



2026 Filing Season Income Tax Update: Part 2

Course #32302B

Taxes

2 Credit Hours

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2026 FILING SEASON INCOME TAX UPDATE: PART 2

This course provides a broad overview of essential tax rules for individual filers, including the reporting and taxability of unemployment compensation, business income, and home-office deductions. It covers hobby vs. business classification, depreciation limits, capital gains treatment, and standard deduction eligibility. The course also addresses education and energy credits, the Earned Income Tax Credit, and changes introduced by the One Big Beautiful Bill Act (OBBA), equipping filers with the knowledge to maximize deductions and stay compliant.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

- General Income Tax Review II**
- General Income Tax Review III**
- General Income Tax Review IV**

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recall the reporting and taxability of unemployment compensation.
- Recall the tax treatment of business income and expenses.
- Recognize the difference between the actual expense method and simplified method of figuring the home-office deduction.
- Identify the expenses normally deductible by taxpayers using a home for business purposes who use the actual expense method.
- Recognize the difference between a hobby and a business for tax purposes.
- Recognize various property depreciation eligibility requirements and limits
- Recognize the eligibility for and limits applicable to the moving expense deduction.
- Recall the recordkeeping and documentation requirements applicable to claiming deductions.
- Recognize the eligibility requirements for various tax credits.
- Recall the eligibility requirements for and limits applicable to education credits.
- Recall the eligibility for, and amount of, the Earned Income Tax Credit.
- Recognize modifications to the Energy Efficient Home Improvement Credit.
- Recognize the Clean Vehicle Credit changes under the One Big Beautiful Bill Act (OBBA).

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2 CPE hours**.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: GENERAL INCOME TAX REVIEW II

Chapter Objectives

After completing this chapter, you should be able to:

- Recall the reporting and taxability of unemployment compensation.
- Recall the tax treatment of business income and expenses.
- Recognize the difference between the actual expense method and simplified method of figuring the home-office deduction.
- Identify the expenses normally deductible by taxpayers using a home for business purposes who use the actual expense method.
- Recognize the limits applicable to a home-office deduction.
- Recognize the difference between a hobby and a business for tax purposes.
- Recognize various property depreciation eligibility requirements and limits.

INTRODUCTION

This course is a continuation of the general review of tax law related to preparation of 2025 individual 1040 tax returns. It focuses primarily on the taxability of unemployment compensation, the business use of a home, the recordkeeping requirements applicable to Schedule C income and expenses, section 179 expense limits, and property depreciation.

REPORTING AND TAXABILITY OF UNEMPLOYMENT COMPENSATION

The term **unemployment compensation** includes any amount received under an unemployment compensation law of the United States or of a state. Accordingly, all the following benefits are considered unemployment compensation:

- Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund;
- State unemployment insurance benefits;
- Railroad unemployment compensation benefits;
- Disability payments from a government program paid as a substitute for unemployment compensation;
- Trade readjustment allowances under the Trade Act of 1974;
- Unemployment assistance under The Disaster Relief and Emergency Assistance Act of 1974;

- Unemployment assistance under the Airline Deregulation Act of 1978 Program; and
- Benefits from a private fund exceeding voluntary contributions to it made by the taxpayer.

Unemployment Compensation Taxable

Recipients of unemployment compensation are generally required to include all such compensation in income for tax purposes. The taxpayer should receive a Form 1099-G showing (in box 1) the total unemployment compensation paid. In most cases, the total amount of unemployment compensation shown should be entered on line 7 of Form 1040, Schedule 1.

In some cases—those involving certain governmental unemployment compensation programs to which the taxpayer contributed and unemployment compensation that was repaid—not all of the amount received during the year should be included as unemployment compensation.

Nondeductible Contributions to Governmental Unemployment Compensation Plan

If the taxpayer made nondeductible contributions to a governmental unemployment compensation program, the amounts received by the taxpayer under the program are not includable as unemployment compensation until the taxpayer has received an amount equal to his or her entire contribution tax-free. In contrast, if the taxpayer deducted all his or her contributions to the program, the entire amount received under the program would be includable in the taxpayer's income.

Repayment of Unemployment Compensation

If the taxpayer repaid employment compensation received in 2025 in the same year, the tax preparer should subtract the amount repaid from the total amount of unemployment compensation received and enter the difference on line 7 of Form 1040, Schedule 1. On the dotted line next to the entry, enter "repaid" and the amount repaid by the taxpayer.

If the amount of unemployment compensation repaid during the year was more than \$3,000, the taxpayer may take a tax credit for the year of repayment. In order to take a tax credit for repayment, the taxpayer must have believed that he or she had an unrestricted right to the unemployment compensation at the time it was received.

ALIMONY – PRE 2019 AND POST 2018 DIVORCE AGREEMENTS

Alimony payments made in 2018 and before are deductible to the payer and includable in the recipient's income.

However, alimony payments are no longer tax-deductible to the payer or includable in the income of the recipient if made under:

- a. A divorce or separation agreement entered into after December 31, 2018; or
- b. A divorce or separation agreement entered into on or before December 31, 2018 but modified after that date if the modified agreement specifically provides that the provisions of the Tax Cuts and Jobs Act of 2017 will apply.

Alimony payments made under a divorce or separation agreement entered into on or before December 31, 2018 but paid after that date—with the exception of such payments made under a modified agreement described in (b) above—will continue to be tax-deductible to the payer and includable in the income of the recipient.

SCHEDULE C. PROFIT OR LOSS FROM BUSINESS (SOLE PROPRIETORSHIP)

Schedule C (Form 1040), Profit or Loss From Business, is the supplemental form attached to Forms 1040, 1040NR, or 1041 used to calculate the net profit or loss in a sole proprietorship.

A self-employed taxpayer is one who:

- Carries on a trade or business as a sole proprietor;
- Is an independent contractor;
- Is a member of a partnership; or
- Is in business for himself or herself in any other way.

Income and Expenses Defined

If there is a connection between any income the taxpayer receives and the taxpayer's business, the income is business income. A connection exists if it is clear that the payment of income would not have been made if the taxpayer did not have the business. Income from work the taxpayer performs on the side in addition to his or her regular job can be business income. It includes amounts the taxpayer received in his or her business that were properly shown on Forms 1099-NEC as nonemployee compensation in box 1 of the form.

An individual is considered self-employed if the person spends all his or her working hours as a self-employed individual or works as a self-employed person only in addition to other duties performed as an employee. Regardless of the amount of time a taxpayer spends in a self-employed activity, the taxpayer must file a tax return if his or her gross income is at least as much as the filing threshold for the individual's filing status and age. In addition, the taxpayer must also file Form 1040 Schedule SE, Self-Employment Tax, if:

- Net earnings from self-employment, excluding church employee income, were \$400 or more; or
- The taxpayer had church employee income of \$108.28 or more.

If the taxpayer is self-employed, his or her gross income includes:

- The amount on Schedule C (Form 1040), Profit or Loss From Business;
- The amount on Schedule C-EZ (Form 1040), Net Profit From Business; and
- The amount on Schedule F (Form 1040), Profit or Loss From Farming.