



# 2026 Filing Season Income Tax Update: Part 3

---

**Course #32303B**

**Taxes**

**2 Credit Hours**

**Support@PacificCPE.com | (800) 787-5313**

**PacificCPE.com**

# 2026 FILING SEASON INCOME TAX UPDATE: PART 3

---

This course provides a comprehensive overview of key tax rules and compliance requirements for tax preparers. Topics include the tax treatment of virtual currency, §199A aggregation and SSTB rules, Premium Tax Credit eligibility, HSA/MSA limits, payment and refund options, and filing deadlines. It also covers identity theft red flags, data privacy best practices, ITIN use and renewal, e-file mandates, and the Annual Filing Season Program. The course highlights preparer penalties and due diligence obligations related to head of household status and refundable credits, ensuring full awareness of current IRS standards.

## 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 V Practices, Procedures, and Professional Responsibility**

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

#### **Objectives:**

- Identify the rules governing the income tax treatment of virtual currency events and transactions.
- Recognize the aggregation rules applicable to the §199A deduction.
- Identify the trades or businesses considered specified service trades or businesses (SSTBs) that may be ineligible for the pass-through deduction.
- Recognize the eligibility requirements for the Premium Tax Credit.
- Recall the rules governing HSA and MSA eligibility and contribution limits.
- Recall the laws and regulations requiring privacy and security of taxpayer data and the best practices tax preparers may implement to help assure it.
- Recall the purpose of individual taxpayer identification numbers, their effect on tax credits, and how to renew them.
- Recognize the penalties applicable to a tax return preparer under Title 26.
- Identify the due diligence requirements imposed on tax return preparers with respect to claiming the head of household filing status, EITC, CTC, and AOTC.
- Recognize the e-file requirements.
- Recognize the Annual Filing Season Program requirements.

## NOTICE

This course and test uses the materials entitled 2026 Tax Filing Season Update © 2025 by Winn Publications. Displayed by permission of the author. All rights reserved. No part of this course may be reproduced in any form or by any means without the written permission of the copyright holder.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties or merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

The End User shall be permitted to use the Licensed Content for internal purposes only and not for resale or distribution. The Licensed Content is provided on an "as is" basis and without any warranties of any kind, express or implied. CCH INCORPORATED AND ITS LICENSORS AND AFFILIATES DISCLAIM ALL WARRANTIES WITH RESPECT TO THE LICENSED CONTENT, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT, TITLE, QUIET ENJOYMENT AND INFORMATION COMPLETENESS, CURRENCY OR ACCURACY.

End User assumes all responsibilities and obligations with respect to the selection of the Licensed Content to achieve End User's intended results. End User assumes all responsibilities and obligations with respect to any decision or advice made or given as a result of the use or application of the Licensed Content. CCH and its licensors and affiliates are not engaged in the rendering of legal, accounting, tax or other professional advice or services. If legal, accounting, tax or other expert assistance is required, the services of a competent professional should be sought.

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

© Pacific CPE, LP 2025

Program publication date 8/6/25

## 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.

---

# TABLE OF CONTENTS

---

|  |               |
|--|---------------|
| <b>Chapter 1: General Income Tax Review V</b>                                | <b>1</b>      |
| Introduction   | 1             |
| Tax Treatment of Virtual Currency  | 1             |
| Alternative Minimum Tax (AMT)  | 3             |
| QBI Deduction  | 3             |
| Kiddie Tax – Unearned Income of Minor Children                               | 9             |
| Section 529 Plans  | 9             |
| Achieving a Better Life Experience (ABLE) Account                            | 10            |
| Net Operating Loss (NOL)   | 13            |
| Premium Tax Credit   | 14            |
| Employee Fringe Benefits   | 16            |
| Depreciation of Rental Property  | 22            |
| Tax Withholding and Estimated Tax Payments                                   | 23            |
| Balance Due and Refund Options   | 26            |
| Federal Income Tax Return Filing Due Dates and Filing for Extensions         | 27            |
| Summary  | 30            |
| <b>Chapter 1: Test Your Knowledge</b>  | <b>32</b>     |
| <b>Chapter 1: Solutions and Suggested Responses</b>                          | <b>34</b>     |
| <br><b>Chapter 2: Practices, Procedures, and Professional Responsibility</b> | <br><b>36</b> |
| Introduction   | 36            |
| Tax Related Identity Theft (Publication 5199)                                | 36            |
| Safeguarding Taxpayer Data (Publication 4557)                                | 37            |
| Individual Taxpayer Identification Numbers                                   | 41            |
| Preparer Penalties   | 43            |
| Due Diligence in Tax Preparation   | 44            |
| Compliance with E-file Procedures  | 53            |
| Annual Filing Season Program Requirements                                    | 56            |
| Summary  | 59            |
| <b>Chapter 1: Test Your Knowledge</b>  | <b>63</b>     |
| <b>Chapter 1: Solutions and Suggested Responses</b>                          | <b>64</b>     |
| <br><b>Glossary</b>  | <br><b>66</b> |
| <br><b>Index</b>   | <br><b>68</b> |
| <br><b>Final Exam Copy</b>   | <br><b>69</b> |
| <br><b>Appendix A</b>  | <br><b>I</b>  |
| <br><b>Appendix B</b>  | <br><b>II</b> |

# CHAPTER 1: GENERAL INCOME TAX REVIEW V

## Chapter Objectives

### After completing this chapter, you should be able to:

- Identify the rules governing the income tax treatment of virtual currency events and transactions.
- Recognize the aggregation rules applicable to the §199A deduction.
- Identify the trades or businesses considered specified service trades or businesses (SSTBs) that may be ineligible for the pass-through deduction.
- Recognize the eligibility requirements for the Premium Tax Credit.
- Recall the rules governing HSA and MSA eligibility and contribution limits.
- Recognize the options available to a taxpayer for paying any income tax due or receiving an income tax refund.
- Identify the due dates of income tax returns.

## INTRODUCTION

This chapter concludes the general income tax review by examining the tax treatment of virtual currency, the nature of the qualified business income (QBI) deduction, the Kiddie Tax, the eligibility requirements and limits to qualified tuition programs, ABLE accounts, NOLs, the Premium Tax Credit, MSAs, HSAs, and depreciation. This chapter also discusses income tax withheld by an employer, exemptions to withholding, requirements related to payment of estimated tax, and the federal income tax balance due and refund options.

## TAX TREATMENT OF VIRTUAL CURRENCY

The term “virtual currency” refers to a digital representation of value not issued by any public authority but which may be, nonetheless, accepted as a means of payment between persons. It functions as a medium of exchange and/or a store of value, although it doesn’t have status as legal tender. Such virtual currency having an equivalent value in real currency is referred to as “convertible” virtual currency. The IRS in Notice 2014-21<sup>1</sup> describes how existing general tax principles apply to transactions using virtual currency as indicated below.

- Virtual currency is treated as property;
- Virtual currency is not treated as currency;
- Virtual currency as payment requires the recipient to include the fair market value of the virtual currency in U.S. dollars when computing gross income;
- Virtual currency basis is its fair market value in U.S. dollars as of the date of receipt;

1. Notice 2014-21 may be accessed at <https://www.irs.gov/pub/irs-drop/n-14-21.pdf>.

- Gain or loss on exchange of virtual currency is considered a capital gain or capital loss;
- Type of gain or loss realized generally depends on whether or not the virtual currency is a capital asset in the hands of the taxpayer;
- Mining virtual currency results in realized gross income for tax purposes upon receipt of the virtual currency to the extent of its fair market value as of the date of receipt;
- Virtual currency mining as a trade or business, if not undertaken as an employee results in net earnings from self-employment and constitutes self-employment income subject to the self-employment tax;
- Virtual currency received by independent contractors for performing services, measured in U.S. dollars as of the date of receipt, constitutes self-employment income subject to self-employment tax;
- Virtual currency paid to an employee is subject to federal income tax withholding, FICA tax, and FUTA tax based on its fair market value when paid and must be reported on Form W-2, Wage and Tax Statement;
- Information reporting of virtual currency payments requires a person who, in the course of a trade or business, makes a payment of fixed and determinable income using virtual currency with a value of more than \$600 to a U.S. nonexempt recipient in a taxable year must report the payment to the IRS and to the payee;
- Information reporting of virtual currency payments to independent contractors generally requires a person who, in the course of a trade or business, makes a virtual currency payment of \$600 or more in a taxable year to an independent contractor for the performance of services must report the fair market value in U.S. dollars on the date made of the payment to the IRS and to the payee on Form 1099-NEC, Nonemployee Compensation;
- Virtual currency payments are subject to backup withholding to the same extent as other payments made in property;
- Third-party settlement organizations (TPSOs) must report payments made to a merchant on Form 1099-K if the gross amount of payments made to the merchant in 2025 exceeds \$2,500, regardless of the number of transactions; and
- Incorrect tax treatment of virtual currency transactions will subject a taxpayer to penalties for failure to comply with tax laws.

IRS Notice 2023-34<sup>2</sup> modifies previous IRS Notice 2014-21 by revising a sentence in the Background section to remove the statement that virtual currency does not have legal tender status in any jurisdiction.

---

2. Notice 2023-34 may be accessed at <https://www.irs.gov/pub/irs-drop/n-23-34.pdf>.

## Note



The Guiding and Establishing National Innovation for U.S. Stablecoins of 2025 (GENIUS Act of 2025), signed into law July 18, 2025, establishes a federal framework for dollar-backed stablecoins. The new law, due to become effective on the earlier of: a) 18 months following enactment, or b) 120 days after final regulations are issued are expected to affect virtual currency.

## ALTERNATIVE MINIMUM TAX (AMT)

Imposition of an alternative minimum tax was designed to ensure that at least a minimum amount of tax is paid by higher-income taxpayers who enjoy significant tax savings through the use of certain tax preference items. After the tax-preference items are added back into the taxpayer's income, the applicable alternative minimum taxable income (AMTI) exemption, discussed below, is subtracted.

### Alternative Minimum Tax Exemption Amount Increased

The applicable AMTI exemption amounts for 2025<sup>3</sup> are as follows:

| Filing Status  | Threshold for Phaseout of Exemption Amount | Complete Phaseout Amount | Alternative Minimum Taxable Income Exemption |
|--|--|--------------------------|--|
| Single or Head of Household                          | \$626,350                                  | \$978,750                | \$88,100                                     |
| Married Filing Jointly & Qualifying Surviving Spouse | \$1,252,700                                | \$1,800,700              | \$137,000                                    |
| Married Filing Separately                            | \$626,350                                  | \$900,350                | \$68,500                                     |
| Estates and Trusts                                   | \$102,500                                  | \$225,300                | \$30,700                                     |

The AMTI exemption amount is reduced (but not below zero) by 25 percent of the amount by which the taxpayer's alternative minimum taxable income exceeds the phaseout threshold.

## QBI DEDUCTION

The QBI deduction is a deduction of up to 20% of qualified business income derived from a qualified trade or business.

The deduction is generally equal to the *lesser* of:

1. The combined qualified business income amount; and

3. AMTI exemption amounts are indexed for inflation.