PacificCPE

COURSE
32302C

2027 Filing Season: Comprehensive General Income Tax Review

Covering three in-depth chapters of general income tax review, this course is built for tax professionals who want thorough, practical coverage of the rules and concepts that drive everyday client work. Whether you are sharpening your skills or filling in gaps from prior years, this segment of the 2027 Filing Season Income Tax Update delivers structured, substantive review across a broad range of individual income tax topics. A strong fit for practitioners handling diverse client situations during the upcoming filing season.

CREDIT HOURS **2** | FIELD OF STUDY **TAXES** | EXAM QUESTIONS **10**

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the reporting and taxability of unemployment compensation.
- Identify the itemized deductions available to a taxpayer.
- Identify the items included in self-employment income and expenses.
- Recall the difference between a hobby and a business for tax purposes.
- Recall the tax deduction for business use of a home.
- Recognize various property depreciation eligibility requirements and limits.
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Recognize the factors considered in determining the tax treatment of capital gains and losses.

- Identify standard deduction eligibility and amounts.
- Recognize the eligibility for and limits applicable to the moving expense deduction.
- Identify the eligibility requirements for various tax credits.
- Recall the recordkeeping and documentation requirements applicable to the claiming of deductions.
- Recall the eligibility requirements for and limits applicable to education credits.

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Chapter 1: GENERAL INCOME TAX REVIEW II

Chapter Objective

After completing this chapter, you should be able to:

- Recall the reporting and taxability of unemployment compensation.
- Identify the itemized deductions available to a taxpayer.
- Identify the items included in self-employment income and expenses.
- Recall the difference between a hobby and a business for tax purposes.
- Recall the tax deduction for business use of a home.
- Recognize various property depreciation eligibility requirements and limits.

INTRODUCTION

Chapter 1 is a continuation of the general review of tax law related to preparation of 2026 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

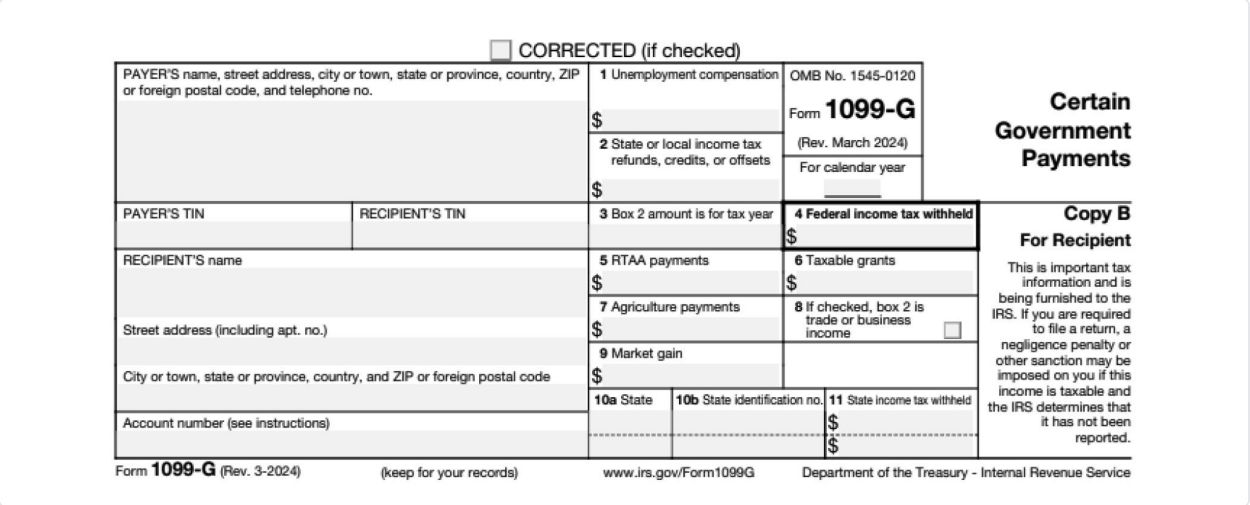
The term unemployment compensation includes any amount received under an unemployment compensation law of the United States or of a state. Accordingly, all the following benefits are considered unemployment compensation:

- 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

The taxpayer who received unemployment compensation in the previous year 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. IRS Form 1099-G is shown below:



☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	1 Unemployment compensation $	OMB No. 1545-0120 Form 1099-G (Rev. March 2024) For calendar year	Certain Government Payments
	2 State or local income tax refunds, credits, or offsets $		
PAYER'S TIN / RECIPIENT'S TIN	3 Box 2 amount is for tax year	4 Federal income tax withheld $	Copy B For Recipient
RECIPIENT'S name	5 RTAA payments $	6 Taxable grants $	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)	7 Agriculture payments $	8 If checked, box 2 is trade or business income ☐	
City or town, state or province, country, and ZIP or foreign postal code	9 Market gain $		
Account number (see instructions)	10a State / 10b State identification no.	11 State income tax withheld $ $	

Form 1099-G (Rev. 3-2024) (keep for your records) www.irs.gov/Form1099G Department of the Treasury - Internal Revenue Service

- Form 1099-G, box 1, shows the total unemployment compensation (UC) paid to the taxpayer. Combine the box 1 amounts from all Forms 1099-G and report the total as income on the UC line of the taxpayer's tax return (Form 1040 Schedule 1). Except as explained below, this is the taxpayer's taxable amount.

  If the taxpayer made contributions to a governmental UC program or to a governmental paid family leave program and received a payment from that program, the payer must issue a separate Form 1099-G to report this amount to the taxpayer. In such a case, if the taxpayer itemizes deductions, the contribution may be deducted on Schedule A (Form 1040) as taxes paid. If the taxpayer doesn't itemize, only include in income the amount that is in excess of the taxpayer's contributions.

- Form 1099-G, box 2, shows refunds, credits, or offsets of state or local income tax the taxpayer received. It may be taxable if the state or local income tax paid had been deducted on Schedule A (Form 1040). Even if the taxpayer didn't receive the amount shown, it is still taxable if it was deducted.

If the taxpayer received interest on this amount, the taxpayer may receive Form 1099- INT for the interest. However, the payer may include interest of less than $600 in the blank box next to box 9 on Form 1099-G. Regardless of whether the interest is reported to the taxpayer, it must be reported by the taxpayer as interest income.

- Form 1099-G, box 3, identifies the tax year for which the amounts shown in box 2 were made.
- Form 1099-G, box 4, shows backup withholding or withholding the taxpayer requested on unemployment compensation. Include this amount on the taxpayer's income tax return as tax withheld.
- Form 1099-G, box 5, shows reemployment trade adjustment assistance (RTAA) payments the taxpayer received. Include on the "Other income" line of Schedule 1 (Form 1040).
- Form 1099-G, box 6, shows taxable grants the taxpayer received from a federal, state, or local government.
- Form 1099-G, box 7, shows the taxpayer's taxable Department of Agriculture payments. If the payer shown is anyone other than the Department of Agriculture, it means the payer has received a payment, as a nominee, that is taxable to the taxpayer.
- Form 1099-G, box 8, shows the amount attributable to an income tax that applies exclusively to income from a trade or business if this box is checked. If taxable, report the amount in box 2 on Schedule C or F (Form 1040), as appropriate.
- Form 1099-G, box 9, shows market gain on Commodity Credit Corporation (CCC) loans whether repaid using cash or CCC certificates. See the Schedule F (Form 1040) instructions.
- Form 1099-G, boxes 10a–11, show state income tax withheld.

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 includible 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 includible in the taxpayer's income.

Repayment of Unemployment Compensation

If the taxpayer repaid employment compensation received in 2026 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 *includible in the recipient's income*.

However, alimony payments are no longer tax-deductible to the payer or includible 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 includible 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*.

Gross income from self-employment is equal to the following (Schedule C, Part I):

1. Gross receipts or sales	$
2. Returns and allowances	$
3. Subtract line 2 from line 1	$
4. Cost of goods sold	$
5. Gross profit (subtract line 4 from line 3)	$
6. Other income	$
7. Gross income (add lines 5 & 6)	$

The total gross income minus the total business expenses equals the net profit or loss from the business activity. The taxpayer's net profit or loss should be entered on:

- Schedule SE, line 2; and
- Form 1040, Schedule 1, line 3 Business income or (loss).

However, if some of the investment in the self-employed activity is not at risk, the taxpayer must attach IRS Form 6198, and his or her loss may be limited.

Business expenses are the costs of operating the taxpayer's business. These expenses are costs the taxpayer does not have to capitalize or include in the cost of goods sold but can deduct in the current year.

In order to be deductible, a business expense must be:

- Ordinary, i.e., one that is common and accepted in the taxpayer's field of business, and [1]
- Necessary, i.e., one that is helpful and appropriate for the taxpayer's business.

However, if any expense is partly for business and partly personal, the personal part of the expense must be separated from the business part. The personal part is not deductible.

Business vs. Hobby

Schedule C (Form 1040) is used to report a taxpayer's income or loss from a business operated or **profession** practiced as a sole proprietor. It is not used in connection with a taxpayer's hobby. An activity qualifies as a business if:

- The taxpayer's primary purpose for engaging in it is for income or profit; and
- The taxpayer is involved in the activity with continuity and regularity rather than sporadically.

The IRS presumes that an activity engaged in by a taxpayer is carried on for a profit if:

- It makes a profit during at least three of the last five tax years, including the current year; or
- It primarily involves breeding, showing, training or racing horses and it makes a profit in at least two of the last seven years.

To determine if an activity engaged in by the taxpayer is a business or hobby, the following factors should be considered:

- Does the time and effort put into the activity indicate the taxpayer intended to make a profit?
- Does the taxpayer depend on income from the activity?
- If the activity results in losses, are the losses due to circumstances beyond the taxpayer's control, or did they occur in the start-up phase of the business?
- Has the taxpayer changed methods of operation to improve profitability?
- Does the taxpayer or his/her advisors have the knowledge needed to carry on the activity as a successful business?
- Has the taxpayer made a profit in similar activities in the past?
- Does the activity make a profit in some years?