PacificCPE

COURSE
32303C

2027 Filing Season: Income Tax Review, Ethics, and Professional Responsibility

Wrap up the 2027 Filing Season Income Tax Update with a final round of general income tax review followed by an important focus on practices, procedures, and professional responsibility. Beyond the technical content, this course addresses the standards and obligations that govern how tax professionals conduct their work—covering procedural requirements and ethical responsibilities that apply in practice. Practitioners looking to satisfy both technical CPE and ethics requirements in a single, filing-season-focused course will find this a practical and efficient choice.

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

- 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.
- Identify the red flags indicating possible tax-related identity theft and suggested assistance to its victims.
- 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.
- Recall the features of the IRS Tax Pro Account and the IRS Individual Online Account.

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TABLE OF CONTENTS

CHAPTER 01

General Income Tax Review V 5

1.01 Introduction 5

1.02 QBI Deduction 9

1.03 Achieving A Better Life Experience (Able) Account 23

1.04 Employee Fringe Benefits 28

1.05 Tax Withholding And Estimated Tax Payments 34

1.06 Summary 42

Test Your Knowledge 43

CHAPTER 02

Practices, Procedures, And Professional Responsibility 48

2.01 Introduction 48

2.02 Safeguarding Taxpayer Data (Publication 4557) 50

2.03 Preparer Penalties 55

2.04 Due Diligence In Tax Preparation 57

2.05 Compliance With E-File Procedures 67

2.06 Summary 72

Test Your Knowledge 76

Final Exam Copy 97

Glossary 81

Index .....

Chapter 1: GENERAL INCOME TAX REVIEW V

Chapter Objective

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

Chapter 1 concludes the general income tax review by examining the tax treatment of virtual currency, the nature of the qualified business income (QBI) deduction, the eligibility requirements and limits to qualified tuition programs, ABLE accounts, the Premium Tax Credit, HSAs, and MSAs. 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 describes how existing general tax principles apply to transactions using virtual currency as indicated below[1].

- 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;
- 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 2026 exceeds $20,000, and over 200 transactions; and
- Incorrect tax treatment of virtual currency transactions will subject a taxpayer to penalties for failure to comply with tax laws.

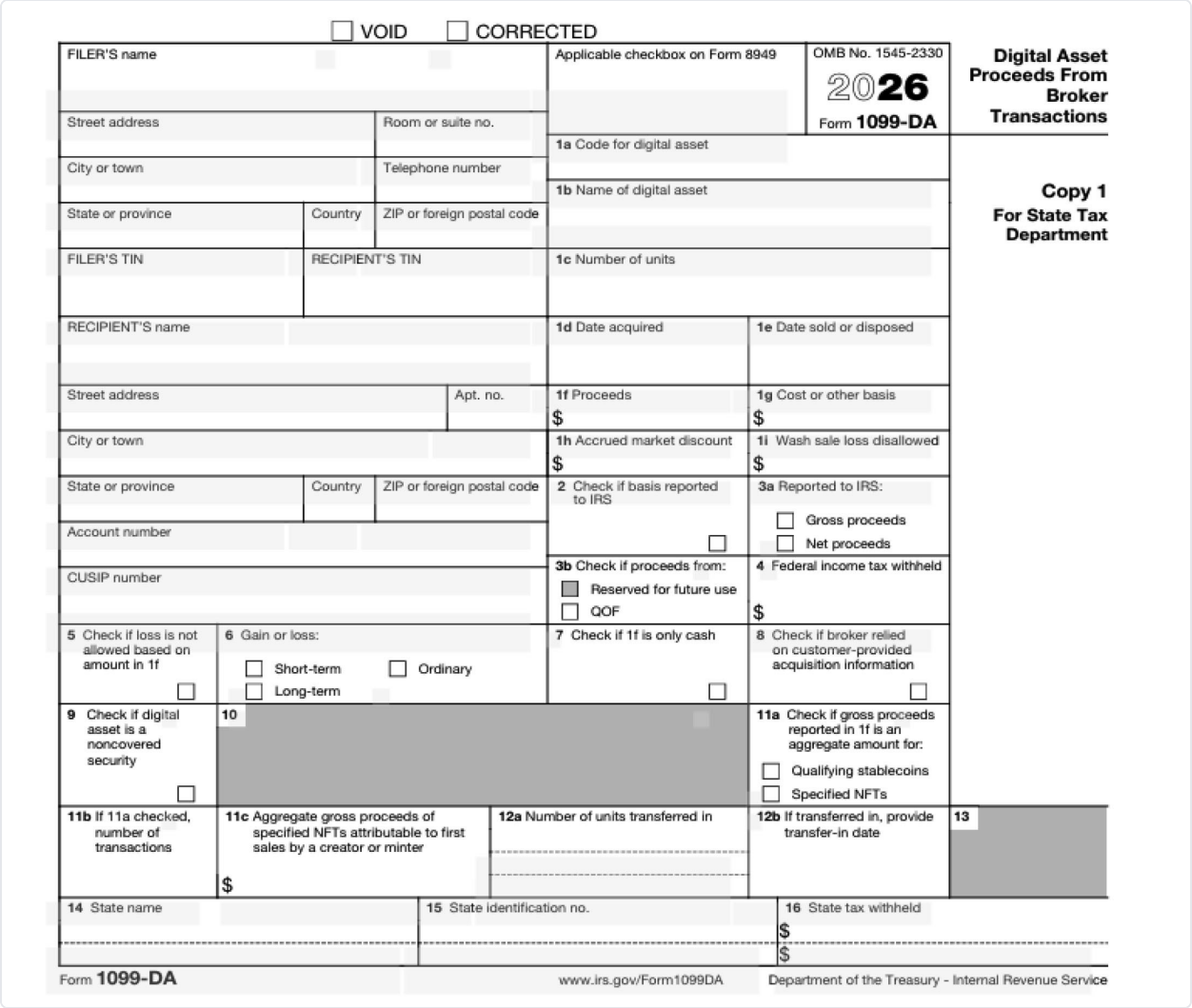
IRS Notice 2023-342 modifies previous IRS Notice 2014-21 by revising a sentence in the Background section to remove the statement that virtual currency does not have legal tender status in any jurisdiction.

Form 1099-DA, Digital Asset Proceeds From Broker Transactions

For the sale of digital assets that are covered securities, occurring on or after January 1, 2026, IRS Form 1099-DA must be completed by the digital asset broker. A covered security is a digital asset acquired after 2025 for cash, stored-value cards, different digital assets, or any property or services the disposition of which the broker is required to report in an account for which the broker provided custodial services. The Form 1099-DA performs several key functions allowing brokers to report elements of covered digital asset transactions including:

- Gross proceeds;
- Cost basis;
- Date of disposition of digital assets for –
  - Sales,
  - Exchanges, and
  - Redemptions.

Below is Form 1099-DA:



☐ VOID ☐ CORRECTED

FILER'S name		Applicable checkbox on Form 8949	OMB No. 1545-2330 **2026** Form **1099-DA** — **Digital Asset Proceeds From Broker Transactions**
Street address	Room or suite no.	1a Code for digital asset	
City or town	Telephone number	1b Name of digital asset	**Copy 1 For State Tax Department**
State or province / Country / ZIP or foreign postal code		1c Number of units	
FILER'S TIN	RECIPIENT'S TIN		
RECIPIENT'S name		1d Date acquired	1e Date sold or disposed
Street address / Apt. no.		1f Proceeds $	1g Cost or other basis $
City or town		1h Accrued market discount $	1i Wash sale loss disallowed $
State or province / Country / ZIP or foreign postal code		2 Check if basis reported to IRS ☐	3a Reported to IRS: ☐ Gross proceeds ☐ Net proceeds
Account number		3b Check if proceeds from: ☐ Reserved for future use ☐ QOF	4 Federal income tax withheld $
CUSIP number			
5 Check if loss is not allowed based on amount in 1f ☐	6 Gain or loss: ☐ Short-term ☐ Long-term ☐ Ordinary	7 Check if 1f is only cash ☐	8 Check if broker relied on customer-provided acquisition information ☐
9 Check if digital asset is a noncovered security ☐	10		11a Check if gross proceeds reported in 1f is an aggregate amount for: ☐ Qualifying stablecoins ☐ Specified NFTs
11b If 11a checked, number of transactions	11c Aggregate gross proceeds of specified NFTs attributable to first sales by a creator or minter $	12a Number of units transferred in	12b If transferred in, provide transfer-in date / 13
14 State name	15 State identification no.	16 State tax withheld $ $	

Form **1099-DA** www.irs.gov/Form1099DA Department of the Treasury - Internal Revenue Service

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

[3] The applicable AMTI exemption amounts for 2026 are as follows:

Filing Status	Threshold for Phaseout of Exemption Amount	Complete Phaseout Amount	Alternative Minimum Taxable Income Exemption
Single or Head of Household	$500,000	$680,200	$90,100
Married Filing Jointly & Qualifying Surviving Spouse	$1,000,000	$1,280,400	$140,200
Married Filing Separately	$500,000	$640,200	$70,100
Estates and Trusts	$104,800	$167,600	$31,400

The AMTI exemption amount is reduced (but not below zero) by 50 percent of the amount by which the taxpayer's alternative minimum taxable income exceeds the phaseout threshold.

QBI DEDUCTION

The OBBBA §70105 extended and enhanced the Qualified Business Income (QBI) deduction through three primary changes:

- Making the deduction permanent;
- Extending the phase-in ranges for taxpayers whose taxable income exceeds applicable income thresholds; and
- Establishing a new minimum deduction for active business owners.

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; or
2. 20% of the taxpayer's taxable income reduced by the taxpayer's net capital gain.

Qualified REIT Dividend

The term "qualified REIT dividend" means any dividend from a real estate investment trust received during the taxable year which is neither a capital gain dividend nor qualified dividend income.

Qualified Publicly Traded Partnership Income

The term "qualified publicly traded partnership income" means, with respect to any qualified trade or business of a taxpayer, the sum of A and B where:

A is the net amount of the taxpayer's allocable share of each qualified item of income, gain, deduction, and loss from a publicly traded partnership which is not treated as a corporation; and

B is any gain recognized by the taxpayer upon disposition of its interest in the partnership to the extent such gain is treated as an amount realized from the sale or exchange of property other than a capital asset.

Deduction Eligibility

Taxpayers who may be eligible for the deduction are those who operate a business as a sole proprietorship or under a pass-through entity—a partnership or LLC taxed as a partnership—or an S corporation. Individuals, trusts and estates with qualified business income, qualified REIT dividends, or qualified PTP income may qualify for the deduction.

Eligibility for the pass-through deduction is unaffected by the taxpayer's election to itemize deductions or take the standard deduction.

Pass-Through Deduction Generally Limited to Qualified Trade or Business

The deduction of up to 20% of a pass-through business' qualified business income may reduce the taxpayer's income tax liability significantly. Other factors that may affect the deduction include:

- Whether the business is a qualified trade or business;
- The taxpayer's taxable income; and
- If the business owner's taxable income exceeds the applicable threshold –
  - The amount of W-2 wages paid; and
  - The value of qualified property.

Qualified Trade or Business

A qualified trade or business means any trade or business **other than**:

- A specified service trade or business (SSTB);
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners; or
- The trade or business of performing services as an employee.

Exception for Specified Service Trade or Business

The rule cited just above that disqualifies SSTBs from being considered qualified trades or businesses eligible for the pass-through deduction does not apply to individuals whose taxable income is less than the threshold amount[4]. The threshold amount and phase-in range are as shown in the chart below: