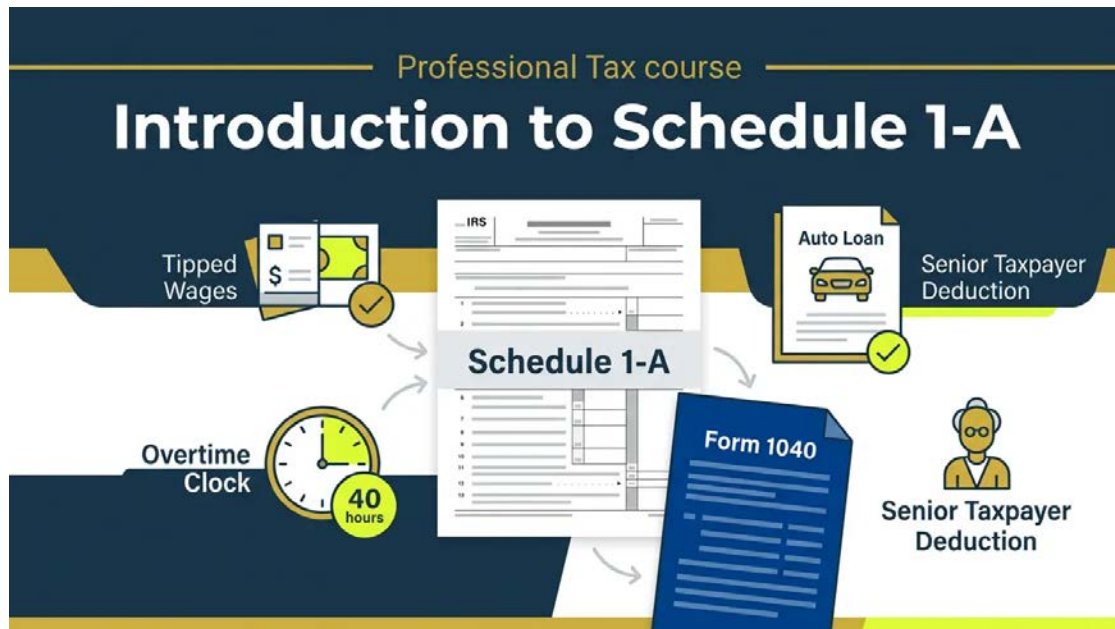


Federal Tax Law Update -- Tax Year 2026 (3 CE Hours)

Course Material Export – Generated for IRS Continuing Education Review

Lesson 1.1 – Introduction to Schedule 1-A



Major Change

Introduction to Schedule 1-A

Schedule 1-A is the new location for several major additional deductions, including qualified tips, qualified overtime compensation, qualified vehicle loan interest, and the enhanced deduction for seniors.

Learning at a Glance

What changed?

Several new deductions are grouped on Schedule 1-A instead of being scattered throughout the return.

Who is affected?

Workers with tips, overtime pay, qualified auto loan interest, and taxpayers age 65 or older.

Return focus

The preparer must identify the source document, complete Schedule 1-A, and make sure the deduction flows correctly to Form 1040.

Why Schedule 1-A Matters

Schedule 1-A is important because it gives preparers one central place to handle several new deductions created for working taxpayers and seniors.

For TY2026 returns filed in 2027, preparers should not think of these deductions as simple “extra lines.” Each deduction has its own eligibility rules, limits, documentation requirements, and possible phaseouts.

The preparer’s job

- Identify whether the taxpayer has a qualifying item.
- Locate the correct source document, such as Form W-2 or other reporting form.
- Apply the correct limitation or phaseout.
- Complete Schedule 1-A accurately.
- Confirm the deduction flows to Form 1040.

The Four Main Schedule 1-A Areas

Qualified Tip Income

Used for eligible tip income that meets the statutory requirements.

Qualified Overtime

Used for eligible overtime compensation, generally reported through wage or compensation documents.

Auto Loan Interest

Used for qualified passenger vehicle loan interest when the taxpayer meets the requirements.

Senior Deduction

Used for eligible taxpayers age 65 or older who qualify for the enhanced senior deduction.

Practitioner Tip

Treat Schedule 1-A like a workflow checklist. Before entering a deduction, ask: What document supports it? Does the taxpayer meet the eligibility rule? Is there a dollar limit or phaseout? Where does the final amount go on Form 1040?

Common Mistake

Do not assume every taxpayer with tips, overtime, a car loan, or age 65 status automatically receives the full deduction. Each item has separate rules, limits, and documentation requirements.

[Image: TaxClassRoom]

TAX RETURN FLOW

Form W-2 Schedule 1-A Form 1040

Lesson 1.2 – Qualified Tip Income Deduction



Major Change

Qualified Tip Income Deduction

Certain workers may deduct qualified tip income on Schedule 1-A. The deduction does not remove the need to report tip income; it allows an eligible deduction after the income is reported.

Learning at a Glance

What changed?

Qualified tip income may now be deducted on Schedule 1-A, subject to limits and eligibility rules.

Who is affected?

Workers who receive voluntary cash or charged tips, including tips received through tip sharing.

Return focus

Tip income is still reported as income first. The allowable deduction is then calculated on Schedule 1-A.

What Are Qualified Tips?

Qualified tips are voluntary tips received from customers. They may be paid in cash, charged on a card, or received through a tip-sharing arrangement.

The key point for preparers is simple: the taxpayer must still report the tip income. The Schedule 1-A deduction is not a reason to omit tips from income.

Preparer Checklist

- Confirm the taxpayer received tips in a qualifying occupation.
- Verify the tips were reported on Form W-2, Form 1099, another statement, or Form 4137.
- Confirm the taxpayer has a valid Social Security number for employment.
- If married, confirm the taxpayer is filing a joint return.
- Apply the annual limit and MAGI phaseout rules.

Annual Limit and Phaseout

The maximum annual deduction for qualified tips is **\$25,000**. The deduction phases out for taxpayers with modified adjusted gross income above **\$150,000**, or **\$300,000** for joint filers.

For self-employed taxpayers, the deduction cannot exceed the taxpayer's net income from the trade or business in which the tips were earned, determined without regard to this deduction.

Report First

Tip income must be included in income before the Schedule 1-A deduction is calculated.

Valid SSN

The taxpayer, and spouse if applicable, must have a valid Social Security number for employment.

Schedule 1-A

The deduction is calculated on Schedule 1-A and then flows to Form 1040.

Practitioner Tip

Ask tipped workers whether all tips were reported to the employer. If tips were not fully reported on Form W-2, review whether Form 4137 is needed before calculating the Schedule 1-A deduction.

Common Mistake

Do not treat the deduction as “tax-free tips” that are left off the return. The income is reported first, and the allowable deduction is claimed separately on Schedule 1-A.

[Image: TaxClassRoom]

TAX RETURN FLOW

Form W-2 Schedule 1-A Form 1040

Lesson 1.3 – Qualified Overtime Compensation Deduction



Major Change

Qualified Overtime Compensation Deduction

Certain workers may deduct qualified overtime compensation on Schedule 1-A. The overtime income is still reported first; the deduction is calculated separately.

Learning at a Glance

What changed?

Qualified overtime compensation may be deductible on Schedule 1-A, subject to limits and eligibility rules.

Who is affected?

Employees who receive qualifying overtime pay reported by an employer, generally through wage reporting.

Return focus

Confirm the overtime amount, apply the deduction rules, complete Schedule 1-A, and verify the flow to Form 1040.

What Is Qualified Overtime Compensation?

Qualified overtime compensation generally refers to eligible overtime pay received by a worker. For return preparation, the key issue is not simply whether the taxpayer worked extra hours.

The preparer must determine whether the overtime amount is properly reported, whether the taxpayer qualifies, and whether any limitation or phaseout reduces the deduction.

Preparer Checklist

- Confirm the taxpayer received overtime compensation.
- Review Form W-2 or employer-provided wage information.
- Determine the amount that qualifies for the deduction.
- Confirm the taxpayer meets the Social Security number and filing requirements.
- Apply the annual limit and MAGI phaseout rules.
- Enter the allowable deduction on Schedule 1-A.

Report the Income First

A common misunderstanding is that “no tax on overtime” means the overtime pay is not reported. That is not how the return works.

The overtime compensation is included in income through normal wage reporting. Then the allowable deduction is calculated on Schedule 1-A.

Form W-2

Start with the taxpayer’s wage documents and employer-reported overtime information.

Schedule 1-A

Use Schedule 1-A to calculate the allowable deduction after applying the rules.

Form 1040

Confirm the Schedule 1-A deduction flows correctly to the taxpayer’s Form 1040.

Annual Limit and Phaseout

The overtime deduction is subject to an annual dollar limit and a modified adjusted gross income phaseout. Preparers should not assume the full overtime amount is automatically deductible.

This makes the deduction a calculation issue, not just a data-entry issue.

Practitioner Tip

Do not rely only on the taxpayer's statement that they "worked overtime." Look for the employer-reported overtime amount or other reliable wage information before claiming the deduction.

Common Mistake

Do not subtract overtime pay directly from wages. Wages are reported first. The allowable overtime deduction is calculated separately on Schedule 1-A.

[Image: TaxClassRoom]

TAX RETURN FLOW

Form W-2 Schedule 1-A Form 1040

Lesson 1.4 – Qualified Auto Loan Interest Deduction.



Major Change

Qualified Auto Loan Interest Deduction

Certain taxpayers may deduct qualified passenger vehicle loan interest on Schedule 1-A. The deduction is available whether the taxpayer itemizes or claims the standard deduction.

Learning at a Glance

What Changed?

TY2026 allows a deduction for qualified interest paid on certain **new personal-use vehicle loans**, reported through **Schedule 1-A** when all requirements are satisfied.

Who Qualifies?

Taxpayers who finance a **qualifying new vehicle** for personal use with a qualifying loan. **Previously owned (used) vehicles do not qualify** because the original use must begin with the taxpayer.

Preparer Focus

Confirm the vehicle is **new**, verify the loan and interest paid, review the VIN and supporting documentation, and report the deduction correctly on **Schedule 1-A**.

What Is Qualified Passenger Vehicle Loan Interest?

Qualified passenger vehicle loan interest is interest paid or accrued on a loan used to buy a qualifying passenger vehicle for personal use.

This is not a general deduction for every car payment. Lease payments do not qualify, and the loan must meet specific requirements.

Preparer Checklist

- Confirm the taxpayer paid or accrued qualified passenger vehicle loan interest.
- Verify the loan was originated after December 31, 2024.
- Confirm the vehicle was purchased for personal use.
- Confirm lease payments are not included.
- Verify the loan is secured by a first lien on the vehicle.
- Enter the vehicle identification number, or VIN, on Schedule 1-A.
- Apply the annual deduction limit and MAGI phaseout.

Key Eligibility Rules

To qualify, the loan generally must be used to purchase an applicable passenger vehicle for personal use. The loan must also be secured by a first lien on the purchased vehicle.

The vehicle identification number must be reported on Schedule 1-A for any year the taxpayer claims the deduction.

Loan Records

Review the loan statement, lender statement, or Form 1098-VLI if issued.

VIN Required

The VIN is not optional. It must be reported when the deduction is claimed.

Leases Do Not Qualify

A car lease is not the same as interest on a qualifying vehicle loan.

Annual Limit and Phaseout

The maximum annual deduction is **\$10,000** of qualified passenger vehicle loan interest.

The deduction phases out for taxpayers with modified adjusted gross income over **\$100,000**, or **\$200,000** for joint filers.

Practitioner Tip

Ask for the lender statement and the vehicle purchase documents. Do not claim the deduction from a monthly payment amount alone because each payment may include principal, interest, fees, or other charges.

Common Mistake

Do not deduct the entire car payment. Only qualified interest may be deductible, and only if the loan, vehicle, personal-use requirement, VIN reporting, and income limits are satisfied.

[Image: TaxClassRoom]

TAX RETURN FLOW

Form 1098-VLI Schedule 1-A Form 1040

Lesson 1.5 – Enhanced Deduction for Seniors



Major Change

Enhanced Deduction for Seniors

Eligible seniors may claim an additional deduction on Schedule 1-A. This deduction is separate from the regular additional standard deduction for age.

Learning at a Glance

What changed?

Eligible taxpayers age 65 or older may claim an enhanced senior deduction on Schedule 1-A.

Who is affected?

Taxpayers who meet the age, filing status, valid SSN, and income limitation rules.

Return focus

Verify age and filing status, apply the MAGI phaseout, complete Schedule 1-A, and confirm the Form 1040 flow.

What Is the Enhanced Deduction for Seniors?

The enhanced deduction for seniors is an additional deduction for eligible taxpayers age 65 or older. It is claimed on Schedule 1-A and is available whether the taxpayer claims the standard deduction or itemizes deductions.

This deduction is separate from the existing additional standard deduction for taxpayers who are age 65 or older. Preparers should not confuse the two benefits.

Preparer Checklist

- Confirm the taxpayer is age 65 or older for the tax year.
- If married, confirm the taxpayer files a joint return.
- Confirm the taxpayer, or each qualifying spouse, has a valid Social Security number.
- Determine whether one spouse or both spouses qualify.
- Apply the modified adjusted gross income phaseout.
- Enter the allowable deduction on Schedule 1-A.

Maximum Deduction

The maximum enhanced deduction is **\$6,000 per eligible individual**. If married filing jointly and both spouses qualify, the maximum deduction is **\$12,000**.

The deduction begins to phase out when modified adjusted gross income exceeds **\$75,000**, or **\$150,000** for married taxpayers filing jointly.

Age Test

Confirm the taxpayer meets the age requirement for the tax year before claiming the deduction.

Valid SSN

The qualifying taxpayer must have a valid Social Security number for employment.

Standard or Itemized

Eligible taxpayers may claim the enhanced senior deduction whether they use the standard deduction or itemize.

Filing Status Matters

A married taxpayer generally must file a joint return to claim the enhanced deduction for seniors. This is an important intake question because some older taxpayers file separately for non-tax reasons.

For married filing jointly, each spouse must separately qualify for the \$6,000 amount. One qualifying spouse may allow a \$6,000 deduction; two qualifying spouses may allow up to \$12,000 before phaseout.

Practitioner Tip

Add an age and SSN verification step to your intake workflow. For married taxpayers, verify whether one spouse or both spouses qualify before entering the Schedule 1-A deduction.

Common Mistake

Do not treat this as the same thing as the regular additional standard deduction for age. The enhanced senior deduction is separate and is claimed through Schedule 1-A.

[Image: TaxClassRoom]

TAX RETURN FLOW

Taxpayer Information Schedule 1-A Form 1040

Lesson 2.1 – Child and Dependent Care Credit



Major Change

Child and Dependent Care Credit

Beginning with TY2026, the Child and Dependent Care Credit calculation is more favorable for many working families, but preparers must still verify qualifying expenses, qualifying persons, provider information, and Form 2441 entries.

Learning at a Glance

What changed?

The credit percentage may be higher for some taxpayers beginning in TY2026.

Who is affected?

Taxpayers who pay care expenses so they, and their spouse if filing jointly, can work or look for work.

Return focus

The credit is calculated on Form 2441 and flows to Form 1040.

What Is the Child and Dependent Care Credit?

The Child and Dependent Care Credit helps taxpayers who pay someone to care for a qualifying person so the taxpayer can work or look for work.

This is not the same as the Child Tax Credit. The Child and Dependent Care Credit is tied to work-related care expenses and is calculated on Form 2441.

Preparer Checklist

- Confirm the care was provided so the taxpayer could work or look for work.
- Identify the qualifying person.
- Verify the amount paid for care.
- Obtain the care provider's name, address, and taxpayer identification number.
- Review any dependent care benefits reported on Form W-2.
- Complete Form 2441 and confirm the credit flows to Form 1040.

Qualifying Expenses

Qualifying expenses generally include amounts paid for care of a qualifying child or dependent so the taxpayer can work or look for work.

The expenses must be for care, not education alone. For example, daycare or after-school care may qualify, but regular school tuition for kindergarten or higher generally does not qualify as a care expense.

Work-Related

The care must allow the taxpayer, and spouse if filing jointly, to work or look for work.

Provider Information

Form 2441 requires care provider information, including the provider's taxpayer identification number unless an exception applies.

Form 2441

Use Form 2441 to report care expenses, dependent care benefits, and the final credit calculation.

TY2026 Credit Calculation

Beginning in TY2026, the credit percentage may be as high as **50%** for lower-income taxpayers. The amount of expenses used to calculate the credit remains limited based on the number of qualifying persons.

Preparers should review the TY2026 Form 2441 instructions carefully before filing season because the percentage and phase-down calculation determine the final credit amount.

Practitioner Tip

Add a Form 2441 intake question asking whether the taxpayer received dependent care benefits through an employer. These benefits may appear on Form W-2 and can affect the allowable credit.

Common Mistake

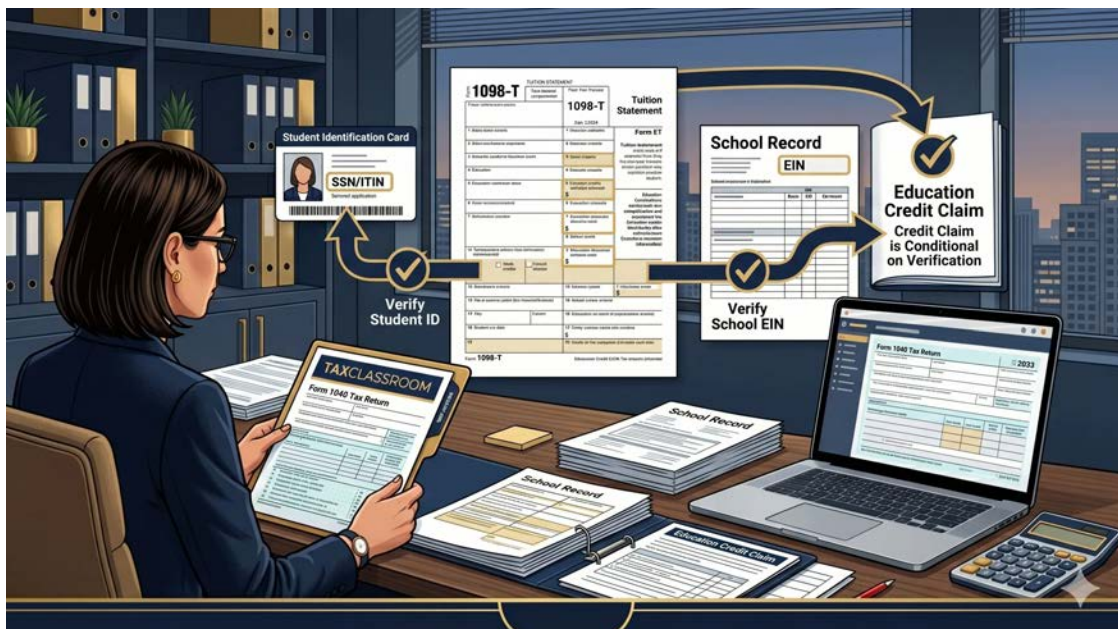
Do not claim the credit without provider information. Missing or incorrect provider details are a common Form 2441 problem and can delay or disallow the credit.

[Image: TaxClassRoom]

TAX RETURN FLOW

Care Receipts Form 2441 Form 1040

Lesson 2.2 – Education Credit SSN/EIN Requirements & IRS Math Error Authority



Major Change

Education credit claims require extra attention to the student's identifying information and the school's EIN. Missing or incorrect information may allow the IRS to adjust the credit using math error procedures.

Learning at a Glance

What changed?

Education credit claims require correct student identification and school EIN information.

Who is affected?

Taxpayers claiming the American Opportunity Credit or Lifetime Learning Credit on Form 8863.

Return focus

Review Form 1098-T, complete Form 8863, and verify the credit flows correctly to Form 1040.

[Image: What's New]

What's New: Identification Information Matters More

For TY2026 returns filed in 2027, preparers should carefully verify education credit information before filing. When required identifying information is missing or incorrect, the IRS may be able to adjust the credit using math error procedures.

[Image: Key Takeaway]

Key Takeaway: Verify the student's identifying information, review Form 1098-T, and make sure the educational institution information is complete before claiming an education credit on Form 8863.

[Image: IRS Math Error Authority]

Why This Change Matters

Education credits are valuable, but they are document-driven. The preparer should confirm the student, the school, and the education records before claiming the credit.

Form 1098-T is usually the starting point. It helps identify the student, the educational institution, and the amounts reported by the school.

Math error authority allows the IRS to correct certain return errors without first using the normal deficiency process. For this lesson, the practical point is simple: missing or incorrect identifying information can create a faster IRS adjustment.

Form 1098-T Review

Student Information

Verify the student's identifying information before filing the return.

School Information

Use the educational institution information from Form 1098-T or another reliable school record.

Form 8863

Complete Form 8863 accurately and confirm the credit is supported by records.

[Image: Example]

Example: Emily claims the American Opportunity Credit for her son. Before filing, the preparer reviews Form 1098-T, confirms the student's identifying information, and verifies the educational institution information reported on Form 8863. Taking a few extra minutes to verify the records helps reduce the risk of an IRS adjustment.

Preparer Checklist

- Determine whether the taxpayer is claiming the American Opportunity Credit or Lifetime Learning Credit.
- Review Form 1098-T from the educational institution.
- Verify the student's identifying information from source documents.
- Confirm the educational institution information before completing Form 8863.
- Check that student, school, and expense information are consistent with taxpayer records.
- Review the return before filing to reduce avoidable IRS adjustment risk.

Practitioner Tip

Add Form 1098-T and educational institution information to your intake checklist. If the taxpayer cannot provide reliable school information, ask for Form 1098-T or an official school billing record before filing.

Common Mistake

Do not claim an education credit with missing or incorrect identifying information. These errors can cause the credit to be adjusted or delayed under IRS math error procedures.

[Image: Treasury]

TAX RETURN FLOW

Form 1098-T Form 8863 Form 1040 IRS Review

[Image: Summary]

Summary: Education credits require careful documentation. Review Form 1098-T, verify identifying information, complete Form 8863 accurately, and keep supporting records to help reduce IRS adjustments and processing delays.

Lesson 2.3 – Adoption Credit.



Major Change

Adoption Credit

For TY2026, the adoption credit is enhanced. The maximum credit is \$17,670 per eligible child, and up to \$5,120 may be refundable.

Learning at a Glance

What changed?

A portion of the adoption credit may now be refundable, which can help eligible families even when their tax liability is low.

Who is affected?

Taxpayers with qualified adoption expenses or a finalized adoption of a child with special needs.

Return focus

Use Form 8839 to calculate the adoption credit and any employer-provided adoption benefit exclusion.

What Is the Adoption Credit?

The adoption credit helps taxpayers offset qualified adoption expenses. These may include reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses, and other expenses directly related to the legal adoption of an eligible child.

For TY2026, the maximum adoption credit is **\$17,670 per eligible child**. Up to **\$5,120** of the credit may be refundable. The IRS also notes that any credit carried forward from a prior year cannot be used to calculate the refundable portion.

Preparer Checklist

- Confirm the taxpayer has qualified adoption expenses or a finalized special needs adoption.
- Determine whether the adoption is domestic or foreign.
- Verify when the adoption expenses were paid and when the adoption became final.
- Review any employer-provided adoption benefits.
- Do not use the same expense for both the exclusion and the credit.
- Complete Form 8839 and confirm the credit flows to Form 1040.

Eligible Child and Qualified Expenses

An eligible child generally must be under age 18 or physically or mentally incapable of self-care. The credit is not available for expenses related to adopting a spouse's child.

Qualified adoption expenses must be directly related to the adoption. Preparers should request documentation such as invoices, court records, attorney statements, agency statements, and travel records.

Legal Costs

Court costs, attorney fees, and adoption agency fees may be qualified expenses.

Travel Costs

Travel expenses may qualify if they are directly related to the adoption process.

Form 8839

Form 8839 is used to figure the adoption credit and employer adoption benefit exclusion.

Timing Rules Matter

Domestic and foreign adoptions follow different timing rules. Domestic adoption expenses may sometimes be claimed even if the adoption is not finalized, while foreign adoption expenses generally are claimed when the adoption becomes final.

For a child determined by a state or Indian tribal government welfare agency to have special needs, the taxpayer may be able to claim the full credit when the adoption is final, even if actual qualified expenses were lower.

Practitioner Tip

Ask whether the taxpayer received employer-provided adoption benefits. The exclusion is calculated on Form 8839, and the same expense cannot be used for both the exclusion and the credit.

Common Mistake

Do not assume the full adoption credit is refundable. Only a limited portion may be refundable, and prior-year carryforward amounts cannot be used to determine the refundable portion.

[Image: TaxClassRoom]

TAX RETURN FLOW

Adoption Records Form 8839 Form 1040

Lesson: 2.4 – 529 Plan Expansion



Major Change

529 Plan Expansion

For TY2026, 529 plan planning is broader than traditional college tuition. Preparers should review Form 1099-Q carefully and determine whether distributions were used for qualified education expenses.

Learning at a Glance

What changed?

529 plans may now cover a wider range of education-related expenses, including expanded K-12 and credentialing uses.

Who is affected?

Families using 529 distributions for K-12 expenses, college costs, credentialing programs, or unused account balances.

Return focus

Start with Form 1099-Q, match distributions to qualified expenses, and report any taxable portion when required.

What Is a 529 Plan?

A 529 plan, also called a qualified tuition program, is a tax-favored education savings arrangement. When distributions are used for qualified education expenses, the earnings portion may be excluded from income.

For tax preparation, the key issue is not simply whether the taxpayer received Form 1099-Q. The preparer must determine whether the distribution was used for qualified expenses and whether any portion is taxable.

Preparer Checklist

- Review Form 1099-Q for the distribution amount and earnings portion.
- Identify the beneficiary and who received the distribution.
- Match the distribution to qualified education expenses.
- Separate qualified expenses from nonqualified personal expenses.
- Review whether K-12, credentialing, or other expanded 529 uses apply.
- Determine whether any earnings are taxable and whether an additional tax applies.

Expanded K-12 Use

Beginning in 2026, the annual federal limit for certain K-12 529 distributions increases to **\$20,000 per beneficiary**. This makes 529 plans more relevant for families with private, public, or religious elementary and secondary school expenses.

Preparers should still be careful with state tax treatment. Some states may not conform to every federal 529 rule, so a distribution that is tax-free federally may still require state-level review.

Credentialing and Career Training

Expanded 529 rules also make credentialing and career-focused training more important. Certain postsecondary credentialing expenses may qualify, such as required tuition, fees, books, supplies, equipment, testing fees, and required continuing education tied to a recognized credential.

This matters for taxpayers pursuing licenses, certifications, technical credentials, or career training programs outside the traditional four-year college path.

Form 1099-Q

Reports 529 distributions and helps the preparer identify the gross distribution and earnings portion.

Expense Records

Receipts, billing statements, tuition statements, and credentialing invoices support qualified expense treatment.

Nonqualified Use

If the distribution is not fully matched to qualified expenses, part of the earnings may be taxable.

529-to-Roth IRA Rollovers

[Image: 529 Plan to Roth IRA Rollover Illustration]

Illustration: Under certain conditions, unused 529 plan funds may be eligible for rollover to a Roth IRA for the same beneficiary, subject to federal eligibility requirements, annual contribution limits, and lifetime rollover limits.

Separate from the OBBBA expansion, SECURE 2.0 allows certain unused 529 amounts to be rolled over to a Roth IRA for the same beneficiary, subject to strict limits and conditions.

Preparers should not treat a 529-to-Roth transfer as a normal education expense. It has its own rules, including account age, contribution age, earned income, annual Roth IRA limits, and a lifetime rollover limit.

Practitioner Tip

Do not assume a Form 1099-Q distribution is automatically taxable or automatically tax-free. Ask for the education expense records and match the distribution to qualified expenses before deciding how to report it.

Common Mistake

Do not report the full Form 1099-Q distribution as taxable income without first comparing the distribution to qualified expenses. Only the taxable portion, if any, should be reported.

[Image: TaxClassRoom]

TAX RETURN FLOW

Form 1099-Q Expense Records Form 1040 / Schedule 1 if taxable

Lesson 3.1 – 100% Bonus Depreciation



Major Change

100% Bonus Depreciation

100% bonus depreciation allows eligible businesses to deduct the full cost of certain qualified property in the first year, rather than depreciating the cost over several years.

Learning at a Glance

What changed?

Eligible qualified property may qualify for a 100% additional first-year depreciation deduction.

Who is affected?

Businesses that purchase and place qualifying equipment, furniture, computers, machinery, or other eligible property in service.

Return focus

Start with purchase records, complete Form 4562, and flow the deduction to the business return or Schedule C.

What Is 100% Bonus Depreciation?

Bonus depreciation is an additional first-year depreciation deduction. When property qualifies, the taxpayer may deduct a large portion, and in this case up to 100%, of the property cost in the year the property is placed in service.

For preparers, the most important question is not simply whether the client bought something for the business. The key question is whether the property is eligible, properly documented, and placed in service during the tax year.

Preparer Checklist

- Review the invoice, purchase agreement, or financing documents.
- Confirm the asset is used in the business.
- Determine when the property was placed in service.
- Identify whether the property is qualified property.
- Decide whether Section 179, bonus depreciation, or regular depreciation is best.
- Complete Form 4562 and verify the deduction flows to the correct business form.

Placed in Service Is the Key Date

A business purchase does not qualify merely because the taxpayer paid for it before year-end. The asset must be ready and available for its intended business use.

For example, a machine delivered and installed in December may be placed in service in December. A machine ordered in December but delivered in January is generally not placed in service until the following year.

[Image: Bonus Depreciation Example]

Illustration: A business purchases qualifying equipment, places it in service, and uses Form 4562 to claim the allowable first-year depreciation deduction.

Bonus Depreciation vs. Section 179

Bonus depreciation and Section 179 both allow accelerated deductions, but they are not the same rule. Section 179 is an election with its own limits, taxable income limitation, and property rules.

Bonus depreciation is claimed on qualified property and is also reported on Form 4562. Preparers should compare the options before simply taking the largest immediate deduction.

Purchase Records

Use invoices, receipts, financing documents, and fixed asset records to support the deduction.

Placed in Service

The asset must be ready and available for business use during the tax year.

Form 4562

Form 4562 is used to report depreciation, Section 179, and special depreciation allowances.

Practitioner Tip

Ask whether the asset was actually installed, available, and used or ready for use before year-end. A purchase receipt alone does not prove the placed-in-service date.

Common Mistake

Do not automatically claim 100% bonus depreciation without considering taxable income, state conformity, financing, business use, and whether Section 179 or regular depreciation may produce a better result.

[Image: TaxClassRoom]

TAX RETURN FLOW

Purchase Records Form 4562 Schedule C Form 1040

Lesson 3.2 – Section 179 Expensing



Major Change

Section 179 Expensing

Section 179 allows a business to elect to expense qualifying property placed in service during the tax year, subject to annual limits, phaseouts, and taxable income rules.

Learning at a Glance

What changed?

The Section 179 limit and phaseout threshold are significantly higher, making immediate expensing more useful for many businesses.

Who is affected?

Businesses that purchase qualifying equipment, computers, furniture, machinery, software, or certain vehicles.

Return focus

Use Form 4562 to make the Section 179 election and flow the deduction to the business return or Schedule C.

What Is Section 179 Expensing?

Section 179 allows a business to elect to deduct the cost of qualifying property in the year the property is placed in service, instead of recovering the cost through regular depreciation over several years.

This is an election. That means the preparer must decide how much Section 179 to claim, apply the limits, and report the election properly on Form 4562.

Preparer Checklist

- Review purchase invoices, receipts, and financing documents.
- Confirm the property is used more than 50% for business.
- Confirm the property was placed in service during the tax year.
- Determine whether the property qualifies for Section 179.
- Apply the annual dollar limit and phaseout threshold.
- Apply the taxable income limitation.
- Complete Form 4562 and confirm the deduction flows to the correct business form.

Section 179 Is an Election

Unlike regular depreciation, Section 179 requires an election. Preparers should choose the amount carefully because the largest immediate deduction is not always the best tax result.

For example, a business may want to preserve deductions for future years, consider state conformity, or compare Section 179 with bonus depreciation.

[Image: Section 179 Expensing Example]

Illustration: A business purchases qualifying assets, elects Section 179 on Form 4562, and deducts eligible costs in the year the property is placed in service.

Limits, Phaseouts, and Taxable Income

For TY2026, the Section 179 dollar limit is expected to be inflation-adjusted from the higher OBBBA amounts. The deduction begins to phase out when total qualifying property placed in service exceeds the phaseout threshold.

Section 179 is also limited by taxable business income. If the elected amount is more than the allowable taxable income limitation, the excess may be carried forward.

Purchase Records

Use invoices, receipts, and financing documents to confirm cost, date, and business purpose.

Placed in Service

The asset must be ready and available for business use during the tax year.

Form 4562

Form 4562 is where the Section 179 election, depreciation, and special depreciation allowance are reported.

Section 179 vs. Bonus Depreciation

[Image: Section 179 vs Bonus Depreciation Comparison]

Comparison: Section 179 is an election that gives the preparer more control over selected assets, while bonus depreciation generally applies automatically unless the taxpayer elects out.

Section 179 and bonus depreciation can both accelerate deductions, but they are different tools. Section 179 is elective, subject to a taxable income limitation, and may be limited for certain vehicles.

Bonus depreciation generally applies after Section 179 and has its own qualified property rules. Preparers should compare both options before finalizing the return.

Practitioner Tip

Do not automatically expense every asset under Section 179. Compare Section 179, bonus depreciation, regular depreciation, taxable income limits, and state conformity before deciding the best treatment.

Common Mistake

Do not claim Section 179 for property that was purchased but not placed in service by year-end. The placed-in-service date controls the year the deduction may be claimed.

[Image: TaxClassRoom]

TAX RETURN FLOW

Purchase Records Form 4562 Schedule C Form 1040

Lesson 3.3 – Form 1099-K Reporting Changes



Major Change

Form 1099-K Reporting Changes

Form 1099-K reporting continues to be an important issue for taxpayers who receive payments through cards, apps, platforms, and online marketplaces. Preparers must reconcile the form to business records before reporting income.

Learning at a Glance

What changed?

More taxpayers may receive Form 1099-K from payment processors, apps, and online platforms.

Who is affected?

Small businesses, gig workers, online sellers, and taxpayers receiving payments through third-party networks.

Return focus

Reconcile Form 1099-K to books and records before reporting income on Schedule C or another business return.

What Is Form 1099-K?

Form 1099-K reports payment card and third-party network transactions. Taxpayers may receive it from payment processors, online marketplaces, apps, or platforms that processed payments on their behalf.

For tax preparation, Form 1099-K is an information return. It is a starting point for review, not the final answer for taxable income.

Key Takeaway

Form 1099-K generally reports **gross payments**. It does not automatically equal taxable income. Preparers must reconcile the form to the taxpayer's business records, refunds, fees, adjustments, and nonbusiness transactions.

Preparer Checklist

- Ask whether the taxpayer received payments through cards, apps, platforms, or online marketplaces.
- Review all Forms 1099-K received by the taxpayer.
- Compare Form 1099-K totals to the taxpayer's books and records.
- Identify refunds, chargebacks, platform fees, shipping collected, sales tax collected, and duplicate reporting.
- Separate business transactions from personal or non-taxable transfers.
- Report the correct taxable income on Schedule C or the applicable business return.

Gross Payments Are Not the Same as Taxable Income

A Form 1099-K may show gross payments processed through a platform. That gross amount may include items that should not be treated as final taxable profit.

For example, a platform may report the full amount paid by customers before deducting fees, refunds, or other adjustments. The taxpayer's records are needed to determine the correct amount to report.

[Image: Form 1099-K Reconciliation Example]

Illustration: Form 1099-K reports gross payments. The preparer must reconcile those payments to books and records before determining taxable income.

Items That May Need Reconciliation

When reviewing Form 1099-K, do not stop at the number printed on the form. Ask what is included in the gross amount and whether the taxpayer's accounting records explain the difference.

Refunds & Chargebacks

Gross payments may include amounts later refunded or reversed.

Platform Fees

Processor or marketplace fees may reduce net deposits but are not always reflected in the gross number.

Personal Transfers

Personal reimbursements or nonbusiness transfers should not be treated as business income merely because a form was issued.

Sole Proprietors: Where Does It Go?

For sole proprietors, Form 1099-K information is generally reconciled with the taxpayer's business books and records. The properly determined business income is then reported on Schedule C, which flows to Form 1040.

The Form 1099-K itself does not replace the taxpayer's bookkeeping. It helps identify payments that may need to be included in gross receipts, but the taxpayer's complete records determine the correct return reporting.

Practitioner Tip

Ask for both the Form 1099-K and the platform year-end report. Many platforms provide detailed reports showing fees, refunds, chargebacks, sales tax, shipping, and net deposits. These reports are often more useful than the Form 1099-K alone.

Common Mistake

Do not assume the gross amount on Form 1099-K is the taxpayer's taxable income. Gross payments may include refunds, fees, personal transfers, duplicate amounts, or other adjustments that must be reconciled before the return is filed.

[Image: TaxClassRoom]

TAX RETURN FLOW

Payment Processor Records Form 1099-K Business Books Schedule C Form 1040

Lesson 3.4 – Information Reporting Threshold Changes Forms 1099-NEC & 1099-MISC



Major Change

Information Reporting Threshold Changes

Beginning with payments made in 2026, the federal reporting threshold for Forms 1099-NEC and 1099-MISC generally increases from \$600 to \$2,000, with inflation indexing after 2026.

Learning at a Glance

What changed?

The general federal reporting threshold for Forms 1099-NEC and 1099-MISC increases to \$2,000 for payments made in 2026.

Who is affected?

Businesses that pay independent contractors, vendors, rents, prizes, awards, or other reportable payments.

Return focus

Track payments by vendor during the year, collect Forms W-9, and determine whether Form 1099-NEC or Form 1099-MISC is required.

What Changed for Forms 1099-NEC and 1099-MISC?

For payments made beginning January 1, 2026, the general federal reporting threshold for Forms 1099-NEC and 1099-MISC increases from **\$600** to **\$2,000**. The threshold is expected to be indexed for inflation after 2026.

This change may reduce the number of information returns some businesses are required to file. However, it does not eliminate the need to track payments, obtain Forms W-9, classify vendors correctly, and keep good records.

Key Takeaway

A higher threshold means fewer forms may be filed, but it does **not** mean payments are ignored. Businesses still need year-round vendor tracking and accurate bookkeeping.

Preparer Checklist

- Ask the business client how vendor and contractor payments are tracked during the year.
- Collect Form W-9 before paying a new contractor or vendor.
- Separate payments to employees from payments to independent contractors.
- Review whether the payment belongs on Form 1099-NEC or Form 1099-MISC.
- Determine whether total reportable payments to the payee exceed the applicable threshold.
- Check whether state filing rules are different from federal rules.
- Remind clients that income may still be taxable even if no Form 1099 is required.

Form 1099-NEC vs. Form 1099-MISC

Form 1099-NEC is generally used to report nonemployee compensation paid to independent contractors for services performed in a trade or business.

Form 1099-MISC is used for other types of miscellaneous reportable payments, such as certain rents, prizes, awards, and other payments that do not belong on Form 1099-NEC.

Contractors

Payments for services by nonemployees generally point to Form 1099-NEC.

Rents and Other Items

Certain rents, prizes, awards, and miscellaneous payments may belong on Form 1099-MISC.

Form W-9

Form W-9 helps obtain the payee name, TIN, entity type, and backup withholding information.

Do Not Wait Until January

Information reporting is much easier when the business collects information before payment is made. Waiting until January to request a taxpayer identification number often creates filing problems.

The best practice is to collect Form W-9 before the first payment. If a vendor refuses to provide a TIN, backup withholding rules may need to be considered.

[Image: Vendor Payment Tracking for Forms 1099-NEC and 1099-MISC]

Illustration: Track vendor payments during the year, collect Form W-9 early, and determine whether Form 1099-NEC or Form 1099-MISC is required.

The Threshold Does Not Decide Taxability

The reporting threshold determines whether the payer generally must issue an information return. It does not determine whether the recipient's income is taxable.

A contractor who receives less than the reporting threshold may still have taxable income. Likewise, a business may still deduct ordinary and necessary business expenses if properly documented, even when no Form 1099 is required.

Practitioner Tip

Tell business clients to collect Form W-9 before payment is made, not after year-end. This one workflow change prevents many 1099 filing problems.

Common Mistake

Do not tell clients that payments under the reporting threshold are automatically “not taxable” or “not deductible.” The threshold is an information reporting rule, not an income tax rule.

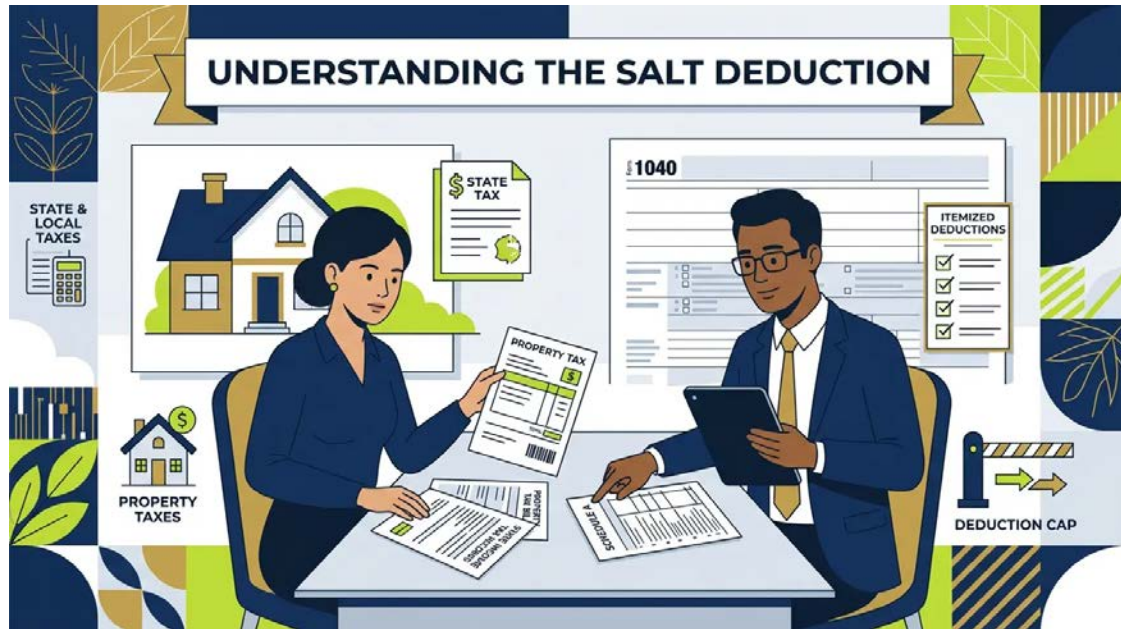
[Image: TaxClassRoom]

TAX RETURN FLOW

Form W-9 Vendor Payment Records Form 1099-NEC / 1099-MISC Recipient's Tax Return

[Image: image]

Lesson 4.1 – SALT Deduction



Important Update

SALT Deduction

The state and local tax deduction is still an itemized deduction, but the cap is higher for 2025 through 2029. Preparers should re-check whether itemizing is beneficial for taxpayers with significant state income taxes, sales taxes, or property taxes.

Learning at a Glance

What changed?

The SALT cap increased from the prior \$10,000 limit. For 2026, the cap is generally \$40,400, or \$20,200 if married filing separately.

Who is affected?

Taxpayers who itemize deductions and pay significant state income taxes, local taxes, real estate taxes, or personal property taxes.

Return focus

SALT is reported on Schedule A and only helps when itemized deductions exceed the taxpayer's standard deduction.

What Is the SALT Deduction?

SALT stands for state and local taxes. Taxpayers who itemize deductions may be able to deduct certain state and local taxes paid during the year.

Common SALT items include state and local income taxes, state and local sales taxes, real estate taxes, and personal property taxes. The taxpayer generally chooses between deducting state and local income taxes or state and local sales taxes.

[Image: Key Takeaway]

Key Takeaway

The SALT deduction is not a separate credit and it is not available to taxpayers who claim the standard deduction. It only matters when the taxpayer itemizes on **Schedule A**.

Preparer Checklist

- Determine whether the taxpayer will itemize or claim the standard deduction.
- Collect state and local income tax records, including withholding and estimated payments.
- Review real estate tax bills and proof of payment.
- Review personal property taxes, such as vehicle taxes based on value.
- Compare the state income tax deduction with the sales tax deduction when appropriate.
- Apply the applicable SALT limitation and any income-based reduction.
- Confirm the deduction is properly reported on Schedule A.

Higher Cap for 2025 Through 2029

The increased SALT cap applies for tax years 2025 through 2029. The IRS states that taxpayers who itemize may claim up to **\$40,000**, or **\$20,000** if married filing separately, for 2025. The cap is reduced for taxpayers with modified adjusted gross income over **\$500,000**, or **\$250,000** if married filing separately. :contentReference[oaicite:0]{index=0}

For 2026, the cap is generally expected to increase by 1%, to **\$40,400**, or **\$20,200** if married filing separately. The MAGI threshold is also expected to increase by 1%, to **\$505,000**, or **\$252,500** if married filing separately. :contentReference[oaicite:1]{index=1}

[Image: Attention Please]

Attention Please

A higher SALT cap does not automatically mean the taxpayer benefits. The taxpayer must still itemize, and total itemized deductions must exceed the standard deduction.

What Taxes Are Included?

Preparers should review each item carefully. A taxpayer may have several types of state and local taxes, but not every payment to a state or local government is deductible as SALT.

Income or Sales Tax

Taxpayers generally choose either state and local income taxes or state and local sales taxes.

Real Estate Taxes

Deductible real estate taxes are generally based on the assessed value of real property and paid to a state or local government.

Personal Property Tax

Personal property taxes may qualify when based on value, such as certain vehicle taxes.

[Image: Example]

Example

A taxpayer pays \$18,000 of state income tax and \$12,000 of real estate tax. Under the old \$10,000 cap, only \$10,000 could be deducted. Under the higher cap, the taxpayer may be able to deduct more SALT, but only if the taxpayer itemizes.

High-Income Phasedown

The increased SALT cap is reduced for higher-income taxpayers. If modified adjusted gross income exceeds the threshold, the cap is reduced, but not below the prior \$10,000 limit, or \$5,000 for married filing separately.

Preparers should pay close attention to MAGI when working with higher-income clients in high-tax states. A taxpayer may appear to qualify for the higher cap, but the phasedown may reduce the allowable deduction.

Practitioner Tip

Revisit itemizing for clients who did not itemize in prior years because of the \$10,000 SALT cap. The higher cap may change the standard deduction versus itemized deduction decision.

Common Mistake

Do not enter the full amount of state and local taxes without applying the SALT cap. Also, do not assume the taxpayer benefits from the higher cap unless itemized deductions exceed the standard deduction.

[Image: Treasury]

TAX RETURN FLOW

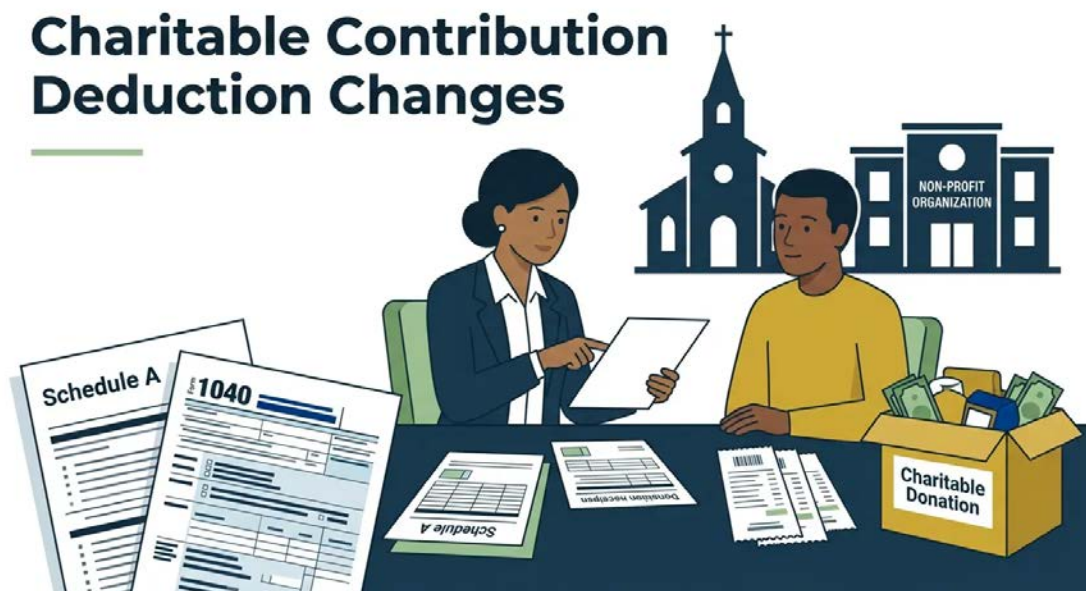
Purchase Records Form 4562 Schedule C Form 1040

[Image: Summary]

Lesson Summary

The higher SALT cap may make itemizing more valuable for some taxpayers, especially those with significant state income tax and property tax payments. However, the deduction is still limited, may be reduced for higher-income taxpayers, and only helps taxpayers who itemize on Schedule A.

Lesson 4.2 – Charitable Contribution Deduction Changes



Important Update

Charitable Contribution Deduction Changes

Beginning in TY2026, charitable contribution planning changes for both itemizers and non-itemizers. Preparers must verify documentation, determine whether the taxpayer itemizes, and apply the new limits correctly.

Learning at a Glance

[Image: What's New]

Itemizers: New 0.5% AGI Floor

Who is affected?

Taxpayers who make charitable gifts, including those claiming the standard deduction and those who itemize on Schedule A.

Return focus

Determine whether the taxpayer itemizes, review donation records, apply limits, and report the deduction correctly.

Why Charitable Contribution Rules Matter in TY2026

Charitable contributions are one of the most common deductions taxpayers ask about. Beginning in TY2026, preparers must pay attention to two separate paths: taxpayers who claim the standard deduction and taxpayers who itemize.

Non-itemizers may be able to deduct limited cash gifts, while itemizers must apply a new 0.5% AGI floor before charitable contributions produce a Schedule A deduction. The 0.5% floor means only contributions above that threshold are deductible for itemizers. :contentReference[oaicite:0]{index=0}

[Image: Key Takeaway]

Key Takeaway

Do not treat all charitable gifts the same. First determine whether the taxpayer is claiming the standard deduction or itemizing, then apply the correct TY2026 charitable deduction rule.

Preparer Checklist

- Determine whether the taxpayer will claim the standard deduction or itemize deductions.
- Collect donation receipts, written acknowledgments, and records of cash or noncash gifts.
- Confirm the organization is an eligible charitable organization.
- Separate cash gifts, noncash gifts, donor-advised fund gifts, and private foundation gifts.
- For itemizers, apply the 0.5% AGI floor before determining the allowable Schedule A deduction.
- Report the deduction in the correct location based on whether the taxpayer itemizes or claims the standard deduction.

Non-Itemizers: Limited Charitable Deduction

Beginning in TY2026, taxpayers who do not itemize may deduct certain cash charitable contributions, up to **\$1,000** for single filers or **\$2,000** for married taxpayers filing jointly. This deduction is limited and does not apply to every type of charitable gift. :contentReference[oaicite:1]{index=1}

[Image: Attention Please]

Attention Please

The non-itemizer deduction is not a blanket deduction for all giving. Gifts to donor-advised funds and some private foundations may not qualify. Always verify the type of organization and the type of gift.

[Image: What's New]

Itemizers: New 0.5% AGI Floor

Beginning with TY2026, taxpayers who itemize deductions must apply a new **0.5% adjusted gross income (AGI) floor** ...

This means smaller charitable donations may not produce a tax benefit for some itemizers. Larger contributions can still be deductible, but the deductible amount must first be reduced by the required 0.5% AGI floor.

As a preparer, always calculate the AGI threshold before determining the allowable charitable deduction and completing Schedule A.

[Image: Example]

Example

A taxpayer has AGI of \$100,000 and itemizes deductions. The 0.5% floor is \$500. If the taxpayer gives \$1,200 to qualified charities, only \$700 is deductible before applying any other charitable contribution limits.

Documentation Still Matters

The new rules do not remove the long-standing documentation requirements for charitable gifts. Preparers should still request receipts, bank records, written acknowledgments, and noncash contribution documentation when required.

For noncash gifts, additional reporting may be required depending on the value and type of property donated. Preparers should be especially careful with donated vehicles, securities, household goods, and large noncash donations.

Practitioner Tip

Add a charitable giving question to your intake form asking whether the taxpayer used the standard deduction or itemized last year. TY2026 changes may make charitable giving relevant to both groups, but the reporting path is different.

Common Mistake

Do not enter charitable contributions on Schedule A without applying the new itemizer floor. Also, do not assume a standard deduction taxpayer can deduct every charitable gift.

[Image: Treasury]

TAX RETURN FLOW

Donation Records Standard or Itemized Schedule A if itemized Form 1040

[Image: Summary]

Lesson Summary

TY2026 charitable contribution rules require preparers to first identify whether the taxpayer claims the standard deduction or itemizes. Non-itemizers may qualify for a limited cash contribution deduction, while itemizers must apply the new 0.5% AGI floor before claiming charitable deductions on Schedule A.

Lesson: 4.3 – Casualty Loss Deduction Changes



Important Update

Casualty Loss Deduction Changes

Beginning in TY2026, the personal casualty loss deduction is expanded and made permanent. Preparers must determine whether the loss is connected to a qualifying disaster, collect insurance information, and complete Form 4684 when required.

Learning at a Glance

What changed?

The deduction for certain personal casualty losses is permanent, and beginning in 2026 it may include certain state-declared disasters.

Who is affected?

Taxpayers with damage to personal-use property, homes, vehicles, household items, or business property after a qualifying casualty event.

Return focus

Use damage records, insurance documents, and Form 4684 to determine whether and where the loss is deductible.

What Is a Casualty Loss?

A casualty loss can result from damage, destruction, or loss of property caused by a sudden, unexpected, or unusual event, such as a flood, hurricane, tornado, fire, earthquake, or similar disaster.

A casualty is different from normal wear and tear, slow deterioration, or routine property damage. The event must be sudden and unexpected, and the taxpayer must have records supporting the loss.

[Image: What's New]

Personal Casualty Loss Rules Expanded

Beginning in TY2026, the deduction for certain personal casualty losses is expanded beyond losses attributable only to federally declared disasters. Certain state-declared disasters may also qualify if the other requirements are met.

[Image: Key Takeaway]

Key Takeaway

Do not assume every property loss is deductible. First determine whether the event qualifies, then reduce the loss by insurance or other reimbursements before completing Form 4684.

Preparer Checklist

- Identify the property damaged, destroyed, or stolen.
- Determine whether the loss is connected to a federally declared disaster, state-declared disaster, or another qualifying event.
- Collect insurance claims, FEMA records, settlement letters, and reimbursement information.
- Obtain photographs, repair estimates, appraisals, or other evidence showing the decrease in value.
- Compare the adjusted basis with the decrease in fair market value when required.
- Apply the correct limitations, reductions, and special disaster rules before claiming the deduction.
- Complete Form 4684 and transfer the allowable amount to the correct return location.

The Starting Point: Loss Before Reimbursements

For personal-use property, the loss generally begins with the lesser of the property's adjusted basis or the decrease in fair market value caused by the casualty. Then the preparer reduces the loss by insurance or other reimbursements.

This is why documentation matters. The taxpayer should provide evidence of ownership, basis, damage, insurance claims, and any reimbursements received or expected.

[Image: How to Calculate a Casualty Loss Deduction]

Figure: General casualty loss computation process. Always apply the special disaster rules and limitations that apply to the taxpayer's specific event and tax year.

[Image: Attention Please]

Attention Please

The calculation diagram shows the general mechanics. Qualified disaster losses may use special rules, including different reductions and relief from the usual itemizing or AGI limitation rules.

Insurance and Reimbursements Come First

A taxpayer generally cannot deduct a loss that is covered by insurance unless the taxpayer files a timely claim for reimbursement. Any insurance, FEMA payment, settlement, or other reimbursement reduces the loss.

If the taxpayer has a reasonable prospect of recovery, the deduction may need to wait until the reimbursement issue is resolved.

[Image: Example]

Example

A taxpayer's home is damaged in a qualifying disaster. The repair estimate is \$18,000, and the insurance company reimburses \$12,000. The preparer does not start with \$18,000 as the deduction. The reimbursement must first be subtracted, and the remaining loss must then be tested under the applicable casualty loss rules.

Personal-Use Property vs. Business Property

Personal-use property and business property are treated differently. Personal-use property losses are generally reported in Section A of Form 4684, while business or income-producing property losses generally use Section B.

If the casualty involves business property, rental property, inventory, or equipment used in a trade or business, preparers should not apply the personal casualty loss rules without reviewing the business property rules.

[Image: Did You Know]

Did You Know?

Taxpayers with a qualified disaster loss may be able to claim the loss without itemizing. This is why identifying the exact type of disaster loss is so important before completing the return.

Practitioner Tip

Ask for the disaster declaration information, insurance claim documents, photos, repair estimates, and reimbursement records. A casualty loss file should tell the full story of what happened, what was damaged, what was reimbursed, and what remains unrecovered.

Common Mistake

Do not deduct the full repair estimate without reducing the loss for insurance or other reimbursements. Also, do not assume every storm, fire, theft, or accident produces a deductible personal casualty loss.

[Image: Treasury]

TAX RETURN FLOW

Damage Records Insurance Documents Form 4684 Schedule A if applicable Form 1040

[Image: Summary]

Lesson Summary

Casualty loss deductions require careful documentation and the correct disaster classification. Preparers must verify the property, event, insurance reimbursements, valuation records, and Form 4684 reporting before claiming any deduction on the taxpayer's return.

Lesson 4.4 – Mortgage Interest Deduction & Home Equity Loan Rules:



Important Update

Mortgage interest is still one of the most common Schedule A deductions, but the preparer must confirm the debt limit, the type of loan, how the loan proceeds were used, and whether the taxpayer will actually itemize.

Learning at a Glance

What changed?

Preparers must continue applying the acquisition indebtedness rules and home equity loan limitations when taxpayers claim mortgage interest.

Who is affected?

Homeowners who paid mortgage interest, received Form 1098, refinanced a loan, used a home equity loan, or own a main home and second home.

Return focus

Deductible mortgage interest is reported on Schedule A and affects Form 1040 only when the taxpayer itemizes deductions.

Mortgage Interest Deduction and Home Equity Loan Rules

The mortgage interest deduction allows a taxpayer to deduct qualified residence interest paid on debt secured by a qualified home. A qualified home generally means the taxpayer's main home or second home.

The most important preparer question is not simply whether the taxpayer received Form 1098. The preparer must determine whether the loan is secured by a qualified residence, whether the debt is acquisition indebtedness, and whether the taxpayer is itemizing deductions on Schedule A.

[Image: What's New]

Current Rule: Focus on Acquisition Debt and Use of Proceeds

For current returns, mortgage interest is generally deductible only on qualified residence debt within the applicable dollar limits. For debt incurred after December 15, 2017, the general limit is interest on up to \$750,000 of acquisition indebtedness, or \$375,000 if married filing separately.

A higher \$1,000,000 limit, or \$500,000 if married filing separately, may apply to certain older acquisition debt incurred before December 16, 2017.

[Image: Key Takeaway]

Key Takeaway: Form 1098 is the starting point, not the final answer. The preparer must confirm that the interest is qualified residence interest and that the taxpayer benefits from itemizing on Schedule A.

[Image: Attention Please]

Attention Please: Home Equity Interest Is Not Automatically Deductible

Interest on a home equity loan or home equity line of credit is deductible only when the loan proceeds are used to buy, build, or substantially improve the home that secures the loan.

If the taxpayer used home equity proceeds for personal living expenses, credit card debt, vacations, vehicles, tuition, or other non-home purposes, the interest is not deductible as qualified residence interest.

[Image: Example]

Example: A taxpayer takes out a home equity loan secured by the main home. If the money is used to remodel the kitchen, the interest may qualify. If the money is used to pay credit card bills, the interest is not deductible as mortgage interest.

Acquisition Indebtedness

Acquisition indebtedness generally means debt used to buy, build, or substantially improve a qualified residence, and the debt must be secured by that residence.

Qualified Residence Interest

Qualified residence interest is generally interest paid on acquisition debt secured by the taxpayer's main home or second home, subject to the applicable loan limits.

Form 1098

Form 1098 reports mortgage interest received by the lender. The form supports the deduction, but the preparer must still determine whether the interest is deductible.

Preparer Checklist

- Obtain Form 1098 and compare the reported interest to the taxpayer's records.
- Confirm the loan is secured by the taxpayer's main home or second home.
- Identify when the debt was incurred to determine whether the \$750,000 or older \$1,000,000 limit may apply.
- For home equity debt, document how the loan proceeds were used.
- Compare total itemized deductions to the standard deduction before finalizing Schedule A.
- Do not deduct interest on personal-use home equity debt, even if the lender issued Form 1098.

Practitioner Tip

Ask a simple follow-up question when a taxpayer has a home equity loan: "What did you use the loan proceeds for?" That one question often determines whether the interest is deductible.

Common Mistake

A common mistake is entering the full Form 1098 amount without reviewing whether the mortgage exceeds the qualified loan limit or whether a home equity loan was used for personal expenses.

[Image: Treasury]

TAX RETURN FLOW

Loan Records Form 1098 Schedule A Form 1040

[Image: Summary]

Summary: Mortgage interest is deductible only when it qualifies under the residence, debt, use-of-proceeds, and itemizing rules. Form 1098 is important documentation, but the preparer must still evaluate whether the interest belongs on Schedule A and whether it ultimately affects Form 1040.

Lesson: 4.5 – Gambling Loss Deduction Changes



Major Change

Beginning with tax years after December 31, 2025, wagering loss deductions are limited to 90% of gambling losses and only to the extent of gambling gains. This can create taxable income even when the taxpayer economically breaks even.

Learning at a Glance

What changed?

For TY2026 and later, taxpayers generally may deduct only 90% of gambling losses, and the deduction is still limited by gambling winnings.

Who is affected?

Recreational gamblers, professional gamblers, sports bettors, casino patrons, lottery players, and taxpayers receiving Form W-2G.

Return focus

Gambling winnings are reported as income. Allowable gambling losses are claimed on Schedule A as other itemized deductions.

Gambling Loss Deduction Changes

Gambling winnings are taxable income. A taxpayer must report gambling winnings even if the taxpayer also had gambling losses during the year.

Gambling losses may be deductible, but only if the taxpayer itemizes deductions and keeps adequate records of winnings and losses. The deduction is claimed on Schedule A as an other itemized deduction.

[Image: What's New]

New TY2026 Rule: 90% Gambling Loss Limitation

Under the TY2026 rule, the deduction for wagering losses is limited to 90% of the taxpayer's wagering losses during the year, and only to the extent of gambling gains during that year.

This is a major change from the prior rule, where gambling losses were generally deductible up to the amount of gambling winnings. Beginning in TY2026, even a taxpayer who breaks even from gambling may still have taxable gambling income.

[Image: Key Takeaway]

Key Takeaway: Starting in TY2026, gambling losses are no longer a full dollar-for-dollar offset against gambling winnings. The preparer must apply the 90% limitation and confirm that the taxpayer has records to support the loss deduction.

[Image: Attention Please]

Attention Please: Form W-2G Does Not Prove the Losses

Form W-2G reports certain gambling winnings. It does not, by itself, prove that the taxpayer had deductible gambling losses.

The taxpayer must maintain records such as a gambling log, casino win/loss statements, wagering tickets, receipts, bank records, player card statements, or other reliable documentation showing the amount of losses claimed.

[Image: Gambling log recordkeeping example]

[Image: Casino gambling illustration]

Gambling Activity

Taxpayers should maintain accurate records of gambling winnings and losses, including Forms W-2G, wagering tickets, casino statements, and personal logs. Good documentation is essential when determining the allowable Schedule A deduction.

[Image: Example]

Example: A taxpayer reports \$20,000 of gambling winnings and has \$20,000 of gambling losses. Under the TY2026 rule, only \$18,000 of losses may be deductible. The taxpayer may still have \$2,000 of taxable gambling income even though the gambling activity broke even economically.

Deduction Limit

The gambling loss deduction is limited to 90% of wagering losses and only to the extent of gambling gains. The unused or nondeductible portion does not create a separate Schedule A deduction.

W-2G Interaction

Form W-2G helps identify reported winnings, but it does not replace the taxpayer's duty to report all gambling winnings or maintain separate records of losses.

Documentation

The taxpayer should keep a diary or log showing dates, locations, types of wagers, amounts won and lost, and supporting records from casinos or online platforms.

Preparer Checklist

- Ask for all Forms W-2G and any gambling income records, including casino, lottery, sportsbook, and online wagering statements.
- Report gambling winnings as income even if the taxpayer also had gambling losses.
- Apply the TY2026 90% limitation to the allowable gambling loss deduction.
- Review documentation supporting losses, including logs, tickets, statements, receipts, and bank records.
- Claim allowable gambling losses on Schedule A only if the taxpayer itemizes deductions.
- Do not net gambling winnings and losses directly on the income line.

Practitioner Tip

When a client gives you a Form W-2G, ask whether they also have a casino win/loss statement or gambling log. Many taxpayers assume the W-2G is the entire gambling record, but it usually reports only certain winnings.

Common Mistake

A common mistake is subtracting gambling losses from gambling winnings before reporting income. Gambling winnings are reported as income, and allowable losses are handled separately as an itemized deduction on Schedule A.

[Image: Treasury]

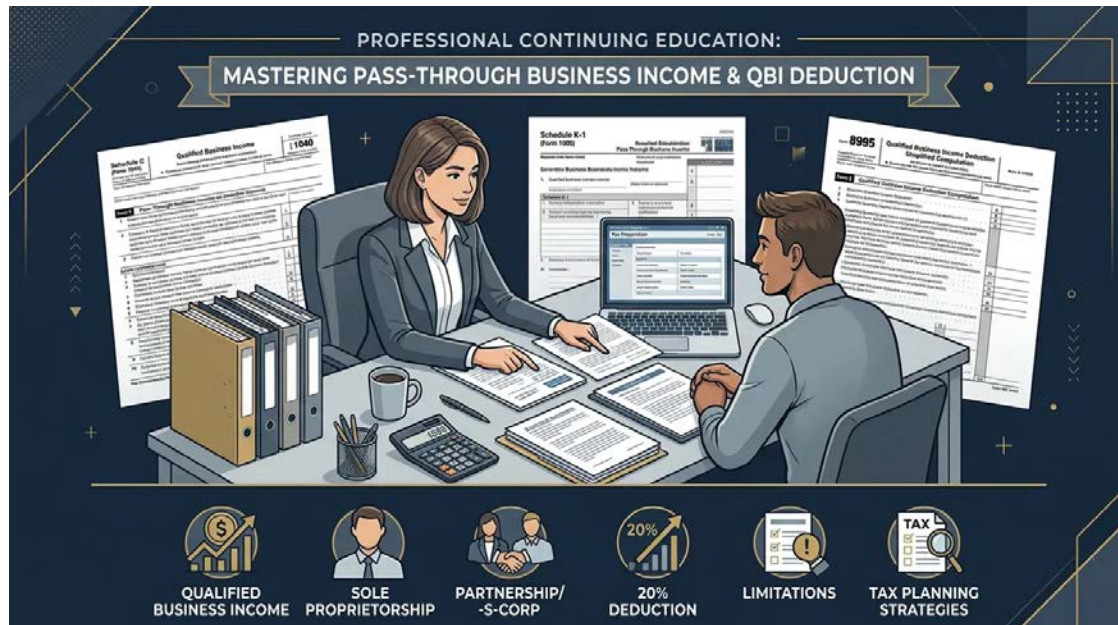
TAX RETURN FLOW

Gambling Records Form W-2G Schedule A Form 1040

[Image: Summary]

Summary: Beginning in TY2026, gambling losses are subject to a 90% limitation and remain limited by gambling winnings. W-2G forms help identify winnings, but taxpayers must keep separate records to support any losses claimed on Schedule A.

Lesson 5.1 - Qualified Business Income (QBI) Deduction Update



Major Change

The Qualified Business Income deduction remains one of the most important pass-through business deductions. Beginning in TY2026, preparers must also apply the new minimum QBI rule and use the updated taxable income thresholds.

Learning at a Glance

What changed?

For TY2026, QBI thresholds are updated, and a new \$400 minimum deduction may apply when the taxpayer has at least \$1,000 of QBI.

Who is affected?

Owners of sole proprietorships, partnerships, S corporations, and some trusts or estates with qualified business income.

Return focus

Use Form 8995 for simple cases or Form 8995-A for more complex cases, then flow the deduction to Form 1040.

Qualified Business Income Deduction: Step-by-Step

The Qualified Business Income deduction, also called the Section 199A deduction, allows eligible taxpayers to deduct up to 20% of qualified business income from certain pass-through businesses.

The easiest way to learn QBI is to avoid the formulas at first. Instead, ask a few simple questions: What type of business is it? Does it have qualified business income? Is the taxpayer below or above the taxable income threshold? Is it a specified service trade or business (SSTB)?

[Image: QBI deduction overview]

Simple QBI Idea

QBI is generally about pass-through business income. The taxpayer may receive QBI from a Schedule C business, a partnership K-1, an S corporation K-1, or certain REIT dividends and publicly traded partnership income.

[Image: What's New]

TY2026 QBI Thresholds and Minimum Deduction

For TY2026, the QBI taxable income thresholds are **\$403,500** for married filing jointly, **\$201,775** for married filing separately, and **\$201,750** for all other returns.

The phase-in ranges end at **\$553,500** for married filing jointly, **\$276,775** for married filing separately, and **\$276,750** for all other returns.

Remember These TY2026 Numbers

- Married Filing Jointly threshold: **\$403,500**
- Married Filing Separately threshold: **\$201,775**
- All other returns threshold: **\$201,750**
- MFJ phase-in range ends at: **\$553,500**
- All other returns phase-in range ends at: **\$276,750**
- New minimum QBI deduction: **\$400**
- Minimum QBI required: **\$1,000**

Beginning in TY2026, a taxpayer must have at least **\$1,000** of qualified business income to be eligible for the new **\$400** minimum QBI deduction.

[Image: Key Takeaway]

Key Takeaway: For many taxpayers below the threshold, QBI is a simple 20% deduction calculation. Above the threshold, the preparer must slow down and check SSTB status, W-2 wages, and qualified property limits.

Step-by-Step QBI Decision Process

- **Step 1:** Identify the business income source: Schedule C, partnership K-1, S corporation K-1, REIT dividends, or PTP income.
- **Step 2:** Confirm the income is from a pass-through business and not from a C corporation.
- **Step 3:** Determine the taxpayer's taxable income before the QBI deduction.
- **Step 4:** Compare taxable income to the TY2026 threshold for the taxpayer's filing status.
- **Step 5:** If the taxpayer is above the threshold, determine whether the business is an SSTB.
- **Step 6:** Use Form 8995 for simple cases or Form 8995-A when the detailed calculation is required.

[Image: Attention Please]

Attention Please: SSTB Status Matters Above the Threshold

Below the taxable income threshold, SSTB status usually does not reduce the QBI deduction. Above the threshold, SSTB status can partially reduce or completely eliminate the deduction.

This is why preparers should first identify the taxpayer's taxable income level. Do not overcomplicate a below-threshold return, but do not ignore SSTB rules when the taxpayer is above the threshold.

Below vs. Above the QBI Threshold

This is the point where QBI changes from simple to complex.

Below the Threshold

Usually the simplified approach applies. SSTB status generally does not matter, and W-2 wage or qualified property limits usually do not apply. Many taxpayers use Form 8995.

Above the Threshold

The preparer must determine whether the business is an SSTB and whether W-2 wages or qualified property limits apply. Many taxpayers use Form 8995-A.

Specified Service Trades or Businesses

An SSTB is generally a business where the principal asset is the reputation or skill of one or more owners or employees. For high-income taxpayers, SSTB classification can reduce or eliminate the QBI deduction.

Professional Services

- Health services
- Law practices

- Accounting and tax preparation

Skill-Based Fields

- Consulting
- Performing arts
- Athletics

Financial Fields

- Financial services
- Brokerage services
- Investing, trading, or dealing in securities or commodities

[Image: QBI deduction and REIT dividends]

REIT Dividends and PTP Income

The QBI deduction may also include 20% of qualified REIT dividends and qualified publicly traded partnership income. These items are not the same as Schedule C business income, but they may still enter the QBI calculation.

[Image: Example]

Example: Maria files as single and has \$60,000 of Schedule C qualified business income. Her taxable income before the QBI deduction is below the TY2026 threshold. Her tentative QBI deduction is generally 20% of \$60,000, or \$12,000, subject to the overall taxable income limitation.

Preparer Checklist

- Identify every QBI source: Schedule C, partnership K-1, S corporation K-1, REIT dividends, and PTP income.
- Confirm QBI amounts from the taxpayer's records and pass-through statements.
- Calculate taxable income before the QBI deduction and compare it to the TY2026 threshold.
- If taxable income is above the threshold, determine whether the business is an SSTB.
- For higher-income taxpayers, review W-2 wages and qualified property information when required.
- Use Form 8995 for simple cases or Form 8995-A when the detailed computation applies.

Practitioner Tip

Teach QBI in this order: income source first, taxable income threshold second, SSTB status third. Many preparer mistakes happen because they start with SSTB before checking whether the taxpayer is even above the threshold.

Common Mistake

A common mistake is assuming that all self-employment income automatically qualifies for the full 20% deduction. The preparer must still apply the taxable income limitation, SSTB rules, and any required W-2 wage or qualified property limits.

[Image: Treasury]

TAX RETURN FLOW

Business Records Schedule C / K-1 Form 8995 / 8995-A Form 1040

[Image: Summary]

Summary: QBI is easier when preparers follow a clear order. Identify the income source, calculate taxable income before the QBI deduction, compare it to the TY2026 threshold, check SSTB status when needed, and use Form 8995 or Form 8995-A to flow the deduction to Form 1040.

Lesson 5.2 – Clean Vehicle Credits & Reporting



Major Change

The clean vehicle credit rules changed significantly under OBBBA. For TY2026 returns, the most important preparer issue is not only whether the vehicle qualified, but also whether it was acquired by the required deadline and whether Form 8936 reporting is still required.

Learning at a Glance

What changed?

The new, previously owned, and commercial clean vehicle credits generally are not available for vehicles acquired after September 30, 2025.

Who is affected?

Taxpayers who bought a clean vehicle, transferred a credit at the dealer, received seller documentation, or need to report the credit on Form 8936.

Return focus

Use Form 8936 and Schedule A (Form 8936) when claiming or reporting a clean vehicle credit or point-of-sale transfer.

Clean Vehicle Credits and Reporting

Clean vehicle credits can be confusing because the rules involve the taxpayer, the vehicle, the dealer, the VIN, the purchase date, and Form 8936 reporting. The easiest way to understand this topic is to follow the documents.

Start with the purchase agreement and dealer report. Then verify the vehicle identification number, the date acquired, the date placed in service, and whether the taxpayer received the credit at the time of sale or will claim it on the tax return.

[Image: What's New]

OBBBA Termination Dates for Clean Vehicle Credits

Under OBBBA, the new clean vehicle credit, previously owned clean vehicle credit, and qualified commercial clean vehicle credit generally are not allowed for vehicles acquired after **September 30, 2025**.

Numbers and Dates to Remember

- New clean vehicle credit termination date: **September 30, 2025**
- Previously owned clean vehicle credit termination date: **September 30, 2025**
- Qualified commercial clean vehicle credit termination date: **September 30, 2025**
- Alternative fuel vehicle refueling property credit generally ends for property placed in service after: **June 30, 2026**

A TY2026 return may still require Form 8936 if the taxpayer acquired the vehicle by the deadline, placed it in service later, or transferred the credit to the dealer and must report that transfer on the return.

[Image: Key Takeaway]

Key Takeaway: For TY2026, do not assume every electric vehicle purchase creates a credit. First check the acquisition date, seller report, VIN, taxpayer eligibility, and whether Form 8936 is required to report a transferred credit.

[Image: Important Distinction]

Do Not Confuse These Two Tax Benefits

Understanding the difference helps prevent common preparation errors.

[Image: Comparison of Clean Vehicle Credit and Vehicle Loan Interest Deduction]

- **Clean Vehicle Credit:** A qualifying **new or previously owned** clean vehicle may qualify for a credit if all applicable requirements are satisfied.
- **Vehicle Loan Interest Deduction:** Applies only to a **qualifying new vehicle**. The original use of the vehicle must begin with the taxpayer.
- **Remember:** A loan used to purchase a **used or previously owned vehicle does not qualify** for the vehicle loan interest deduction, even though that same vehicle may qualify for a clean vehicle credit under separate rules.

[Image: Attention Please]

Attention Please: Verify the VIN and Dealer Report

The Vehicle Identification Number is not just a vehicle detail. It is part of the reporting trail for clean vehicle credits. A wrong VIN, missing seller report, or unsupported dealer transfer can create return problems.

[Image: Vehicle Identification Number]

VIN Verification

Match the VIN on the purchase documents, seller report, and Form 8936. The VIN helps identify the specific vehicle and prevents the credit from being claimed for the wrong automobile.

Step-by-Step Clean Vehicle Review

- **Step 1:** Review the purchase agreement and determine when the vehicle was acquired.
- **Step 2:** Determine when the taxpayer took possession and placed the vehicle in service.
- **Step 3:** Verify the VIN against the seller report and vehicle documentation.
- **Step 4:** Confirm taxpayer eligibility, including income limits when applicable.
- **Step 5:** Determine whether the taxpayer transferred the credit to the dealer at the time of sale.
- **Step 6:** Complete Form 8936 and Schedule A (Form 8936) when required.

[Image: Example]

Example: A taxpayer signed a binding purchase contract and made payment for a qualifying clean vehicle on September 28, 2025, but took possession in October. The preparer should review the acquisition documents, seller report, VIN, and Form 8936 instructions before deciding whether the credit may still be reported on the return.

[Image: Alternative Fuel Vehicle Refueling Property Credit]

Related Credit: EV charging equipment is not claimed as the clean vehicle credit. It may fall under the Alternative Fuel Vehicle Refueling Property Credit under separate rules.

The credit may apply to qualifying refueling or recharging property installed at a residence or qualifying business location, subject to separate requirements.

Under OBBBA, this related credit generally is not available for qualified property placed in service after **June 30, 2026**.

Preparer Checklist

- Review the purchase agreement, payment records, and placed-in-service date.
- Confirm the vehicle was acquired by the applicable deadline before claiming the credit.
- Verify the VIN on the seller report, purchase documents, and Form 8936.
- Check taxpayer eligibility, including modified AGI limits where applicable.
- Determine whether the credit was transferred to the dealer at the time of sale.
- Complete Form 8936 and Schedule A (Form 8936) when the credit is claimed or a transfer must be reported.

Practitioner Tip

Treat the seller report and VIN as required source documents. If the taxpayer received the credit at the dealership, remember that the return may still need Form 8936 to report the transfer.

Common Mistake

A common mistake is assuming the taxpayer has no tax reporting requirement because the credit was already transferred to the dealer. IRS instructions require Form 8936 and Schedule A (Form 8936) when a credit transfer is reported.

[Image: Treasury]

TAX RETURN FLOW

Purchase Docs VIN & Seller Report Form 8936 Form 1040

[Image: Summary]

Summary: Clean vehicle credit reporting requires careful review of the acquisition date, seller documentation, VIN, credit transfer status, and Form 8936. For TY2026, preparers should pay special attention to the OBBBA termination dates and remember that a point-of-sale transfer may still require tax return reporting.

Lesson 5.3 - Digital Asset Reporting (Form 1099-DA and Form 1040 Question)



Major Change

Digital asset reporting is now a practical return-preparation issue. Preparers must ask about digital assets, review Form 1099-DA when received, reconcile taxpayer records, and answer the Form 1040 digital asset question correctly.

Learning at a Glance

What changed?

Form 1099-DA is used to report digital asset proceeds from broker transactions, creating a new reporting document for many taxpayers.

Who is affected?

Taxpayers who sold, exchanged, received, transferred, or otherwise disposed of cryptocurrency, NFTs, stablecoins, or other digital assets.

Return focus

Digital asset transactions may flow to Form 8949, Schedule D, Schedule 1, Schedule C, or directly affect the Form 1040 digital asset question.

Digital Asset Reporting: Start With the Question

Digital assets include items such as cryptocurrency, stablecoins, non-fungible tokens, and other digital representations of value. The taxpayer may hold digital assets through an exchange, wallet, brokerage platform, or other account.

The easiest way to understand digital asset reporting is to start with the taxpayer's activity: Did the taxpayer sell, exchange, receive, transfer, or otherwise dispose of a digital asset during the year?

[Image: Digital Asset Taxation]

Digital Asset Activity

For **TY2026 returns filed in 2027**, a taxpayer may have digital asset activity even if no paper statement is provided. Always ask about exchanges, wallet activity, staking, rewards, sales, trades, and payments made with digital assets.

[Image: What's New]

Form 1099-DA and Broker Reporting

Form 1099-DA is used to report proceeds from certain digital asset broker transactions. This means many taxpayers may now receive a dedicated tax document for digital asset sales or exchanges.

Dates and Forms to Remember

- Broker reporting on Form 1099-DA begins with transactions on or after: **January 1, 2025**
- New digital asset reporting document: **Form 1099-DA**
- Every taxpayer must answer the **Form 1040 digital asset question**.

Do not assume Form 1099-DA tells the entire story. The preparer may still need exchange histories, wallet records, cost basis information, and transaction reports to calculate the correct gain, loss, or income.

[Image: Key Takeaway]

Key Takeaway: Form 1099-DA is important, but it is not the only source document. Taxpayers must report digital asset income, gains, or losses even if they do not receive a tax form.

[Image: Attention Please]

Attention Please: The Form 1040 Question Must Be Answered

The digital asset question on Form 1040 is a required yes-or-no question. A taxpayer must answer it whether or not the taxpayer received Form 1099-DA.

Preparers should not skip this question or answer it automatically. The answer depends on the taxpayer's actual digital asset activity during the year.

Step-by-Step Digital Asset Review

- **Step 1:** Ask the taxpayer about digital asset activity, even if no tax form was received.
- **Step 2:** Review Form 1099-DA, exchange statements, wallet records, and transaction histories.
- **Step 3:** Determine cost basis, proceeds, gain, loss, or ordinary income treatment.
- **Step 4:** Separate sales and exchanges from income items such as rewards, staking, mining, or payments for services.
- **Step 5:** Report capital transactions on Form 8949 and Schedule D when required.
- **Step 6:** Answer the Form 1040 digital asset question based on the taxpayer's actual activity.

[Image: Example]

Example: A taxpayer sells cryptocurrency through a broker and receives Form 1099-DA. The preparer still asks for the taxpayer's cost basis records and transaction history so the gain or loss can be reported correctly on Form 8949 and Schedule D.

Preparer Checklist

- Ask every taxpayer about digital asset activity before answering the Form 1040 question.
- Request Form 1099-DA, exchange reports, wallet histories, and transaction statements.
- Identify sales, exchanges, transfers, rewards, staking, mining, gifts, and payments for services.
- Confirm cost basis and holding period before reporting capital gain or loss.
- Use Form 8949 and Schedule D for sales or exchanges when required.
- Answer the Form 1040 digital asset question based on facts, not assumptions.

Practitioner Tip

Use a digital asset intake question every year. A simple yes-or-no question in the organizer can prevent missed income, incorrect basis reporting, and an incorrect Form 1040 digital asset answer.

Common Mistake

A common mistake is assuming no Form 1099-DA means no reporting requirement. Taxpayers must report taxable digital asset income, gains, and losses even when no information return is received.

[Image: Treasury]

TAX RETURN FLOW

Digital Asset Records Form 1099-DA Form 8949 / Schedule D Form 1040

[Image: Summary]

Summary: Digital asset reporting requires careful questioning and documentation. Review Form 1099-DA when received, gather transaction records, calculate gain, loss, or income, report the transaction on the correct form, and answer the Form 1040 digital asset question accurately.

Lesson 6.1 – Health Savings Account (HSA) Expansion



Important Update

For TY2026 returns filed in 2027, Health Savings Accounts remain an important tax planning and reporting area. OBBBA also expands HSA eligibility in several situations, so preparers should carefully review coverage, contributions, distributions, and Form 8889 reporting.

Learning at a Glance

What changed?

OBBBA expands HSA eligibility for telehealth and remote care, bronze and catastrophic plans, and certain Direct Primary Care arrangements.

Who is affected?

Taxpayers with HSAs, HDHP coverage, employer HSA contributions, HSA distributions, medical expenses, or certain expanded coverage arrangements.

Return focus

Report HSA contributions and distributions on Form 8889, then carry the results to Schedule 1 and Form 1040 as applicable.

Health Savings Accounts: Start With Eligibility

A Health Savings Account, or HSA, is a tax-favored account used to pay qualified medical expenses. Contributions may be deductible, earnings can grow tax-free, and distributions are tax-free when used for qualified medical expenses.

The easiest way to understand HSA reporting is to start with eligibility. Before entering numbers on the return, identify the taxpayer's coverage, contribution amount, employer contributions, distributions, and qualified medical expenses.

[Image: What's New]

TY2026 HSA Expansion

For **TY2026 returns filed in 2027**, OBBBA expands HSA eligibility in several important ways. Telehealth and remote care relief is made permanent, bronze and catastrophic plans may be treated as HSA-compatible, and certain Direct Primary Care arrangements may no longer prevent HSA eligibility.

Numbers to Remember for TY2026

- Self-only HSA contribution limit: **\$4,400**
- Family HSA contribution limit: **\$8,750**
- Catch-up contribution for age 55 or older: **\$1,000**
- Minimum HDHP deductible: **\$1,700** self-only / **\$3,400** family
- Maximum HDHP out-of-pocket amount: **\$8,500** self-only / **\$17,000** family

[Image: 2026 HSA contribution limits]

HSA Contribution Limits

For TY2026, eligible individuals may contribute up to **\$4,400** for self-only HDHP coverage or **\$8,750** for family HDHP coverage. Eligible individuals age 55 or older may also qualify for a **\$1,000** catch-up contribution.

[Image: Key Takeaway]

Key Takeaway: HSA reporting begins with eligibility. Confirm HDHP coverage, contribution limits, employer contributions, distributions, and whether the taxpayer used HSA funds for qualified medical expenses.

[Image: Attention Please]

Attention Please: Medicare Enrollment Can Stop HSA Eligibility

A taxpayer generally cannot contribute to an HSA for months they are enrolled in Medicare. This is a common issue for older clients who are still working, still covered by an employer plan, or turning 65 during the year.

Preparers should ask when Medicare coverage began before claiming a full-year HSA contribution. The taxpayer may still use existing HSA funds for qualified medical expenses, but new contributions may be limited.

Step-by-Step HSA Review

- **Step 1:** Confirm the taxpayer had HSA-eligible coverage for the months claimed.
- **Step 2:** Determine whether the taxpayer had self-only or family HDHP coverage.
- **Step 3:** Check whether the taxpayer qualifies for the age 55 or older catch-up contribution.
- **Step 4:** Add employer contributions and taxpayer contributions to test the annual limit.
- **Step 5:** Review HSA distributions and confirm they were used for qualified medical expenses.
- **Step 6:** Complete Form 8889 and carry any deductible contribution to Schedule 1.

Telehealth Relief

OBBA made permanent the ability to receive telehealth and remote care services before meeting the HDHP deductible while remaining HSA-eligible.

Bronze & Catastrophic Plans

Beginning in 2026, bronze and catastrophic plans may be treated as HSA-compatible under the expanded rules, even if they do not meet the usual HDHP definition.

Direct Primary Care

Beginning in 2026, certain Direct Primary Care arrangements may be compatible with HSA eligibility, and qualifying DPC fees may be paid tax-free from the HSA.

[Image: Example]

Example: Sofia has family HDHP coverage for all of TY2026 and contributes \$8,750 to her HSA. She is not age 55 or older and has no employer contributions. Her contribution is within the TY2026 family limit and is reported on Form 8889.

Preparer Checklist

- Confirm HSA-eligible coverage and coverage type for each month.
- Check age 55 or older catch-up eligibility.
- Include both employer contributions and taxpayer contributions when applying the annual limit.

- Ask whether the taxpayer was enrolled in Medicare during the tax year.
- Review HSA distributions and confirm qualified medical expense documentation.
- Complete Form 8889 and carry any deduction or taxable amount to the correct location on the return.

Practitioner Tip

Always ask for Form 5498-SA and Form 1099-SA when available, but do not wait for the forms to ask questions. Coverage type, Medicare enrollment, employer contributions, and qualified medical expense records are often just as important as the forms.

Common Mistake

A common mistake is claiming a full-year HSA contribution without checking month-by-month eligibility, Medicare enrollment, or employer contributions. This can result in excess contributions and additional tax.

[Image: Treasury]

TAX RETURN FLOW

HSA Records Forms 5498-SA / 1099-SA Form 8889 Schedule 1 Form 1040

[Image: Summary]

Summary: For TY2026, HSA reporting requires careful review of eligibility, contribution limits, Medicare enrollment, distributions, and qualified medical expenses. Use Form 8889 to report HSA activity and carry the results to Schedule 1 and Form 1040 when applicable.

Lesson: 6.2 – Trump Accounts



Major Change

Trump Accounts are a new child savings account program. For TY2026 returns filed in 2027, preparers should understand Form 4547, the \$1,000 pilot program contribution, contribution timing, and the special IRA treatment that applies to these accounts.

Learning at a Glance

What changed?

OBBBA created Trump Accounts and a one-time \$1,000 pilot contribution for certain eligible children born from 2025 through 2028.

Who is affected?

Families with eligible children, parents or guardians filing Form 4547, employers making contributions, and preparers reviewing W-2 reporting.

Return focus

Form 4547 is used to elect a Trump Account and request the pilot contribution. Employer contributions may appear on Form W-2, Box 12, Code TA.

Trump Accounts: New Child Savings Program

A Trump Account is a type of traditional IRA established for the exclusive benefit of a child. During the child's growth period, the account is subject to special rules that do not apply to regular IRAs.

The easiest way to understand this new program is to start with the child: Is the child eligible? Does the child have a valid Social Security number? Was Form 4547 completed? Is the family requesting the \$1,000 pilot contribution?

[Image: What's New]

Form 4547 and the \$1,000 Pilot Program Contribution

Form 4547 is used to elect to establish an initial Trump Account for an eligible child. It is also used to request the one-time **\$1,000** pilot program contribution for a child who qualifies.

Numbers and Dates to Remember

- Election form: **Form 4547**
- Federal pilot contribution: **\$1,000**
- Pilot contribution birth window: **January 1, 2025 – December 31, 2028**
- Contributions generally cannot be made before: **July 4, 2026**
- Child generally must be under: **18** at the end of the election year
- Employer contribution reporting: **Form W-2 Box 12 Code TA**

[Image: Form 4547 Trump Account Election]

Form 4547 Election

Families use Form 4547 to elect the initial Trump Account and, when eligible, request the \$1,000 pilot contribution. The IRS also allows taxpayers to submit and check Trump Account elections through IRS online account tools.

[Image: Key Takeaway]

Key Takeaway: Trump Accounts are not the same as 529 plans, custodial accounts, or Roth IRAs. They are a special type of traditional IRA for children, with special rules during the growth period and traditional IRA treatment generally applying later.

[Image: Attention Please]

Attention Please: Do Not Call Distributions Automatically Tax-Free

A Trump Account is generally treated as a traditional IRA after the growth period. Distributions may be taxable, and early distribution rules may apply. Do not describe Trump Account withdrawals as automatically tax-free.

During the growth period, distributions are generally restricted. After the growth period, most special rules no longer apply and traditional IRA rules generally govern the account.

Eligible Child

The child must have a valid Social Security number and generally must be under age 18 at the end of the year the election is made.

Pilot Contribution

The \$1,000 pilot contribution is for eligible U.S. citizen children born from January 1, 2025 through December 31, 2028, when the election is made.

Growth Period

During the growth period, special rules apply to investments, contributions, deductions, and distributions. Later, traditional IRA rules generally apply.

[Image: Form W-2 Box 12 Code TA]

Employer Contributions

Employer contributions to Trump Accounts may be reported on Form W-2 using Box 12 Code TA. Preparers should review W-2 reporting carefully and not confuse these amounts with regular wages or other retirement plan codes.

Step-by-Step Trump Account Review

- **Step 1:** Identify whether the client has an eligible child and whether the child has a valid SSN.
- **Step 2:** For the \$1,000 pilot contribution, confirm the child was born from January 1, 2025 through December 31, 2028.
- **Step 3:** Determine whether Form 4547 was filed or should be filed to make the election.
- **Step 4:** Review any contributions, including family, employer, government, or charitable contributions.
- **Step 5:** Review Form W-2 Box 12 Code TA if employer contributions are reported.
- **Step 6:** Explain that traditional IRA rules generally apply after the growth period, and distributions should not be assumed tax-free.

[Image: Example]

Example: Sophia is born in March 2026 and has a valid Social Security number. Her parent files Form 4547 and elects the pilot program contribution. If Sophia qualifies, the account may receive the one-time \$1,000 Treasury contribution.

Preparer Checklist

- Ask whether the client has a child who may be eligible for a Trump Account.
- Verify that the child has a valid Social Security number before the election is made.
- Determine whether Form 4547 was filed or should be filed.
- For the pilot contribution, confirm the child is a U.S. citizen born from January 1, 2025 through December 31, 2028.
- Review Form W-2 Box 12 Code TA for employer contributions.
- Do not describe Trump Account distributions as automatically tax-free.

Practitioner Tip

Ask every client with a child born during the eligibility window whether a Trump Account election has been made. This is a simple intake question that may help families identify a valuable new benefit.

Common Mistake

A common mistake is confusing Trump Accounts with 529 plans or Roth IRAs. Trump Accounts are a special type of traditional IRA for children and have their own election, contribution, investment, and distribution rules.

[Image: Treasury]

TAX RETURN FLOW

Child SSN / Birth Records Form 4547 Trump Account W-2 Code TA if applicable

[Image: Summary]

Summary: Trump Accounts are new child savings accounts created under OBBBA. Preparers should understand Form 4547, the \$1,000 pilot contribution, the 2025–2028 birth window, the July 4, 2026 contribution start date, W-2 Code TA reporting, and the fact that distributions are not automatically tax-free.

Lesson 6.3 – ABLE Account Age Expansion



Major Change

Beginning January 1, 2026, ABLE account eligibility expands because the disability onset age increases from before age 26 to before age 46.

Learning at a Glance

What changed?

The disability onset age increases from before age 26 to before age 46, allowing many more individuals to qualify for ABLE accounts.

Who is affected?

Individuals with disabilities, families, caregivers, veterans, and taxpayers who may benefit from tax-advantaged disability savings.

Return focus

ABLE account activity may involve Form 1099-QA, Form 5498-QA, and review of whether distributions were used for qualified disability expenses.

ABLE Accounts: Focus on the Disability Onset Age

ABLE accounts allow eligible individuals with disabilities to save in a tax-advantaged account without automatically losing eligibility for certain public benefits.

For **TY2026 returns filed in 2027**, the easiest way to understand the major change is to ask one question first: Did the qualifying disability begin before age 46?

[Image: What's New]

ABLE Eligibility Age Expands to Before Age 46

Beginning **January 1, 2026**, a person may qualify for an ABLE account if the qualifying disability began before age **46**. Under the prior rule, the disability generally had to begin before age **26**.

Numbers to Remember for TY2026

- Effective date: **January 1, 2026**
- New disability onset age: before age **46**
- Prior disability onset age: before age **26**
- TY2026 annual ABLE contribution limit: **\$20,000**

[Image: Key Takeaway]

Key Takeaway: The taxpayer does not have to be under age 46 now. The important question is whether the disability began before age 46.

[Image: Attention Please]

Attention Please: Current Age Is Not the Main Test

A common misunderstanding is thinking the person must currently be younger than 46. That is not the main test. The key issue is when the disability began.

This change is especially important for adults, veterans, and individuals whose disability began between age 26 and before age 46. They may have been excluded under the old rule but may qualify under the new rule.

Step-by-Step ABLE Review

- **Step 1:** Identify the ABLE beneficiary and confirm the account is for an eligible individual with a disability.
- **Step 2:** Determine whether the disability began before age 46.
- **Step 3:** Review contributions and compare them to the TY2026 contribution limit.
- **Step 4:** Review distributions and whether they were used for qualified disability expenses.
- **Step 5:** Review Form 1099-QA and Form 5498-QA when available.

[Image: Example]

Example: David is 52 in TY2026. His disability began when he was 35. Under the old rule, he did not meet the before-age-26 requirement. Under the new rule, he may qualify because his disability began before age 46.

Preparer Checklist

- Ask when the disability began, not just the taxpayer's current age.
- Review disability documentation or certification when relevant.
- Compare contributions to the TY2026 annual contribution limit.
- Confirm distributions were used for qualified disability expenses when tax-free treatment is claimed.
- Review Form 1099-QA for distributions and Form 5498-QA for contributions.

Practitioner Tip

When interviewing clients with disabilities, do not assume they are too old to qualify. Under the new rule, many adults may qualify if their disability began before age 46.

Common Mistake

A common mistake is applying the old before-age-26 rule to TY2026 returns. For TY2026, use the expanded before-age-46 onset rule.

[Image: Treasury]

TAX RETURN FLOW

Disability Records ABLE Account Forms 1099-QA / 5498-QA Form 1040 if taxable

[Image: Summary]

Summary: For TY2026, ABLE account eligibility expands because the disability onset age increases from before age 26 to before age 46. Preparers should focus on the onset age, contribution limit, qualified disability expenses, and Forms 1099-QA and 5498-QA when reviewing ABLE account activity.

Lesson: 6.4 – Adoption Credit Updates



Important Update

For TY2026 returns filed in 2027, preparers must apply the updated adoption credit amount, phaseout range, refundable portion, and Form 8839 reporting rules.

Learning at a Glance

What changed?

The TY2026 maximum adoption credit is updated to \$17,670, and part of the credit may be refundable.

Who is affected?

Taxpayers who paid qualified adoption expenses, finalized an adoption, adopted a child with special needs, or received employer adoption assistance.

Return focus

Use Form 8839 to calculate the adoption credit and any exclusion for employer-provided adoption assistance.

Adoption Credit: Start With the Adoption Facts

The adoption credit helps taxpayers offset qualified adoption expenses. The credit may apply to attorney fees, court costs, travel expenses, and other expenses directly related to the legal adoption of an eligible child.

The easiest way to understand the adoption credit is to start with the facts: Was the adoption domestic or foreign? Was it finalized? Was the child a special-needs child? Were expenses paid this year or in a prior year?

[Image: What's New]

TY2026 Adoption Credit Amounts

For TY2026, the maximum adoption credit is **\$17,670** per eligible child. The amount of credit that may be refundable is **\$5,120**.

Numbers to Remember for TY2026

- Maximum adoption credit: **\$17,670**
- Refundable portion: **\$5,120**
- Phaseout begins when MAGI exceeds: **\$265,080**
- Completely phased out at MAGI of: **\$305,080 or more**

[Image: Key Takeaway]

Key Takeaway: The adoption credit depends on the type of adoption, when expenses were paid, whether the adoption was finalized, and whether the taxpayer's income falls within the phaseout range.

[Image: Attention Please]

Attention Please: Special-Needs Adoptions Have a Special Rule

If the taxpayer adopts a child with special needs and the adoption is finalized, the taxpayer may be able to claim the full adoption credit even if the taxpayer did not pay that amount of qualified adoption expenses.

This rule is different from other adoption credit cases, where the credit generally depends on qualified adoption expenses actually paid.

Step-by-Step Adoption Credit Review

- **Step 1:** Identify the eligible child and whether the adoption is domestic, foreign, or special-needs.
- **Step 2:** Determine whether and when the adoption was finalized.
- **Step 3:** Review qualified adoption expenses and the year each expense was paid.
- **Step 4:** Apply the MAGI phaseout range.
- **Step 5:** Review any employer-provided adoption assistance or exclusion.
- **Step 6:** Complete Form 8839 and carry the result to the taxpayer's Form 1040.

[Image: Example]

Example: A taxpayer finalizes the adoption of an eligible child in TY2026 and pays \$12,000 of qualified adoption expenses. Before applying any income phaseout or other limitation, the taxpayer may have up to \$12,000 of adoption credit because the expense is below the TY2026 maximum.

Preparer Checklist

- Identify the eligible child and type of adoption.
- Confirm the adoption finalization date when required.
- Collect receipts, agency fees, attorney fees, court costs, and travel documentation.
- Check whether the child qualifies under the special-needs adoption rule.
- Apply the TY2026 MAGI phaseout range.
- Complete Form 8839 and keep supporting adoption records with the taxpayer file.

Practitioner Tip

Adoption credit timing can be tricky. Ask when each expense was paid and when the adoption became final before deciding which tax year the credit belongs on.

Common Mistake

A common mistake is treating every adoption the same. Domestic, foreign, and special-needs adoptions can have different timing and documentation rules.

[Image: Treasury]

TAX RETURN FLOW

Adoption Records Qualified Expenses Form 8839 Form 1040

[Image: Summary]

Summary: For TY2026, the adoption credit may be worth up to \$17,670 per eligible child, with up to \$5,120 refundable. Preparers should confirm the type of adoption, finalization date, qualified expenses, special-needs status, MAGI phaseout, employer adoption assistance, and Form 8839 reporting.

6.5 – Enhanced Deduction for Seniors



Major Change

For TY2026 returns filed in 2027, eligible taxpayers age 65 or older may claim a temporary enhanced senior deduction in addition to the regular standard deduction or itemized deductions.

Learning at a Glance

What changed?

A new temporary deduction of up to \$6,000 per eligible senior applies for tax years 2025 through 2028.

Who is affected?

Taxpayers age 65 or older who meet the income and filing requirements, including married couples where one or both spouses qualify.

Return focus

The enhanced senior deduction is claimed on Schedule 1-A and flows to Form 1040.

Enhanced Deduction for Seniors

The enhanced senior deduction is a temporary additional deduction for eligible taxpayers who are age 65 or older. It is available whether the taxpayer claims the standard deduction or itemizes deductions.

The easiest way to understand this deduction is to start with three questions: Is the taxpayer age 65 or older? Does the taxpayer meet the income limits? Was Schedule 1-A completed correctly?

[Image: What's New]

Temporary \$6,000 Senior Deduction

For tax years **2025 through 2028**, an eligible taxpayer age 65 or older may claim an enhanced deduction of up to **\$6,000**. If both spouses qualify on a joint return, the maximum deduction may be **\$12,000**.

Numbers to Remember for TY2026

- Enhanced senior deduction: **\$6,000** per eligible person
- Maximum MFJ amount if both spouses qualify: **\$12,000**
- Temporary tax years: **2025 through 2028**
- Phaseout begins above MAGI: **\$75,000 / \$150,000 MFJ**
- Claimed on: **Schedule 1-A**

[Image: Key Takeaway]

Key Takeaway: This is not the same as the regular additional standard deduction for age 65 or older. It is a separate temporary deduction claimed on Schedule 1-A.

[Image: Attention Please]

Attention Please: This Deduction Is Not Only for Social Security Recipients

Do not limit this deduction to taxpayers who receive Social Security benefits. Eligibility is based on age, filing status, valid SSN requirements, and MAGI limits.

A taxpayer may qualify even if they have no Social Security income, and the deduction may apply whether the taxpayer itemizes or claims the standard deduction.

Step-by-Step Senior Deduction Review

- **Step 1:** Confirm the taxpayer was age 65 or older by the end of the tax year.
- **Step 2:** For joint returns, determine whether one or both spouses qualify.
- **Step 3:** Confirm valid SSN requirements are met.
- **Step 4:** Calculate MAGI and apply the phaseout rules when applicable.
- **Step 5:** Claim the deduction on Schedule 1-A and confirm the result flows to Form 1040.

[Image: Example]

Example: Robert is age 70 and files as single. His MAGI is below \$75,000. For TY2026, he may qualify for the full \$6,000 enhanced senior deduction, claimed on Schedule 1-A.

Preparer Checklist

- Verify date of birth and age 65 status by year-end.
- For MFJ returns, determine whether one or both spouses qualify.
- Confirm valid SSN requirements.
- Calculate MAGI and check whether the deduction phases down.
- Complete Schedule 1-A and verify the deduction carries to Form 1040.

Practitioner Tip

Do not rely only on Social Security income documents to identify this deduction. Review date of birth for every taxpayer and spouse, even when the client has no Social Security benefits.

Common Mistake

A common mistake is assuming this is automatically included in the regular standard deduction. The enhanced senior deduction is separate and must be handled through Schedule 1-A.

[Image: Treasury]

TAX RETURN FLOW

DOB / SSN Records Schedule 1-A Form 1040

[Image: Summary]

Summary: For TY2026, eligible taxpayers age 65 or older may qualify for an enhanced senior deduction of up to \$6,000 per person. Preparers should verify age, SSN, filing status, MAGI, Schedule 1-A reporting, and whether the deduction phases out.

Lesson 7.1 – Form 1099-K Reporting Rules



Major Change

For TY2026 returns filed in 2027, preparers must understand the Form 1099-K threshold rules and carefully reconcile payment app, online marketplace, and merchant card activity with the taxpayer's actual records.

Learning at a Glance

What changed?

The third-party settlement organization threshold is back to more than \$20,000 and more than 200 transactions.

Who is affected?

Small businesses, online sellers, gig workers, contractors, marketplace sellers, and taxpayers receiving payments through apps or platforms.

Return focus

Form 1099-K is an information return. The income must be reported according to the underlying facts, often on Schedule C or Form 8949.

Form 1099-K Reporting Rules

Form 1099-K reports payment card and third-party network transactions. It may show payments received through credit cards, debit cards, online marketplaces, and payment apps.

The easiest way to understand Form 1099-K is to start with the taxpayer's activity. Were the payments for business income, personal reimbursements, gifts, sales of personal items, or something else? The form reports payments received, but the tax treatment depends on the facts.

[Image: Third-party network transaction reporting]

Third-Party Network Reporting

A third-party settlement organization may issue Form 1099-K to report payments for goods or services. The preparer must still determine whether the payments are taxable income, personal payments, reimbursements, or sales of personal property.

[Image: What's New]

TY2026 Form 1099-K Threshold

For TY2026, a third-party settlement organization generally must issue Form 1099-K when payments for goods or services exceed **\$20,000** and there are more than **200 transactions**.

Numbers to Remember for TY2026

- Third-party network payment threshold: more than **\$20,000**
- Transaction threshold: more than **200 transactions**
- Payment card transactions may be reportable without the same third-party network threshold.

[Image: Key Takeaway]

Key Takeaway: Receiving Form 1099-K does not automatically mean the full amount is taxable. It means the preparer must reconcile the form with the taxpayer's records and determine the correct tax treatment.

[Image: Attention Please]

Attention Please: Personal Payments Are Not Business Income

Payments from friends and family, gifts, reimbursements, and shared expenses are generally not taxable business income merely because they appear in a payment app account.

However, payments for goods or services must be reviewed carefully. Business receipts, gig work payments, marketplace sales, and service income may need to be reported even if no Form 1099-K is received.

Step-by-Step Form 1099-K Review

- **Step 1:** Review Form 1099-K and identify the payer, platform, gross amount, and account involved.

- **Step 2:** Ask what the payments were for: business services, goods sold, personal reimbursements, gifts, or other activity.
- **Step 3:** Reconcile Form 1099-K to the taxpayer's books, bank deposits, sales records, and platform reports.
- **Step 4:** Separate taxable business income from personal transfers or nonbusiness transactions.
- **Step 5:** Report the income on the correct form, such as Schedule C, Schedule D, Form 8949, or another applicable form.

[Image: Example]

Example: A taxpayer receives Form 1099-K for \$24,000 from an online marketplace. Part of the amount was from business sales, and part was from selling used personal items. The preparer should reconcile the transactions and report each category correctly instead of entering the full \$24,000 as Schedule C income automatically.

Preparer Checklist

- Ask whether the taxpayer received Form 1099-K from payment apps, merchant processors, or online marketplaces.
- Reconcile Form 1099-K to books, sales records, bank deposits, and platform transaction reports.
- Separate personal payments, gifts, and reimbursements from payments for goods or services.
- Determine whether the taxpayer has business income that belongs on Schedule C.
- For personal items sold, determine whether there was a taxable gain or nondeductible personal loss.
- Report the income on the correct tax form based on the underlying transaction.

Practitioner Tip

Do not prepare Form 1099-K cases from the form alone. Ask for the transaction detail report from the platform so you can identify refunds, fees, personal payments, duplicate reporting, and nonbusiness transactions.

Common Mistake

A common mistake is entering the full Form 1099-K amount as Schedule C income without reconciling the transactions. The form reports gross payments, not taxable profit.

[Image: Treasury]

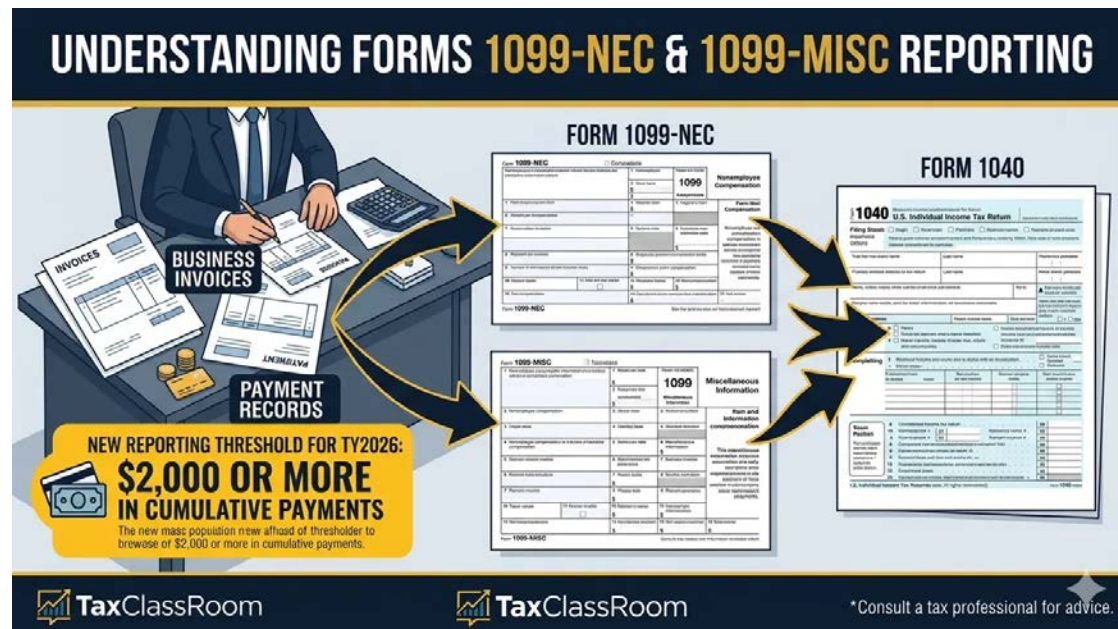
TAX RETURN FLOW

Payment Records Form 1099-K Schedule C / Form 8949 Form 1040

[Image: Summary]

Summary: For TY2026, Form 1099-K reporting requires careful reconciliation. The \$20,000 and 200-transaction threshold applies to third-party network reporting, but taxpayers must still report taxable income even if no Form 1099-K is received. The preparer must determine the correct tax treatment based on the underlying transactions.

Lesson 7.2 – Form 1099-NEC / Form 1099-MISC Threshold Changes



Important Update

For TY2026 returns filed in 2027, businesses and preparers must understand the new Form 1099-NEC and Form 1099-MISC reporting threshold. The reporting threshold changed, but taxable income must still be reported even if no information return is issued.

Learning at a Glance

What changed?

The reporting threshold for many payments reported on Forms 1099-NEC and 1099-MISC increased to \$2,000 for TY2026.

Who is affected?

Businesses that pay independent contractors, vendors, landlords, service providers, prize recipients, or other reportable payees.

Return focus

Forms 1099-NEC and 1099-MISC are information returns. The recipient reports taxable income on the proper tax form based on the underlying payment.

Form 1099-NEC and Form 1099-MISC Threshold Changes

Forms 1099-NEC and 1099-MISC are information returns used to report certain payments made in the course of a trade or business. Form 1099-NEC is generally used for nonemployee compensation, while Form 1099-MISC is used for several other reportable payments.

The easiest way to understand this lesson is to separate two questions: First, does the payer have a filing requirement? Second, does the recipient have taxable income? The answer to the second question does not depend only on whether a Form 1099 was issued.

[Image: What's New]

TY2026 Reporting Threshold Increases to \$2,000

Beginning with TY2026 information returns, the reporting threshold for many payments reported on **Form 1099-NEC** and **Form 1099-MISC** increases to **\$2,000**.

Numbers to Remember for TY2026

- New reporting threshold for many Forms 1099-NEC and 1099-MISC payments: **\$2,000**
- Prior common threshold: **\$600**
- Applies beginning with payments made in: **TY2026**

1099-NEC vs. 1099-MISC at a Glance

Form 1099-NEC

Used primarily to report **nonemployee compensation**, such as payments to independent contractors and service providers.

\$2,000

TY2026 threshold for many payments

Form 1099-MISC

Used for other reportable payments, such as certain rents, prizes, awards, royalties, and miscellaneous income.

\$2,000

TY2026 threshold for many payments

Quick Comparison — Three Forms at a Glance

Feature	Form 1099-K	Form 1099-INT	Form 1099-DIV
What it covers	Payment card and third-party network transactions	Interest paid	Dividends and distributions
TY2026	More than 200 transactions and	\$10	\$10

Feature	Form 1099-K	Form 1099-INT	Form 1099-DIV
threshold	more than \$20,000		
Primary issuer	PSEs / TPSOs	Banks, brokers, Treasury	Corporations, funds, REITs
Recipient due date	Jan. 31, 2027	Jan. 31, 2027	Jan. 31, 2027

[Image: Key Takeaway]

Key Takeaway: The **\$2,000** threshold affects whether a payer must issue an information return. It does **not** decide whether the recipient's income is taxable.

[Image: Attention Please]

Attention Please: No Form Does Not Mean No Income

A taxpayer may have taxable income even if no Form 1099-NEC or Form 1099-MISC is issued. The information reporting threshold is a payer reporting rule, not a recipient taxability rule.

Preparers should ask about all business income, contractor payments, rents, prizes, awards, and other income even when the taxpayer does not receive an information return.

Step-by-Step 1099-NEC / 1099-MISC Review

- **Step 1:** Identify the payment type: nonemployee compensation, rent, prize, award, royalty, or other reportable payment.
- **Step 2:** Determine whether the payee is an independent contractor, landlord, vendor, prize recipient, or other recipient.
- **Step 3:** Review Form W-9 or other taxpayer identification records before issuing an information return.
- **Step 4:** Compare total reportable payments to the TY2026 **\$2,000** threshold.
- **Step 5:** Use Form 1099-NEC for nonemployee compensation and Form 1099-MISC for applicable miscellaneous payments.
- **Step 6:** For recipients, report taxable income based on the underlying facts, even if no information return is received.

Use Form 1099-NEC

Use Form 1099-NEC when a business pays reportable nonemployee compensation to an independent contractor, freelancer, or other nonemployee service provider.

Use Form 1099-MISC

Use Form 1099-MISC for certain other reportable payments such as rents, prizes, awards, royalties, and other miscellaneous income categories.

Do Not Use the Form Alone

A recipient's taxable income is determined from the facts, not only from whether a Form 1099 was issued. Books, bank records, invoices, and receipts still matter.

[Image: Example]

Example: A business pays an independent contractor **\$1,800** in TY2026. The payer may not be required to issue Form 1099-NEC because the payment is below the new threshold. However, the contractor must still report the taxable income on the contractor's return.

Preparer Checklist

- Request Form W-9 from contractors and vendors before payment whenever possible.
- Identify whether the payment belongs on Form 1099-NEC or Form 1099-MISC.
- Compare total reportable payments to the TY2026 **\$2,000** threshold.
- For recipients, reconcile Forms 1099 with books, invoices, bank deposits, and taxpayer records.
- Remember that taxable income must be reported even when no Form 1099 is issued.
- Report the recipient's income on the correct tax form, such as Schedule C or another applicable schedule.

Practitioner Tip

When working with business clients, review vendor payment totals before year-end. It is easier to collect Forms W-9 before issuing payments than to chase missing taxpayer identification numbers during filing season.

Common Mistake

A common mistake is telling a recipient that income is not taxable because no Form 1099 was issued. The reporting threshold affects the payer's filing requirement, not the recipient's obligation to report taxable income.

[Image: Treasury]

TAX RETURN FLOW

Payment Records Form 1099-NEC / MISC Schedule C / Other Form Form 1040

[Image: Summary]

Summary: Beginning with TY2026, the reporting threshold for many payments reported on Forms 1099-NEC and 1099-MISC increases to \$2,000. Preparers should understand which form applies, review payer reporting responsibilities, and remind recipients that taxable income must be reported even when no information return is issued.

7.3 – Form 1099-DA Digital Asset Reporting

[Image: Form 1099-DA digital asset reporting review]

Section 7.3 • Information Reporting Review

Form 1099-DA Digital Asset Reporting

In this short review lesson, you will review how Form 1099-DA helps report digital asset sales and exchanges, and why taxpayer records still matter.

Learning at a Glance

Form

Form 1099-DA reports digital asset proceeds from broker transactions.

Return Issue

The preparer must help determine gain, loss, basis, and proper reporting.

Key Warning

No Form 1099-DA does not mean there is no taxable transaction.

Form 1099-DA is part of the newer information reporting system for digital assets. For TY2026 returns filed in 2027, preparers should understand that a taxpayer may receive this form when a broker reports digital asset sales, exchanges, or other dispositions.

This lesson is a review because digital assets were covered earlier in the course. The purpose here is to connect Form 1099-DA to the information reporting process and the tax return workflow.

[Image: What's New]

What's New: Digital Asset Broker Reporting

Brokers may report digital asset transactions to taxpayers and to the IRS using Form 1099-DA. The form may show proceeds, digital asset details, and, in some cases, basis information.

Preparers should not rely only on the form. Taxpayer records may still be needed to confirm acquisition date, basis, wallet transfers, exchange activity, and whether the transaction was taxable.

Numbers to Remember

TY2026

Review Form 1099-DA carefully when preparing TY2026 returns filed in 2027.

Yes or No

Taxpayers must answer the digital asset question on Form 1040.

Records

Basis and transaction history may still need to be verified by the taxpayer.

[Image: Key Takeaway]

Key Takeaway

Form 1099-DA is an information reporting form. It helps identify digital asset activity, but the taxpayer is still responsible for reporting taxable income, gain, or loss correctly.

[Image: Attention Please]

Attention Please: Do Not Ignore Missing Forms

A taxpayer may have digital asset activity even if no Form 1099-DA is received. This can happen when activity occurred through wallets, platforms, foreign brokers, decentralized finance activity, or records outside the normal broker reporting system.

Preparers should ask clear intake questions and document the taxpayer's answers.

Step-by-Step Review

- **Step 1:** Ask whether the taxpayer bought, sold, exchanged, transferred, or otherwise disposed of digital assets.
- **Step 2:** Review any Form 1099-DA received from a broker or platform.
- **Step 3:** Confirm basis, proceeds, holding period, and gain or loss.
- **Step 4:** Report the transaction properly on the tax return and answer the Form 1040 digital asset question correctly.

[Image: Example]

Example

Marcus receives Form 1099-DA showing proceeds from the sale of a digital asset. The form helps identify the sale, but Marcus also gives his preparer records showing when he bought the asset and what he paid for it.

The preparer uses the broker form and Marcus's records to determine the correct gain or loss. The preparer does not assume the full proceeds are taxable income.

Preparer Checklist

- Request all Forms 1099-DA received by the taxpayer.
- Ask whether the taxpayer used wallets, exchanges, apps, or other platforms.
- Review records for purchase price, dates, fees, transfers, and sales.
- Confirm the Form 1040 digital asset question is answered correctly.

Practitioner Tip

Do not treat Form 1099-DA as the only record. Digital asset reporting often requires both broker information and taxpayer-provided transaction records.

Common Mistake

A common mistake is assuming there is no reporting requirement because the taxpayer did not receive Form 1099-DA. Taxable digital asset transactions must still be reported.

[Image: Treasury icon]

Tax Return Flow

Form 1099-DA

Taxpayer Records

Form 8949

Schedule D

Form 1040

[Image: Summary]

Summary

Form 1099-DA gives preparers important digital asset reporting information, but it does not replace taxpayer records. For TY2026 returns filed in 2027, preparers should review the form, verify basis and transaction history, and make sure the digital asset question on Form 1040 is answered correctly.

Lesson 7.4 – W-2 Qualified Tip Reporting

[Image: W-2 qualified tip reporting]

Section 7.4 • Information Reporting Changes

W-2 Qualified Tip Reporting

In this lesson, you will review how qualified tips may appear on wage reporting documents and how preparers should connect those records to the new qualified tip deduction.

Learning at a Glance

Form

Qualified tips may be connected to Form W-2 reporting for employees.

Deduction

The taxpayer may claim a qualified tip deduction when the requirements are met.

Warning

Tips must still be reported as income even when a deduction may reduce taxable income.

For TY2026 returns filed in 2027, preparers should pay close attention to wage reporting for taxpayers who work in tipped occupations. The qualified tip deduction does not remove the need to report tip income.

Instead, the taxpayer reports the income and then may claim a separate deduction if the tips meet the qualified tip rules.

[Image: What's New]

What's New: Tips May Support a New Deduction

Qualified tips may support a deduction on the taxpayer's return. For employees, the starting point is usually wage and tip information reported by the employer.

The preparer should review the Form W-2, ask about reported and unreported tips, and confirm whether the taxpayer's occupation and records support the deduction.

Numbers to Remember

\$25,000

Maximum qualified tip deduction before income phaseout rules.

2025–2028

The qualified tip deduction applies for tax years beginning after 2024 and before 2029.

TY2026

This lesson focuses on TY2026 returns filed in 2027.

[Image: Key Takeaway]

Key Takeaway: Qualified tips are still reported as income. The deduction is claimed separately when the taxpayer meets the qualified tip rules.

[Image: Attention Please]

Attention Please: Do Not Exclude the Tips

The qualified tip deduction is not the same as making tip income disappear. The income must be reported first.

Preparers should avoid telling students or clients that qualified tips are simply "tax-free." A better explanation is that qualified tips may create a deduction after the income is reported.

Step-by-Step Review

- **Step 1:** Review the taxpayer's Form W-2 for wage and tip information.
- **Step 2:** Identify the taxpayer's occupation and whether it is a tipped occupation.
- **Step 3:** Ask about tip logs, employer records, and any unreported tips.
- **Step 4:** Determine the amount of qualified tips eligible for the deduction.
- **Step 5:** Report the deduction in the proper place on the TY2026 return.

[Image: Example]

Example: Carla works as a restaurant server. Her Form W-2 includes wages and reported tips. For TY2026, Carla's preparer reviews the W-2, confirms her occupation, and determines whether her reported tips qualify for the qualified tip deduction.

Preparer Checklist

- Review Form W-2 for wages, tips, and any employer-provided tip reporting details.
- Ask whether the taxpayer received cash tips, electronic tips, shared tips, or unreported tips.
- Confirm the taxpayer's occupation supports the qualified tip deduction.
- Keep documentation supporting the tip amount and the deduction claimed.
- Make sure the deduction flows correctly to the TY2026 Form 1040 filing package.

Practitioner Tip

Use the intake interview to ask about tips even when the Form W-2 does not clearly separate every tip detail. The preparer should document the taxpayer's answers and keep the explanation simple.

Common Mistake

A common mistake is treating all tips as automatically deductible. The preparer must still confirm that the tips are qualified tips and that the taxpayer meets the applicable rules.

[Image: Treasury icon]

Tax Return Flow

Form W-2

Tip Records

Schedule 1-A

Form 1040

[Image: Summary]

Summary: For TY2026 returns filed in 2027, preparers should review Form W-2 tip reporting, confirm the taxpayer's occupation and records, report the tip income properly, and claim the qualified tip deduction only when the requirements are met.

Lesson 7.5 – Form 1098-VLI Vehicle Loan Interest Reporting

[Image: Form 1098-VLI Vehicle Loan Interest Reporting]

[Image: Did You Know]

Did You Know? For TY2026, some taxpayers may receive **Form 1098-VLI**, an information return related to qualified passenger vehicle loan interest. The form documents qualified vehicle loan interest paid and can help support a deduction when the taxpayer otherwise meets the applicable requirements. Preparers should retain Form 1098-VLI with the taxpayer's loan records and other supporting documentation.

Lesson 8.1– First-Time Penalty Abatement Review

[Image: First-Time Penalty Abatement Review]

Practitioner Awareness

First-Time Penalty Abatement may help eligible taxpayers remove certain IRS penalties when they have a good compliance history.

[Image: What's New]

What's New: A Penalty Relief Reminder

First-Time Penalty Abatement is not a new deduction or credit. It is an IRS administrative relief option that preparers should remember when a taxpayer receives a qualifying penalty notice.

The idea is simple: if the taxpayer generally has a clean compliance history, the IRS may remove certain penalties for the first qualifying problem.

[Image: Key Takeaway]

Key Takeaway: When a compliant taxpayer receives a failure-to-file, failure-to-pay, or failure-to-deposit penalty, consider whether First-Time Penalty Abatement may be available.

What Is First-Time Penalty Abatement?

First-Time Penalty Abatement, often called FTA, may allow the IRS to remove certain penalties for taxpayers who have a good history of filing and paying.

The penalties most commonly connected with this relief are failure-to-file, failure-to-pay, and failure-to-deposit penalties.

Preparers do not need to memorize every procedure. The practical point is to recognize the issue, review the taxpayer's history, and consult current IRS guidance when the taxpayer may qualify.

[Image: Example]

Example: Crystal files her return late and receives a Failure-to-File penalty. She has a strong history of filing and paying on time in prior years. Her tax professional reviews the facts and determines she may be eligible to request First-Time Penalty Abatement.

Preparer Checklist

- Review the IRS notice and identify the type of penalty charged.
- Consider whether the taxpayer has a good filing and payment history.
- Determine whether the penalty may qualify for First-Time Penalty Abatement.
- Consult current IRS guidance before advising the taxpayer or requesting relief.

Practitioner Tip

Do not automatically tell the taxpayer to pay the penalty without reviewing whether relief may be available. A short review may save the taxpayer money and build trust.

[Image: Treasury]

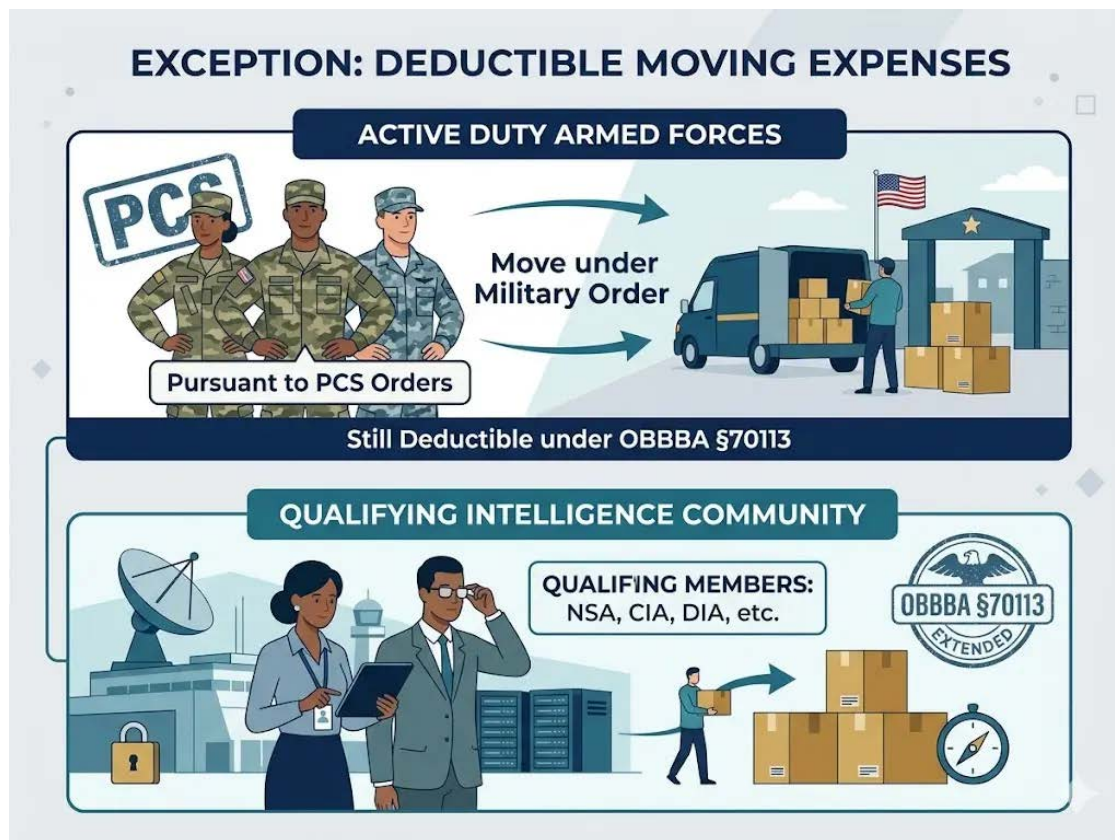
TAX RETURN FLOW

IRS Notice Taxpayer History FTA Review Relief Request

[Image: Summary]

Summary: First-Time Penalty Abatement may help eligible taxpayers remove certain IRS penalties. Preparers should recognize qualifying penalty notices, review the taxpayer's compliance history, and consult current IRS guidance before requesting relief.

Lesson 8.2 – Moving Expense Exception for Intelligence Community Employees



Important Update

For TY2026 returns filed in 2027, the moving expense deduction remains limited, but the exception now includes certain qualifying intelligence community employees.

[Image: What's New]

What's New: Intelligence Community Exception

Most taxpayers still cannot deduct moving expenses. The long-standing exception for active duty Armed Forces members moving under military orders continues, and the TY2026 update adds certain qualifying intelligence community employees.

Preparers should not assume a moving expense deduction is available just because a taxpayer moved for work. The exception applies only when the taxpayer meets the specific qualifying rules.

[Image: Key Takeaway]

Key Takeaway: For most taxpayers, moving expenses remain nondeductible. Review the taxpayer's status, employer, and move documentation before claiming the moving expense deduction.

[Image: Example]

Example: Dana moves to a new city for a private-sector job. Even though the move is work-related, Dana does not qualify for the moving expense deduction. If Dana were a qualifying intelligence community employee and the move met the required rules, the result could be different.

Preparer Checklist

- Confirm whether the taxpayer is an active duty Armed Forces member or a qualifying intelligence community employee.
- Review orders, employer documentation, or other records supporting the move.
- Verify that the expenses relate to a qualifying move before entering the deduction.
- Do not claim moving expenses for ordinary job relocations that do not meet the exception.

[Image: Treasury]

TAX RETURN FLOW

Move Records Qualification Review Form 3903 Form 1040

[Image: Summary]

Summary: Moving expenses remain nondeductible for most taxpayers. For TY2026, preparers should recognize the limited exceptions, verify qualifying status, review supporting records, and claim the deduction only when the taxpayer meets the applicable rules.

Lesson 8.3 – Identity Theft & Practitioner Due Diligence Reminders



Practitioner Awareness

Tax-related identity theft can delay refunds, confuse taxpayers, and create extra work for preparers. The best defense is careful intake, identity verification, and strong documentation.

[Image: What's New]

What's New: Identity Theft Remains a Filing-Season Risk

Identity theft is not only a taxpayer problem. It is also a preparer due diligence issue. Preparers should watch for warning signs, protect taxpayer data, and help taxpayers understand what to do if someone files a return using their information.

[Image: Key Takeaway]

Key Takeaway: When a taxpayer's SSN has been misused, the preparer should slow down, verify identity, review IRS instructions, and keep clear documentation before filing or responding.

[Image: How Tax-Related Identity Theft Works]

What Preparers Should Watch For

A taxpayer may discover identity theft when the IRS rejects an e-filed return because a return was already filed using the taxpayer's SSN. Another warning sign is an IRS letter about a return the taxpayer did not file.

Preparers should not ignore these signs. Review the facts, verify the taxpayer's identity, and follow current IRS procedures when identity theft is suspected.

[Image: Example]

Example: Crystal's tax return is rejected because a return was already filed using her SSN. Her preparer does not simply try again. The preparer reviews the rejection, verifies Crystal's identity, and explains that she may need to follow IRS identity theft procedures.

Preparer Checklist

- Verify taxpayer identity during intake and before filing.
- Watch for rejected returns, unexpected IRS letters, or taxpayer reports of SSN misuse.
- Protect taxpayer documents, passwords, portals, and electronic files.
- Consult current IRS guidance when identity theft is suspected.

[Image: Special Situations Involving SSNs]

Practitioner Tip

If a taxpayer has an Identity Protection PIN, enter it exactly as provided. A missing or incorrect IP PIN can cause the e-filed return to reject.

[Image: Treasury]

TAX RETURN FLOW

Taxpayer ID IP PIN Tax Return IRS Protection

[Image: Summary]

Summary: Identity theft reminders belong in every filing season. Preparers should verify taxpayer identity, protect sensitive data, recognize warning signs, use IP PINs correctly, and consult current IRS guidance when identity theft is suspected.

Lesson 9.1 – Major TY2026 Changes Review

[Image: Major TY2026 Changes Review]

Major Review

This final review brings together the most important TY2026 tax law changes. Focus on understanding the concepts, recognizing documentation requirements, and knowing what a careful preparer should do before filing.

[Image: What's New]

What's New: Your Final Course Review

Section 9 is designed as your study guide before the final review questions. The goal is not to memorize every number. The goal is to understand what changed, why it matters, and what records or forms should be reviewed before filing TY2026 returns in 2027.

[Image: Key Takeaway]

Key Takeaway: A successful preparer does not guess. A successful preparer verifies eligibility, reviews the source documents, keeps records, and reports the item in the correct place on the return.

[Image: Recap]

Major TY2026 Changes Recap

Use this review grid as your study guide before completing the final review questions.

Schedule 1-A Deductions

What Changed? Several new above-the-line deductions are reported through Schedule 1-A.

Why It Matters: Each deduction has its own eligibility and documentation rules.

Practical Tip: Verify eligibility before claiming the deduction.

Education Credits

What Changed? Education credit claims require careful review of Form 1098-T and Form 8863.

Why It Matters: Missing or incorrect information may delay processing or cause an IRS adjustment.

Practical Tip: Verify the student and school information before filing.

Enhanced Senior Deduction

What Changed? TY2026 includes an enhanced deduction for certain eligible seniors.

Why It Matters: Age alone does not automatically mean the full deduction applies.

Practical Tip: Confirm age, filing status, and income rules before claiming it.

Qualified Tip Deduction

What Changed? Certain qualified tip income may support a Schedule 1-A deduction.

Why It Matters: Tip income is still reported first; the deduction is claimed separately.

Practical Tip: Do not call tips tax-free. Report income, then calculate the deduction.

Information Reporting

What Changed? TY2026 includes updates involving Forms 1099-K, 1099-NEC, 1099-MISC, W-2 tip reporting, and digital assets.

Why It Matters: Information returns help identify activity but do not determine taxability by themselves.

Practical Tip: Taxable income must generally be reported even if no Form 1099 is received.

HSA Changes

What Changed? TY2026 includes important updates affecting HSA eligibility and reporting awareness.

Why It Matters: HSA reporting begins with eligibility and proper use of funds.

Practical Tip: Review coverage, contributions, distributions, and medical expense records.

Clean Vehicle Reporting

What Changed? Clean vehicle reporting requires attention to acquisition dates, seller documentation, VINs, and Form 8936.

Why It Matters: Vehicle documents and dealer information should be reviewed before filing.

Practical Tip: Match the VIN, seller report, purchase records, and return entries.

Digital Asset Reporting

What Changed? Digital asset reporting continues to require careful taxpayer questions and record review.

Why It Matters: Forms may identify activity, but taxpayer records are still needed for basis, gain, loss, or income treatment.

Practical Tip: Ask the question, document the answer, and review records before reporting.

Identity Theft and IP PINs

What Changed? Identity theft remains a filing-season risk, especially when an SSN is misused or an IP PIN is required.

Why It Matters: A missing or incorrect IP PIN can cause an e-filed return to reject.

Practical Tip: Verify identity, protect records, and enter the IP PIN exactly as provided.

Penalty Relief and Due Diligence

What Changed? The course reviewed practical compliance reminders, including First-Time Penalty Abatement and limited moving expense exceptions.

Why It Matters: Preparers should recognize when relief or an exception may apply but still verify the facts.

Practical Tip: Ask what changed, who qualifies, what document supports it, and where it goes on the return.

[Image: Recap]

Major TY2026 Changes Recap

Use this review grid as your study guide before completing the final review questions.

Education Credits

What Changed? Education credit claims require careful review of Form 1098-T and Form 8863.

Why It Matters: Missing or incorrect information may delay processing or cause an IRS adjustment.

Practical Tip: Verify the student and school information before filing.

[Image: Recap]

Major TY2026 Changes Recap

Use this review grid as your study guide before completing the final review questions.

Enhanced Senior Deduction

What Changed? TY2026 includes an enhanced deduction for certain eligible seniors.

Why It Matters: Age alone is not enough. Preparers should confirm filing status, age, income limits, and other eligibility requirements before claiming the deduction.

Practical Tip: Do not assume every taxpayer age 65 or older qualifies for the full deduction. Verify the facts first.

Qualified Tip Deduction

What Changed? Certain qualified tip income may support a deduction reported on Schedule 1-A.

Why It Matters: Tip income is still reported as taxable income first. The deduction is claimed separately only if the taxpayer qualifies.

Practical Tip: Do not describe tips as “tax-free.” Report the income, verify eligibility, and then determine the allowable deduction.

Information Reporting Changes

What Changed? TY2026 includes important information reporting updates involving Forms 1099-K, 1099-NEC, 1099-MISC, qualified tip reporting, and digital asset reporting.

Why It Matters: Information returns help identify reportable activity, but they do not determine whether income is taxable.

Practical Tip: Taxable income generally must be reported even if the taxpayer does not receive a Form 1099.

[Image: Recap]

Major TY2026 Changes Recap – Part 2

Review the remaining key concepts before completing the final review questions.

HSA Changes

What Changed? TY2026 includes important HSA updates affecting eligibility and reporting awareness.

Why It Matters: Preparers should verify HDHP coverage, contributions, and distributions before completing the return.

Practical Tip: Review coverage, employer contributions, taxpayer contributions, distributions, and qualified medical expense records.

Clean Vehicle and Vehicle Loan Interest Reporting

What Changed? Clean vehicle credits and the vehicle loan interest deduction are separate tax benefits with different rules.

Why It Matters: A qualifying previously owned clean vehicle may qualify for a clean vehicle credit, but the vehicle loan interest deduction applies only to qualifying new vehicles.

Practical Tip: Do not confuse Form 8936 clean vehicle credit rules with Schedule 1-A vehicle loan interest deduction rules. Verify the correct benefit before filing.

Digital Asset Reporting

What Changed? Digital asset reporting continues to expand and requires careful taxpayer interviews and record review.

Why It Matters: Forms may identify activity, but taxpayer records are still needed to determine basis, gain, loss, or income treatment.

Practical Tip: Ask the digital asset question, document the answer, and review transaction records before reporting.

Identity Theft and IP PINs

What Changed? Identity theft remains a significant filing-season issue, especially when a taxpayer's SSN has been misused or an IP PIN is required.

Why It Matters: A missing or incorrect IP PIN can cause an e-filed return to reject and delay processing.

Practical Tip: Verify taxpayer identity, protect sensitive records, and enter the IP PIN exactly as provided.

Penalty Relief and Due Diligence

What Changed? This course reviewed practical compliance topics such as First-Time Penalty Abatement and limited moving expense exceptions.

Why It Matters: Relief provisions and exceptions may help taxpayers, but only when the facts support them.

Practical Tip: Review records, confirm eligibility, and consult current IRS guidance before advising the taxpayer.

Final Preparer Check

What Changed? TY2026 introduced several new rules and reporting updates, but the preparer's core responsibility remains the same.

Why It Matters: Accurate tax preparation begins with asking good questions and reviewing reliable documents.

Practical Tip: Before filing, ask: What changed? Who qualifies? What document supports it? Where does it go on the return?

[Image: Summary]

Final Summary: The most successful tax preparers do not memorize every rule. They understand the concepts, verify eligibility, review source documents, and place each item correctly on the tax return. If you can explain what changed, why it matters, and what to verify before filing, you are well prepared for the final review questions and for real-world tax preparation.

Ready for the Final Review

The final review questions are designed to test concepts, not memorization. Use this recap grid as your study guide. If you understand these practical review points, you should be ready to answer the final review questions with confidence.