Basic Tax Return Training

Federal individual returns / 2027 filing season

A practical manual for preparing, reviewing, and documenting a basic federal individual income tax return at Affluent Tax Solutions.

HOW TO USE THIS MANUAL

Read the six modules in order. Complete the fictional cases in an approved training environment, compare your work with the answer key, and explain the facts and IRS authority behind each material decision.

Contents

02 Client intake	03 Filing status & dependents
04 Income & Form 1040	05 Deductions, credits & due diligence
06 Basic self-employment	07 Quality review & e-file
08–10 Three practice returns	11–12 Answer key
13 IRS resources	Companion desk reference: ATS Tax Preparer Terminology

Training scope

Start with W-2 wages, common information returns, dependents, and a simple sole proprietorship. Route complex or unfamiliar facts to the ATS reviewer before making a filing decision. This edition covers federal returns.

2026 FORMS AND PRACTICE DATA

The answer key uses published 2026 amounts and the IRS draft 2026 tax and EIC tables where indicated. Check the final tax-year instructions, tables, and approved software results before using figures on a client return. All practice records are fictional. Never transmit a training return.

Client intake

Build a file the reviewer can follow

Start with the client's facts. An organizer helps you collect them. The interview is where you resolve gaps and identify what the client still needs to provide.

01 Identify the taxpayer and household
Use the ATS-approved intake channel. Verify identity and taxpayer identification information under the office procedure. Confirm addresses, marital history, spouse and dependent details, and whether anyone can claim the taxpayer. Ask about an IRS Identity Protection PIN for anyone on the return.

02 Inventory documents
Ask about all jobs, self-employment, interest, retirement, unemployment, estimated payments, and Marketplace coverage. Match each source to the available records. A prior return may help identify recurring items or carryovers. Confirm that the facts still apply.

03 Ask specific follow-up questions
"What months did the child live with you?" "What does this payment represent?" "How did you calculate that expense?" Record who provided the answer, when it was provided, and what remains unresolved.

04 Set a clear status
Mark the file ready for preparation, waiting on client information, or referred for review. Assign an owner and a next step. Resolve missing information that could change the return before it advances.

> **DATA HANDLING**
>
> Use approved ATS systems for client documents and workpapers. Keep taxpayer records out of personal email, texts, shared practice folders, and unapproved tools. Follow the ATS written information security plan and report suspected exposure through the office process.

Try it

A client brings a W-2 and mentions a second job and online sales. List the documents and records you would request. Ask what the sales represent before choosing a reporting category.

Filing status & dependents

Use a separate test for each decision

01 Identify possible filing statuses
Start with marital status and facts for the tax year. Consider Single, Married Filing Jointly, Married Filing Separately, Head of Household (HOH), and Qualifying Surviving Spouse where applicable. Use the current-year Form 1040 instructions and IRS Publication 501 for exceptions.

02 Verify head of household
Check whether the taxpayer was unmarried or considered unmarried, paid more than half the cost of keeping up the home, and had a qualifying person under the applicable rules. Ask who paid rent, utilities, and food eaten in the home. Record the source and amounts.

03 Test dependency
For a qualifying child, examine relationship, age, residency, support, and joint-return rules, plus applicable general dependency rules. The child generally must not have provided more than half of their own support. For a qualifying relative, check that the person is not a qualifying child, then apply relationship or household, income, and support rules.

04 Evaluate each credit separately
Run the eligibility tests for each benefit. When a child could qualify for more than one taxpayer, confirm nights and relationships and research the tiebreaker and any special rules for separated parents. If a release applies, verify which benefits it affects.

> **DOCUMENT THE DECISION**
>
> Record household dates, who paid eligible home costs, the source of the facts, and competing claims or custody issues. If facts are inconsistent, ask reasonable follow-up questions before completing the return.

Try it

A parent says the child spent “most of the year” with them. Ask for the overnight dates or a calendar and follow up on any temporary absences. Then ask how home costs were divided.

Income & Form 1040

Trace every number from the source to the return

W-2	Use Box 1 for federal wages and Box 2 for federal income tax withheld. Compare other boxes with the software prompts.
1099-INT / 1099-DIV	Identify taxable and tax-exempt amounts and relevant dividend categories. Check whether Schedule B applies.
1099-R	Review the distribution code and taxable amount, then ask about rollovers and basis when relevant. Escalate uncertain treatment.
1099-NEC / 1099-K	Identify what the payments were for. Reconcile against the client's records and check for overlap between forms and receipts.
1095-A	Ask about Marketplace insurance and evaluate Form 8962. Route shared-policy or unresolved reconciliation issues for review.

Read the return in order

01 Income to adjusted gross income
Report income by type, then apply eligible adjustments. Schedule 1 carries certain additional income and adjustments to Form 1040.

02 Adjusted gross income to taxable income
Apply the allowable standard or itemized deduction, plus any other applicable deductions such as QBI. Use the tax-year instructions for the correct tax calculation.

03 Tax to refund or balance due
Review nonrefundable credits and other taxes, then compare total tax with payments and refundable credits. Reconcile federal withholding to the actual source documents.

> **SOFTWARE REVIEW**
>
> Open the completed forms and trace the data after entry. Confirm the software used the intended year, filing status, income category, and schedule. Clear diagnostics after resolving the underlying issue.

Deductions & credits

Apply the eligibility rules and document due diligence

Compare the standard deduction with eligible itemized deductions when appropriate. For the common 2026 cases in this manual, the basic standard deduction is $16,100 for Single and $24,150 for HOH. Check the instructions for special limits, additions, and other deductions.

EIC / EITC	Check earned income, AGI, investment income, identifying numbers, residency, and other eligibility conditions. Use the year-specific EIC table when directed.
CTC / ACTC / ODC	Use Schedule 8812. Confirm the dependent's age, required identifying numbers, and the taxpayer's eligibility. Calculate the refundable portion separately when applicable.
AOTC / LLC	Review Form 8863 and interview for enrollment, eligible expenses, aid, and prior credit history as relevant. A Form 1098-T is one piece of the review.

Four paid-preparer actions for covered claims

01 Complete and submit Form 8867
Include each applicable covered benefit: EIC, CTC/ACTC/ODC, AOTC, and HOH.

02 Compute the applicable credits
Complete the applicable worksheets or keep equivalent computations with the same information.

03 Meet the knowledge requirement
Use the facts you reasonably know. Ask and document follow-up questions when information appears incorrect, inconsistent, or incomplete.

04 Keep the required records
Retain the checklist, applicable computations, source and timing of information, and copies of documents relied on, as required. Use the IRS instructions for the three-year rule and its start date.

Basic self-employment

Walk a simple sole proprietorship through the return

01 Identify the activity
Confirm who owns the business, what the client does, when it started, and whether the work is a trade or business. Route uncertain worker classification, hobby questions, entities, or complex expenses for review.

02 Reconcile gross receipts
Start with the business records. Include receipts the client earned even when no information form was issued. Identify duplicate reporting between client records and information returns.

03 Verify expenses
Check business purpose and records. Exclude personal amounts, allocate mixed-use costs when supported, and refer topics like inventory, depreciation, vehicle expenses, or home office when they exceed the practice scope.

04 Follow the form flow
Schedule C determines net profit or loss. For this manual's simple profitable case, profit flows to Schedule 1, Schedule SE determines self-employment tax carried to Schedule 2, and the deductible portion of SE tax flows to Schedule 1.

05 Check QBI separately
Review eligibility and use the applicable Form 8995 or 8995-A instructions. In Case C, the example includes an otherwise eligible QBI deduction and a business-related adjustment for half of SE tax.

> **WHAT TO SAVE IN THE WORKPAPERS**
>
> Keep a receipts reconciliation, an expense summary with supporting records, notes for mixed-use items or excluded amounts, and a reviewer note for anything requiring a judgment call.

Try it

A 1099-NEC shows $8,000 and the client's business ledger shows $12,000. Ask whether the $8,000 is already in the ledger and reconcile both totals before entering gross receipts.

Quality review & e-file

Complete the review, obtain authorization, and monitor status

ATS quality-review checklist

• Verify the correct tax year, names, identifying information, filing status, and dependents.

• Match income and withholding to source documents. Reconcile estimated payments and confirm applicable schedules, deductions, and credits.

• Review material client statements, follow-up notes, Form 8867, and supporting workpapers where applicable.

• Resolve diagnostics and reviewer questions. Confirm routing and account details with the taxpayer through the approved process, when applicable.

• Explain the refund or balance due, payment method, and next steps. Obtain applicable taxpayer signatures, including both spouses on a joint return where required.

From reviewed return to acknowledgment

01 Authorize
Have the taxpayer review the completed return and sign the applicable e-file authorization, such as Form 8879, before transmission. Retain Form 8879 under the applicable IRS and ATS procedures.

02 Transmit through the ATS process
Route the signed return to the designated ERO or authorized workflow. Keep training files in the practice environment.

03 Check acknowledgment
Confirm IRS status. If rejected, record the reject code, identify the cause, and route any changes or new authorization required under current procedures. Track correction and resubmission through final disposition.

> **PARTNER PRACTICE SIGN-OFF**
>
> Before handling a live return, have an ATS reviewer check one complete practice file, including the interview notes, prepared return, due-diligence decision, review checklist, and simulated acknowledgment.

The W-2 return

Single taxpayer / Wages and federal withholding

Jordan Ellis, age 29, was unmarried all year, has no dependents, and cannot be claimed by anyone else. Jordan lived in the U.S. all year and reports one job, no other income, no estimated payments, and no other deductions or credits. Assume standard eligibility facts and no special tax situations.

Mock document extracts

W-2 | Crescent Office Services	Box 1 wages $40,000 Box 2 federal withholding $3,000 Box 3 Social Security wages $40,000 Box 5 Medicare wages $40,000
Intake note	No Marketplace coverage, IP PIN, or dependent claim disclosed. No other payments.

Your assignment

- Verify the filing status and ask two questions to confirm the income and deduction facts.
- Prepare a practice Form 1040 summary. Use the 2026 Single Tax Table row that matches taxable income.
- Reconcile federal withholding and document whether the case triggers Form 8867.

Workpaper

Filing status _____

AGI _____

Deduction _____

Taxable income and tax table row _____

Federal tax / withholding _____

Refund or balance due _____

The parent return

Household interview / Credits and paid-preparer due diligence

Nia Reed, age 31, was unmarried all year. Nia initially says her 8-year-old son, Milo, “stayed mostly with me,” and that her sister helped with expenses. Interview the client before deciding the filing status or credits.

Mock document extracts

W-2 | Bayou Market	Box 1 wages $22,000 Box 2 federal withholding $650
Household cost worksheet	Eligible home costs $14,000. Nia paid $10,000 and her sister paid $4,000.
Interview follow-up card	Milo lived with Nia in the U.S. for 365 nights. Milo earned nothing, supplied none of his support, and did not file a joint return. No other person can claim Nia or Milo.
Intake verification	Nia and Milo are U.S. citizens with eligible, timely issued SSNs. No investment income, other income, or disallowed prior-year credits. No other payments or credits.

Your assignment

• Write the questions you would ask about residency and home costs before using the follow-up card.

• Determine HOH and dependency, then evaluate EIC, CTC and ACTC separately. Use Schedule 8812 and the 2026 EIC table.

• Identify the Form 8867 benefits and list the facts and workpapers you would retain.

Workpaper

Filing status and home-cost share _____

Taxable income _____

EIC / CTC / ACTC _____

Refund _____

Wages & a side business

Sole proprietor / Schedule C, Schedule SE, and QBI

Avery Brooks, age 35, was unmarried all year, has no dependents, and cannot be claimed by anyone else. Avery ran a small U.S. residential cleaning business in addition to a W-2 job. Assume an eligible domestic trade or business, no capital gains, and no other income, adjustments, credits, or deductions beyond those described.

Mock document extracts

W-2 | Delta Supply	Box 1 wages $42,000 Box 2 federal withholding $3,300 Box 3 Social Security wages $42,000
1099-NEC | Cypress Rentals	Box 1 nonemployee compensation $8,000. Included in the $12,000 business ledger.
Business ledger and receipts	Gross receipts $12,000, including $4,000 from other customers. Documented expenses: $1,700 supplies, $500 advertising, and $1,800 business liability insurance. No inventory or assets to depreciate.
Estimated payment record	Confirmed federal estimated payments $700 total. Penalty calculation is outside this exercise.

Your assignment

- Reconcile the ledger to the 1099-NEC and classify the documented expenses.
- Prepare Schedule C and Schedule SE, then calculate the adjustment, QBI deduction, and balance due.
- Explain why total federal tax differs from income tax alone.

Workpaper

Gross receipts / expenses / profit _____

SE tax / adjustment _____

AGI / QBI deduction / taxable income _____

Total tax / payments / balance due _____

Cases A & B

Compare calculations and review the supporting facts

Case A | Jordan Ellis

Filing status and AGI	Single. $40,000 wages and no adjustments.
Deduction and taxable income	$40,000 $16,100 = $23,900.
Tax and withholding	Draft 2026 Single Tax Table row $23,900–$23,950: $2,623 tax. W-2 Box 2 withholding $3,000.
Outcome and review	$377 refund. No listed Form 8867 benefit applies in the given facts. Confirm no other sources, Marketplace coverage, or deduction facts were missed.

Case B | Nia Reed

Filing status and dependent	HOH. Nia paid $10,000 of $14,000 in eligible home costs (71.4%). Milo meets the qualifying-child tests in the given facts.
Income and tax	$22,000 AGI. The $24,150 HOH standard deduction reduces taxable income to $0. Income tax before credits is $0.
Credits	Draft 2026 EIC table: $4,427 for one child. Nonrefundable CTC used is $0. ACTC is $1,700. The earned-income calculation is ($22,000 $2,500) × 15% = $2,925 before the refundable cap and applicable limits.
Outcome	$650 withholding + $4,427 EIC + $1,700 ACTC = $6,777 refund.
Due diligence	Form 8867 applies for HOH, EIC, and the CTC/ACTC credit family. Retain applicable computations, household-cost and residency notes, the source and date of answers, and copies of documents relied on as required.

REVIEW PROMPT

If the child's overnight count or the amount Nia paid changes, which eligibility tests would you redo? Explain how your notes would support the revised determination.

Case C

Trace Schedule C through total tax and payments

Schedule C	$12,000 gross receipts less $4,000 in business expenses = $8,000 net profit. The $8,000 Form 1099-NEC is part of gross receipts.
Schedule SE	$8,000 × 92.35% = $7,388 net earnings for SE tax. In this case the full amount is subject to the 12.4% Social Security and 2.9% Medicare components. Rounded SE tax is $1,130.
Schedule 1 and AGI	$42,000 wages + $8,000 profit $565 deductible half of SE tax = $49,435 AGI.
QBI deduction	$8,000 profit $565 related SE-tax adjustment = $7,435 QBI. At 20% the deduction is $1,487. The taxable-income limitation does not reduce it in this example.
Taxable income	$49,435 $16,100 standard deduction $1,487 QBI deduction = $31,848.
Income tax and SE tax	Draft 2026 Single Tax Table row $31,800–$31,850: $3,571 income tax. Add $1,130 SE tax via Schedule 2 for $4,701 total tax.
Payments and result	$3,300 withholding + $700 estimates = $4,000 payments. $4,701 total tax $4,000 = $701 balance due, before any applicable penalty.

Reviewer checkpoints

• The expense categories tie back to the receipts and there is no duplicate income entry.

• The deductible half of SE tax is used in the AGI and QBI calculations. The full SE tax is included in total tax.

• The payment record confirms the amounts are federal estimates for the correct tax year.

REVIEW PROMPT

If the $8,000 Form 1099-NEC were missing from the ledger, what would you verify before changing gross receipts? Record the reconciliation in the case workpapers.

IRS resources

Use the revision for the tax year and topic you are preparing

IRS materials informed the lessons and worked cases. Link & Learn Taxes and Publications 4491 and 4012 are volunteer training resources. Use the form instructions and paid-preparer guidance for ATS client work.

Form 1040 and instructions
Individual return, schedules, and annual instructions

Publication 501
Filing status, dependents, and standard deduction

Revenue Procedure 2025-32
Published 2026 inflation-adjusted figures, including EIC and CTC

Draft 2026 Publication 1040
Practice Tax Table and EIC Table amounts used in the answer key

Schedule 8812 and Form 8863 • Form 8863
Child and other dependent credits, and education credits

Form 8867 instructions
Paid-preparer due diligence, worksheets, and recordkeeping

Schedule C
Sole proprietor business income and expenses

Schedule SE
Self-employment tax and related adjustment

Form 8995 instructions
Qualified business income deduction

Form 8879 and Publication 1345 • Pub. 1345
Signature authorization and e-file provider handbook

Publication 4557
Safeguarding taxpayer data

Link & Learn Taxes / Publications 4491 and 4012 • Pub. 4491 • Pub. 4012
Training sequence and volunteer practice materials

> **BEFORE ASSIGNING LIVE RETURNS**
>
> Recheck final 2026 IRS products and the approved software build. Record the revision date of any material used to update this training edition.