does—you can't submit anything-- so don't worry about messing anything up—get in there, get used to it—play and have fun!

- Enter the tax return, when done, print a PDF of the return, and you can find most of your answers for the next few sections.
- I recommend NOT relying on THE SCREEN SUMMARY VIEW OF THE 1040 in Practice Lab as it usually is not correct as they have a lot of re-programming to do each year. Numbers will be misaligned, not calculate correctly on the screen, but the PDF is usually fine.
- If you need information on using Practice lab: vitaresources.net/practicelab

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Basic Scenario 7: Jeff and Claire Pickens

In this scenario:

- Simple wages, retirement, dividend, and scholarship income along with education expenses.
- Education expenses—See tab J to see if they qualify for an education credit, which credit they might be eligible for, and what expenses are allowable

14. Look at the tax return you generated. Look on 1040 Line 12. To learn more you can view Standard Deduction information in PUB 4012 page F1-F3. (don't forget F-2)
15. What amount did you enter in the system for education expenses allowed? This can be found on your PDF, Schedule 8863 Line 27—what expenses are allowed? Review page J-8 of PUB 4012
16. Information on Credit for Other Dependent can be found in PUB 4012 pages G3-G5; to see if the system allowed your client (Jeff and Claire Pickens) the credit. You can look at the 1040 Schedule 8812, Line 6. The form is vague, but this line references how many dependents qualify for Credit for Other Dependent.

17. Federal Withholdings—the question is asking, how much did the Pickens pay INTO the system for 2022 throughout the year. This would be income tax withheld from any jobs worked or disbursements from any retirement or social security payments. You can add the amounts on the forms provided by the Pickens, and you can also view the 1040 Lines 25d.
18. The taxable amount of the social security can be found on the 1040 generated, Line 6b. Yes, Social Security Income ***can*** be taxed—I know it doesn't seem fair, but this is the rule. If it is taxed, and how much of it can be taxed, all depends on the client's filing status and total income. The system does all the calculations. If you get this question incorrect, have you even generated the return in Practice Lab?
19. See PUB 4491 page 8-12 for a description/definition of what qualified dividends are [irs.gov/pub/irs-pdf/p4491](irs.gov/pub/irs-pdf/p4491)

Basic Scenario 8: Morgan Calhoun

In this scenario:

- Morgan has two older children, 18 & 25 that have earned wages, live at home which she supports. Look at Dependency section, can she claim them? Go through the tables PUB 4012 page C-1 through C-2
- It says Morgan received disability pension benefits, but she has not reached the minimum retirement age of her employer's plan <u>There is a caution note in the middle of PUB 4491 page 11-2</u> Look at the 1099-R then look at PUB 4012 page D-41, D38 for guidance **Then watch what happens to the retirement income on the 1040 Page 1! *(In real life—you would have to ask the client if they have reached retirement age for their company yet*)

20. Look at your Form 1040, Line 1 Wages and Line 5 Pensions—where did the money from the 1099-R end up? **if your answer is wrong, read PUB 4012 page D-41 and D-43 and re-work your return (see note just above this bullet point
21. Which filing status would you choose? See Filing Status Decision Tree PUB 4012 page B-10 through B-12; which statuses does Morgan qualify for? Which one is the best (see tables page F1-2**I prefer to look at A-1)**some people can qualify for 2 statuses--- not always. We want to give them the one with the highest standard deduction they are rightfully eligible for.
22. See PUB 4012 I-2 to I-4; Also, after you enter the return, look to see if a Schedule EIC printed in the PDF. If so, see which dependents are listed there. *(Random note about EITC in general-- EITC maxes out at 3 children, so if you have a family with more than 3 kids, only 3 will show up on this schedule—there will not be an additional schedule or page listing the other children for that credit).*
23. Go through the tables PUB 4012 page C-1 to C-3 and look at the intake form and interview notes. Based on the rules, can Morgan claim Dale?
24. If you are not sure about this answer, please see PUB 4012 page K-17; key word--anticipates

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Basic Scenario 9: Monica Montgomery

In this Scenario:

- We have a spouse, Mike, passing away during the year; What will be Monica's filing status for this return? See Decision Tree PUB 4012 page B-10 make sure to start at the beginning!
- Monica took money from her IRA account in January to pay for living expenses.
  - Has she reached retirement age?
  - Will she get penalized? If so, is there an exception for her this year to avoid a penalty?
  - See PUB 4012 page D-40 (look up Code) then go to page H 4-5

- Monica was teacher and purchased supplies for her class. See PUB 4012 page E-4 to see if she qualifies to claim the expense—there are rules that have to be followed and limits to what and how much can be claimed. There are questions you would ask the client…
- Gambling winnings—See PUB 4012 page D-1, Does gambling have to be reported? Then See D-53
- Day care expenses PUB 4012 pages G10 through claimed G14. Who qualifies, what expenses are allowed. **this credit was different in 2021, it has reverted back to how it worked in 2020

25. See PUB 4012 page D-1, then D-56 #2
26. Which filing status would you choose? See Filing Status Decision Tree PUB 4012 page B-10 through B-12; which statuses does Monica qualify for? Which one is the best (see tables page F1-2**I prefer to look at A-1)**some people can qualify for 2 statuses--- not always. We want to give them the one with the highest standard deduction they are rightfully eligible for.
27. See notes from the bullet above about early distribution from retirement, Check out your Schedule 2 is there an amount on Line 8? Was she penalized or did she qualify for a waiver for penalty? If penalized, how much?
28. To learn about these credits, you could view PUB 4012 page G-1 through G-5 for information on Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents to see which credits they may qualify for. <u>But, after you have entered your return</u>, look at the PDF of the return, schedule 8812. It is kind of vague, but if there is an amount on Line 5, then they qualified for the CTC. If there is an amount on Line 7, then you know they qualified for Credit for Other Dependent. (TIP-If you enter all your dependents information correctly into the software, the system will automatically select the correct credits based on age and qualifications.)
29. Look at PUB 4012 pages K3-K4 to learn more.
30. Monica was teacher and purchased supplies for her class. See PUB 4012 page E-4 to see if she qualifies to claim the expense—there are rules that have to be followed and limits to what and how much can be claimed. There are questions you would ask the client… Look at the PDF of the 1040 you created; how much is on Line 11?

Disclaimer: If I have to make changes to this study guide, I will post them on vitaresources.net/studyguides

Questions? Do not hesitate to reach out to me.

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Make sure to visit <u>vitaresources.net</u> for more tools and training resources to be used for certification and throughout the year.