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Basic Study Guide TY2025 for 2026 Tax Season

Test Book irs.gov/pub/irs-pdf/f6744.pdf page 31

Remember, there is more to being a VITA volunteer than passing the test. The test shows a very limited sampling of possible client situations. The more you review/practice the more you will know, the more comfortable and confident you will be—it's a great feeling!

Message for volunteers from IRS: Volunteers should base their certification test/retest answers using the tax law content shown in the lessons of the Publication 4491 and Publication 4012. Volunteers should **NOT** base their test/retest answers on OBBBA tax law changes. The Link & Learn Taxes Certification site is programmed for pre-OBBBA tax law answers only.

Turn the certification test into the best learning experience you can by following these steps—

For all scenarios:

- **Are you selecting the correct and best filing status?** See PUB 4012 pages B13-16 to determine which status(s) they qualify for and page A-3 for a brief breakdown of the standard deductions for each—always select the BEST ONE THEY QUALIFY FOR. More on Standard Deductions can be found F3-F4
- **Can they claim a dependent?** Don't assume they can or can't. Use PUB 4012 Section C.

Make sure to bookmark or flag your PUB 4012 with post-it notes on these pages: PUB 4012 pages B13-16 and page C-3

For Basic scenarios 1-6:

A. Read the scenario carefully, mark what you think the answer might be, then go to PUB 4012 to review the topics covered. Do you now have a better understanding and feel confident your answer is correct?

B. Make sure you familiarize yourself with PUB 4012 in print and/or as a PDF—in real life, you need to know how to look up things in this book. irs.gov/pub/irs-pdf/p4012 (Use Control Find feature to locate this using keywords) For print book—use the tabs, table of contents, or glossary to locate topics. **Get comfortable with learning the book now so you will be comfortable in how to look things up when a taxpayer is in front of you. This is an awesome tool—learn to use it!**

C. Read each question carefully, what are they asking you for? I personally read each question 2-3 times. Don't assume you know the answer—especially with Filing Status and who can be claimed as a dependent.

D. Don't forget, vitaresources.net is a great resource for information on all tax topics covered at a VITA site.

Basic Scenario 1: Fred Walker

1. Remember entering the filing status wrong can have a huge impact on the outcome. Please USE YOUR DECISION TREE or tables PUB 4012 page B13-B15 as appropriate. *Follow from the top-don't skip a step.*
2. See Standard deductions in PUB 4012 pages F3-F4

Basic Scenario 2: Alex and Mary Walsh—For both of these questions, understanding this powerful credit is helpful & how to look up the qualifications. PUB 4012 Section I is all about the Earned Income Credit. **Note: If the taxpayer does not qualify for the EITC on the tax return, Taxslayer software will show you a message on the Summary page as to any reason why they did not qualify for the credit. Very Helpful!**

3. See PUB 4012 Section page I-4 for Eligibility Requirements
4. See PUB 4012 Section page I-3 for Earned Income for EITC; Also think about the definition of *earned income-- money derived from paid work.*

Updated 11/9/2025

Basic Scenario 3: Luis and Ana Ramirez – Spend time reviewing PUB 4012 Section G—the taxpayer may qualify for one of these credits for every dependent claimed (and for some dependents they may get 2 of these credits). You will see relationship, age, type of identifying tax number for each dependent, and income will determine type and amount of credits received.

(Note---If you enter all your dependents information correctly into the software, the system will automatically select the correct credits. Plus—the 1040 tax return will show what credit the dependents qualify for on page 1 with a check box indicating the type of credit next to their name—and page 2 shows the amount!)

5. Review PUB 4012 page G-5 through G-8 for information on Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents.
6. The question is asking what is the maximum amount of the credit they *could get* not what will they actually get—don't over think it. This value of this credit has changed just a little bit since last year. See PUB 4012 page G-6

Basic Scenario 4: Gavin and Molly Dowd—For both of these questions, understanding the credits is important—review PUB 4012 Section G5-G8 for dependent credits and Section I for Earned Income Credits. Remember-the system will automatically calculate how much of each credit they are entitled to—so that makes it easy!

7. Review PUB 4012 page G5-G8 for information on Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents.
8. Visit PUB 4012 section I for EITC eligibility requirements.

Basic Scenario 5: Neil Ferguson

9. Visit PUB 4012 section I for EITC eligibility requirements.
10. To answer this question think about who MUST file and Who SHOULD File-See PUB 4012 pages A3-6, and visit PUB 4012 Section I again.

Basic Scenario 6: Scott Payne

11. If unsure, a good place to reference would be PUB 4012 D3-4 - look at the chart of taxable and non-taxable income.
12. It is best to look at the qualifications for each of these credits and see if Scott qualifies (don't just assume you know the answer):
    - Earned Income Credit See PUB 4012 Section I
    - Lifetime Learning Credit and/or American Opportunity Credit? See PUB 4012 Section J-8 Education Credits
13. Student loan interest deduction information can be found in PUB 4012 page E-22 *Did you know an Adjustment to Income is not a credit, but instead it acts like a coupon? The amount allowed to be claimed is subtracted(or adjusted) from the total income ***before the tax is calculated***. (I like to compare it to giving a cashier a coupon at the grocery store).

For Basic Scenarios 7 -9

To get the most out of these scenarios, I suggest the following:

- Do not read the interview notes first. In real life, people do not come in with a printed-out interview note sheet.
- Instead, look at the intake form and tax forms provided by the client first. Based on the forms, ***what other information might we need*** based on the type of income, their ages, marital status, the dependents listed, other forms provided?
- Use PUB 4012 to guide you in determining the questions to ask.
- Then read the intake interview notes.

- Make any notes on the intake form that are needed for you and the Quality Reviewer to complete this return. Remember, in real life you don't have the interview notes.

- **After you complete the return in Taxslayer—go back and make sure you have addressed EVERYTHING noted on the Intake Form—**is all the income entered and all possible credits given? Do this in real life with every return you do—it is easy to forget something—that is why we write it down!

Remember, just because a taxpayer tells you they supported someone, doesn't mean they can claim them as a dependent. Also, just because the taxpayer wants to claim a credit, it doesn't mean they can-- each credit has its own set of eligibility requirements-so review them in your book (you do not need to memorize anything).

These next scenarios will cover a lot of different little situations to put as much stuff in one return as possible. So, don't rush. Once you do a few it will be easy peasy, I promise!

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

Practice Lab Tips:

- Not sure ***where*** to find a form? Use the Form Finder Search box on the top left. Use the **Form Finder Search** box on the top left. Also see **PUB 4012 page O10-14** to see navigation tips
- Not sure ***how*** to enter something?—Your PUB 4012 has screen shots. At a tax site you will be working with an amazing team-ask someone, they will be glad to help!
- **Make sure to get to the end and mark Ready For Review—you are not done with the return until you do that!**
- When you have finished entering the return—generate a PDF of the return to see what you have created and to help answer the test questions.
- **Do not rely on the SCREEN SUMMARY VIEW OF THE 1040 in Practice Lab as it usually is not correct as they have a lot of re-programming to do each year. Numbers will be misaligned, not calculate correctly on the screen, but the PDF is usually fine.**
- If you need information on using Practice lab: vitaresources.net/practicelab

TIP: Don't just answer the test questions, look to see how all the information you entered flowed from the forms to the schedules, to the 1040 page 1 to the end results on page 2. Do this by looking at the PDF—all the schedules.

Basic Scenario 7: Craig & Sarah Knox **Per IRS -Error in book—write $260 tax withholding on tax form 1099-DIV

In this scenario:

- Simple wages, social security income, retirement, dividend, and scholarship income along with education expenses.
- Can they claim a dependent? PUB 4012 Page C3
- Education expenses—Do they qualify for an education credit, if so, which credit might they be eligible for, and what expenses are allowable? See PUB 4012 Section J

After you enter the return:

14. You can find the answer on the PDF of the tax return you generated—Form 1040 Line 12. You can also look in PUB 4012 pages F3-4 *answer questions based on PUB 4012 not what the software or tax law changes under OBBB act show

15. Read the question carefully and remember each education credit has its own rules. Review PUB 4012 section J
16. To see if the system allowed your taxpayers this credit, simply look at the dependent section on Form 1040 page 1 that generated, it shows little check boxes as to what credit entitled to, and on page 2 of the Form 1040 it shows the amounts, if any, issued. Information on Child Tax Credit & Credit for Other Dependent can be found in PUB 4012 pages G5-G8.
17. Federal Withholdings—the question is asking, how much in income tax was withheld from their pay throughout the year. This would be income tax withheld from any jobs worked or disbursements from any retirement or social security payments. You can add the amounts withheld/paid on all the forms (W2s and 1099s) provided by the taxpayers, and you can also view the value you entered on the PDF of the 1040 Line 25d. *****Note add $260 in withholdings on the DIV**
18. The taxable amount of the social security can be found on the Form 1040 Line 6b. Yes, Social Security Income ***can*** be taxed—I know it doesn't seem fair, but this is the rule. If it is taxed, and how much of it can be taxed, all depends on the client's filing status and total income. The system does all the calculations for you! **It will NEVER BE 100% TAXED. The maximum amount that can be taxed is 85%.**
19. See PUB 4491 Section 8 page 12 (8-12) for a description/definition of what qualified dividends are; the system calculates the taxable amount –you just key on the form as it appears.

Basic Scenario 8: Beth Tooney

In this scenario:

- Beth has two children she supports, that have earned wages and lived at home. Look at the tables PUB 4012 page C3-C4. Can she claim them both? Don't ever assume, use your tools!
- It says Beth received disability **pension** benefits, but she has not reached the minimum retirement age of her employer's plan. Look at the 1099-R then look at PUB 4012 page D65 and D67 **watch what happens to the retirement income on the Form 1040 Page 1! *(In real life—with a Code 3-you would ask the client if they have reached retirement age for their company yet—there are no interview notes provided in real life)*

After you enter the return:

20. Look at your Form 1040, Line 1 Wages and Line 5 Pensions—where did the money from the 1099-R end up? See bullet point above for more information
21. Which filing status would you choose? See Filing Status Decision Tree PUB 4012 page B-13-15; which status(es) does Amy qualify for? Which one is the best (see tables page F3-4 **some people can qualify for 2 statuses--- not always. ***We want to give them the one with the highest standard deduction they are rightfully eligible for.***
22. Look at the PDF of the tax return you generated- look to see if a Schedule EIC printed in the PDF. If so, see which dependents are listed there. *(Random note about EITC in general-- EITC maxes out at 3 children, so if you have a family with more than 3 kids, only 3 will show up on this schedule—there will not be an additional schedule or page listing the other children for that credit) See* ***PUB 4012 Section I***
23. Go through the tables **PUB 4012 page C-3** and also look at the intake form and interview notes. Based on the rules, can Amy claim both kids? Just one? Or none? Who is on the 1040 page 1, under the dependent section of the return you generated?
24. If you are not sure about this answer, please see **PUB 4012 page K24-27**; key phrase here--the taxpayer anticipates owing--and is looking for a way to prevent it. What can they do?

Updated 11/9/2025

Basic Scenario 9: Gloria Cortez

In this Scenario:

- We have a spouse, passing away in 2023; What will be the filing status for this return? See Decision Tree or table **PUB 4012 pages B13-B15**; make sure to always start at the beginning of the chart/table!
- Irene took money from her IRA account in June to pay for vacation.
    - Has she reached retirement age?
    - Will she get penalized? If so, is there an exception she qualifies for to avoid a penalty?
        - Look up 1099-R Box 7 Code on **PUB 4012 page D67** then go to **PUB 4012 page H7** to see if there are exceptions **Tip-write this page number on page D-50 for easy reference during tax season. ***Please Note: If someone is entitled to have penalty waived—you must enter Form 5329 on the return—it is not automatic. I suggest you add this note to the top of H7. Put post it notes on these pages too!***
- Gloria was a teacher and purchased supplies for her class. See **PUB 4012 page E-10** to see if she qualifies to claim the expense—there are rules that have to be followed and limits to what and how much can be claimed. There are questions you would ask the client…
- Gambling winnings—See **PUB 4012 page D3-4,** Does gambling have to be reported? Then See **PUB 4012 page D65.**
- Day care expenses **PUB 4012 pages G12-G16.** Who qualifies, what expenses are allowed.

25. See **PUB 4012 page D3-4 and D86** for information on gambling income
26. Which filing status will you choose? See Filing Status Decision Tree and Tables PUB 4012 page B13-15; which statuses does Gloria qualify for? Which one is the best? (see tables PUB 4012 page F3-F4 **some people can qualify for 2 statuses--- not always. We want to give them the one with the highest standard deduction they are rightfully eligible for.
27. Look **at your Form 1040 Schedule 2 Line 8;** See notes from the bullet above about early distribution from retirement, should she be charged a penalty?
28. Look at your Form 1040 page 1-dependent section. What boxes are checked in the dependent section? PUB 4012 page G4-7 and G14-18 also look at Schedule 3 of our return (Note-If you enter all your dependents information correctly into the software, the system will automatically select the correct credits based on age and qualifications.)
29. Look at the PDF of the tax return—where do you see the bank account information? See **PUB 4012 pages K8** to learn more. This is my absolute favorite tax form!!! I encourage my taxpayers to split their refund all the time!
30. When you entered this return, how much did you enter? Look at your **Form 1040 Schedule 1 Line 11**. See **PUB 4012 page E-10**

Now that you have your answers ready—check them using the tool on vitaresources.net BEFORE you submit them to the IRS.
Feedback is given so you can review, learn, and make corrections.
Happy VITA-ing Everyone!

Please consider taking the Advance Certification too--You can help so many more people!
What is the difference between Basic and Advanced Certification?

- Self Employment, Schedule C; Simple ones with no employees
- Capital Gains (stocks and sale of main home),

- and Marketplace Health Insurance Form 1095A—yes Marketplace—a HUGE amount of taxpayers we see have Marketplace and it is so simple to enter—but must be Advanced to do ☹
- Training for these 3 topics is available –please consider being Advanced certified

Questions? Do not hesitate to reach out to me. I want to help!

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Make sure to visit vitaresources.net for more tools and training resources for all things VITA!