

Advanced Course Retest Questions

Directions

The first six scenarios do not require you to prepare a tax return. **Read the interview notes for each scenario carefully and use your training and resource materials to answer the questions after the scenarios.** Assume that each taxpayer qualifies for credits or favorable tax treatment, unless the facts indicate otherwise.

Advanced Scenario 1: Fay Lewis

Interview Notes

- Fay's husband, Joe, moved out of their home in March of 2024. Fay has had no contact with Joe since he moved out. Fay and Joe are not legally separated.
- Fay has one child, Sallie, age 11. She will claim Sallie as a dependent on her 2026 tax return.
- Fay is 31 years old.
- Fay earned \$46,000 in wages (including \$1,000 in qualified tips reported on her Form W-2). Fay received \$75 of interest.
- Fay paid all the costs of keeping up her home. She provided over half of the support for Sallie.
- They all are U.S. citizens and have valid Social Security numbers. They lived in the U.S. all year.

Advanced Scenario 1: Retest Questions

1. What is the most beneficial allowable filing status that Fay is eligible to claim on her 2026 tax return?
 - a. Qualifying Surviving Spouse
 - b. Head of Household
 - c. Married Filing Separately
 - d. Single
2. Based on the information provided, Fay does not qualify for the Earned Income Tax Credit (EITC).
 - a. True
 - b. False
3. Fay will get an Additional Deduction for Qualifying Tips on her federal tax return.
 - a. True
 - b. False

Advanced Scenario 2: Frank and Molly Spring

Interview Notes

- Frank and Molly are married and want to file a joint return.
- Frank and Molly are both U.S. citizens and have valid Social Security numbers. They resided in the United States all year with their children.
- Frank and Molly have two children, Betty, age 8, and David, age 17. Betty and David are U.S. citizens and have valid Social Security numbers.
- Frank earned \$33,000 in wages.
- Molly earned \$21,000 in wages.
- In order to work, the Springs paid \$2,000 to their son, David, to care for Betty after school.
- Frank and Molly provided all of the support for their two children.

Advanced Scenario 2: Retest Questions

4. Frank and Molly are eligible to claim the Child Tax Credit (CTC).
 - a. True
 - b. False
5. Payments made to David can not be claimed on Form 2441 as Child and Dependent Care Expenses.
 - a. True
 - b. False

Advanced Scenario 3: Donna Johnston

Interview Notes

- Donna Johnston, age 58, is single.
- Donna earned wages of \$51,000 and was enrolled the entire year in a high deductible health plan (HDHP) with self-only coverage.
- During the year, Donna contributed \$2,100 to her Health Savings Account (HSA), and her uncle also contributed \$1,000 to Donna's HSA.
- Donna's Form W-2 shows \$1,200 in Box 12 with code W. She has Form 5498-SA showing \$4,300 in Box 2.
- Donna has Form 1099-SA showing her HSA distributions. She used her distributions to pay the following unreimbursed expenses:
 - \$900 for nine visits to a physical therapist after her knee surgery
 - \$1,400 unreimbursed doctor bills
 - \$440 prescription medicine
 - \$2,000 replacement of a crown
 - \$700 deep cleaning for teeth
 - \$40 over the counter medication
 - \$260 gym membership (for her general health and fitness)
- Donna is a U.S. citizen with a valid Social Security number.

Advanced Scenario 3: Retest Questions

6. Donna is eligible to contribute an additional \$1,100 to her HSA.
 - a. True
 - b. False
7. Donna can not include her uncle's contribution on Form 8889, Part I.
 - a. True
 - b. False
8. The over-the-counter medication is not a qualified medical expense for HSA purposes.
 - a. True
 - b. False

Advanced Scenario 4: Olivia Peas

Interview Notes

- Olivia, age 62, is single. She owns her home and provided all the costs of keeping up her home for the entire year. Her only income for 2026 was \$48,700 in Form W-2 wages.
- Jill, age 24, and her daughter Grace, age 5, have lived with Jill's mother, Olivia, since Jill separated from her spouse in May of 2025. Jill's only income for 2026 was \$24,000 in wages. Jill provided over half of her own support. Grace did not provide more than half of her own support.
- Jill will not file a joint return with her spouse.
- All individuals in the household are U.S. citizens with valid Social Security numbers; no one has a disability; and they lived in the United States all year.

Advanced Scenario 4: Retest Questions

9. Grace is only a qualifying child of Olivia.
 - a. True
 - b. False
10. Grace is a qualifying child for Olivia to claim the Earned Income Tax Credit (EITC).
 - a. True
 - b. False

Advanced Scenario 5: Max Stone

Interview Notes

- Max is 54 years old and files as single.
- His 2026 adjusted gross income (AGI) is \$52,000, which includes gambling winnings of \$3,000.
- Max would like to itemize his deductions on Form 1040 Schedule A this year.
- Max brings documents for the following items:
 - \$10,500 hospital and doctor bills
 - \$1,000 contributions to Health Savings Account (HSA)
 - \$3,600 state withholding (higher than the calculated state sales tax deduction)
 - \$500 personal property taxes based on the value of the vehicle
 - \$800 friend's personal GoFundMe campaign
 - \$500 cash contributions to the Red Cross
 - \$200 fair market value of clothing (in good used condition) donated to the Salvation Army (Max purchased the clothing for \$900)
 - \$7,300 mortgage interest
 - \$2,300 real estate tax
 - \$1,600 Mortgage Insurance Premiums
 - \$2,000 gambling losses

Advanced Scenario 5: Retest Questions

11. If Max chooses to itemize, which of the following is an eligible deduction on Form 1040, Schedule A?
 - a. \$7,300 mortgage interest
 - b. \$1,600 Mortgage Insurance Premiums (MIP).
 - c. \$2,300 real estate tax
 - d. All of the above
12. Max is eligible to claim \$1,800 in gambling losses as a deduction on his Form 1040, Schedule A.
 - a. True
 - b. False

Advanced Scenario 6: Vince Baldy

Interview Notes

- Vince Baldy is 28 years old and single. He provides all of his own support.
- Vince works at a gas station and earned \$20,000 in wages.
- Vince is a full-time student in his second year at the state college pursuing a bachelor degree. Vince does not have a felony drug conviction. He wants to know if that qualifies for any educational tax benefit.
- Vince took two early distributions from his IRA which had a balance of \$5,000. One was \$2,000 for tuition, and the other was \$750 for emergency car repairs. This is the first time he has taken a distribution from his IRA.
- Vince is a U.S. citizen and lived in the U.S. for the entire year. He has a valid Social Security number.

Advanced Scenario 6: Retest Questions

- 13.** The American Opportunity Tax Credit is more beneficial to Vince than the Lifetime Learning Credit in 2026.
- a.** True
 - b.** False
- 14.** Vince will not owe an additional \$75 tax on the \$750 IRA distribution for emergency car repairs.
- a.** True
 - b.** False

Advanced Scenario 7: Robert and Carol Williams

Interview Notes

- Robert and Carol are married and choose to file Married Filing Jointly on their 2026 tax return.
- Robert is a kindergarten teacher at a public school. He worked a total of 1,600 hours in 2026. During the school year, he spent \$300 on unreimbursed classroom expenses.
- Carol retired in 2023 and began receiving her pension on November 1st of that year. She explains that this is a joint and survivor annuity. She has already recovered \$1,499 of the cost of the plan.
- Robert settled with his credit card company on an outstanding bill and brought the Form 1099-C to the site. They aren't sure how it will impact their tax return for tax year 2026. The Williams determined that they were solvent as of the date of the canceled debt.
- Carol won \$800 from a prize drawing.
- Their daughter, Debbie, is in her fifth year of college pursuing a bachelor's degree in Physics at a qualified educational institution. The Williams provided Form 1098-T and an account statement from the college that included additional expenses. On Form 1098-T for the previous tax year, Box 7 was not checked. The Williams paid \$1,500 for books and equipment purchased online, which were required for Debbie's courses. The Williams have already claimed the American Opportunity Tax Credit for the last four years.
- Debbie does not have a felony drug conviction.
- They are all U.S. citizens with valid Social Security numbers.
- Refer to Advance Scenario 7 for the income statement documents

Advanced Scenario 7: Retest Questions

15. The taxable portion of Carol's pension from Liberty Enterprises using the simplified method is \$22,708.
 - a. True
 - b. False
16. Which credit can the Williams claim on their federal tax return?
 - a. American Opportunity Tax Credit
 - b. b. Lifetime Learning Credit
 - c. c. Child Tax Credit
 - d. d. Premium Tax Credit
17. The total amount of other income reported on the Williams' Form 1040, Schedule 1 is \$1,800.
 - a. True
 - b. False

- 18.** What is the amount Robert is eligible to claim as qualified educator expenses on Form 1040, Schedule 1?
- a.** \$0
 - b.** \$300
 - c.** \$500
 - d.** \$600
- 19.** The Williams' standard deduction on their Form 1040 for tax year 2026 is \$35,500.
- a.** True
 - b.** False
- 20.** The Williams' qualifying expense for the Lifetime Learning Credit is _____.
- a.** Tuition
 - b.** Parking pass
 - c.** Required books purchased online
 - d.** All of the above
- 21.** A portion of Carol's Social Security benefits is taxable according to the Social Security benefits worksheet.
- a.** True
 - b.** False
- 22.** The federal income tax withholding reported on the Williams' Form 1040 is \$9,358.
- a.** True
 - b.** False

Advanced Scenario 8: Marta Garcia

Interview Notes

- Marta is age 27 and single. She worked in 2026 as a paralegal and received a Form W-2 with overtime.
- Marta has investment income and a consolidated broker's statement.
- Marta is self-employed delivering meals for Fast Eats on the weekends. She received a Form 1099-NEC and a Form 1099-K. She received additional cash payments of \$750, none of which were tips.
- Marta uses the cash method of accounting. She uses business code 492000.
- Marta provided a statement from Fast Eats indicating the fees paid for the year. These fees are considered ordinary and necessary for the food delivery business:
 - \$250 for insulated box rental from Fast Eats
 - \$100 for vehicle safety inspection (required by Fast Eats)
 - \$700 for Fast Eats fees
- Marta also kept receipts for the following out-of-pocket expenses:
 - \$200 for tolls while making deliveries
 - \$500 for traffic tickets
 - \$700 for Marta's lunches
- Marta's record keeping application shows she has driven a total of 2,500 miles during and between deliveries. Marta drove 1,000 miles before June 30.
 - She placed her only vehicle, an SUV, in service on 3/15/2020. The total mileage on her SUV for tax year 2026 was 11,000 miles. Of that, 8,500 were personal and commuting miles. Marta will take the standard business mileage rate.
- Marta is paying on her student loan from 2019, when she completed her undergraduate degree.
- Marta is working towards her Juris Doctorate degree to start a new career as a lawyer. She took a few college courses this year at an accredited college.
- Marta took an early distribution of \$6,000 from her IRA in April. She used \$3,600 of the IRA distribution to pay her educational expenses and \$1,000 for emergency home repair expenses for the current year. She has never made any non-deductible contributions to her IRA.
- If Marta has a refund, she would like it deposited into her checking account.
- Refer to Advance Scenario 8 for the income statement documents.

Advanced Scenario 8: Retest Questions

- 23.** Marta's net short-term capital gain reported on Form 1040, Schedule D is \$400.
- a.** True
 - b.** False
- 24.** Marta can claim her tolls as a business expense in addition to her standard mileage deduction on her Form 1040, Schedule C.
- a.** True
 - b.** False

- 25.** Marta's student loan interest deduction on her Form 1040, Schedule 1 is _____.
- a.** \$0
 - b.** \$2,000
 - c.** \$2,250
 - d.** \$2,500
- 26.** The total standard mileage deduction for Marta's business on Form 1040, Schedule C is \$1,750.
- a.** True
 - b.** False
- 27.** The amount of Marta's qualified overtime compensation deduction reported on Form 1040, Schedule 1-A is \$_____.
(Note: whole number only, do not use special characters.)
- 28.** Marta will have to pay \$240 additional tax because she received the early distribution from her IRA.
- a.** True
 - b.** False
- 29.** To avoid having a balance due next year, Marta can use the IRS withholding estimator to calculate her tax liability and submit a new Form W-4 to increase her tax withholding.
- a.** True
 - b.** False

Advanced Scenario 9: Cole Green

Interview Notes

- Cole is age 42 and was widowed in July, 2025. He has a daughter, Isabel, age 10, who lived with him the entire year.
- Cole provided the entire cost of maintaining the household and over half of the support for Isabel. In order to work, he pays childcare expenses to Southside Daycare.
- On July 1, 2026, Cole purchased a brand new car that underwent final assembly in the United States. He uses the car for personal purposes.
- Cole purchased health insurance for himself and his daughter through the Marketplace. He received a Form 1095-A.
- Cole and Isabel are U.S. citizens and lived in the United States all year in 2026.
- Refer to Advance Scenario 9 for the income statement documents

Advanced Scenario 9: Retest Questions

- 30.** Cole's most advantageous filing status is Qualifying Surviving Spouse.
- a. True
 - b. False
- 31.** Cole's adjusted gross income is \$42,212.
- a. True
 - b. False
- 32.** Which of the following would disqualify Cole to claim the car loan interest deduction?
- a. Cole uses his vehicle for business.
 - b. Cole takes the standard deduction.
 - c. Cole's car weighs 15,000 pounds.
 - d. Both a and c
- 33.** Cole received the Retirement Savings Contribution Credit on his federal tax return.
- a. True
 - b. False
- 34.** Cole is not eligible for the Premium Tax Credit (PTC).
- a. True
 - b. False
- 35.** Cole's Child and Dependent Care Tax credit is \$525.
- a. True
 - b. False