PTIN MODULE 5

CREDITS AND DEDUCTIONS

Master Study Guide

Review these notes before taking the Module 5 quiz. Focus on deductions, adjustments, Schedule 1-A deductions, credit rules, EITC, child-related credits, education credits, and PATH Act timing.

Lesson 5.1 — Standard And Itemized Deductions

For tax year 2025 returns filed during 2026, the basic standard deduction is $15,750 for Single and Married Filing Separately, $31,500 for Married Filing Jointly and Qualifying Surviving Spouse, and $23,625 for Head of Household.

Additional amounts may apply for age or blindness. Dependency status can also affect the standard deduction, so do not automatically use the full amount.

Itemized deductions may include qualifying medical expenses above the applicable AGI floor, certain state and local taxes subject to current limitations, qualifying home mortgage interest, charitable contributions, and certain casualty or theft losses allowed under current law.

Use Schedule A and current instructions, and compare allowable totals instead of assuming homeownership means itemizing is better.

Lesson 5.2 — Adjustments To Income

Adjustments reduce income in arriving at adjusted gross income and may be available even when the taxpayer claims the standard deduction.

Examples can include deductible IRA contributions, student-loan interest, certain educator expenses, the deductible portion of self-employment tax, self-employed health-insurance deductions, and eligible health savings account deductions.

Eligibility depends on current-year facts such as filing status, employer-plan participation, income, age, coverage, and whether another person can claim the taxpayer.

Lesson 5.3 — Tax Year 2025 Schedule 1-A Deductions

The lesson states that temporary deductions created under the One, Big, Beautiful Bill Act are generally available for tax years 2025 through 2028 and are reported on Schedule 1-A for 2025 returns.

Qualified Tips: an eligible individual may deduct up to $25,000 of qualified tips, with the phaseout beginning above $150,000 of modified AGI or $300,000 on a joint return.

Qualified Overtime: generally applies to the premium portion required by the Fair Labor Standards Act, not all overtime pay. The stated maximum is $12,500, or $25,000 for a joint return, with phaseouts above $150,000 or $300,000 jointly.

Qualified Passenger Vehicle Loan Interest: up to $10,000 may be deductible on a qualifying new-vehicle loan originated after December 31, 2024, subject to the vehicle, assembly, personal-use, income, and other statutory rules described in the lesson.

Enhanced Senior Deduction: an eligible taxpayer age 65 or older may qualify for up to $6,000, or up to $12,000 when both spouses on a joint return qualify. It is separate from the existing additional standard deduction for age.

Marketing language such as 'no tax on tips' is shorthand. These provisions are deductions, not blanket exclusions from income or payroll tax.

Lesson 5.4 — Credit Fundamentals

A deduction reduces income used in the tax calculation. A credit generally reduces tax dollar for dollar.

A nonrefundable credit is generally limited by tax liability. A refundable credit can produce or increase a refund when it exceeds tax. A partially refundable credit has both characteristics.

Do not reverse-engineer income, dependents, or expenses to create a requested refund.

Lesson 5.5 — Earned Income Tax Credit

EITC depends on earned income, adjusted gross income, filing status, investment income, taxpayer identification rules, age or qualifying-child rules, residency, and other requirements.

For tax year 2025, the maximum credit stated in the lesson is $649 with no qualifying child, $4,328 with one, $7,152 with two, and $8,046 with three or more.

These are maximums, not promised refund amounts.

The full underlying tip and overtime income is still included when determining EITC eligibility even when a Schedule 1-A deduction may apply.

Common errors include claiming a child who did not live with the taxpayer, inventing self-employment income, omitting income, using the wrong filing status, and ignoring the investment-income limit.

Lesson 5.6 — Child-Related Credits

For tax year 2025, the Child Tax Credit is worth up to $2,200 per qualifying child. Up to $1,700 may be refundable as the Additional Child Tax Credit, depending on earned income and other rules.

The Credit for Other Dependents is a nonrefundable credit of up to $500.

For the 2025 CTC and ACTC, the taxpayer, spouse on a joint return, and qualifying child must meet applicable Social Security number requirements.

The Child and Dependent Care Credit may apply to qualifying care expenses that enable the taxpayer and spouse, if applicable, to work or look for work. Confirm the qualifying person, provider information, earned-income rules, and related-person exclusions.

Lesson 5.7 — Education And Other Credits

The American Opportunity Tax Credit can be up to $2,500 per eligible student, with up to $1,000 refundable, subject to the eligibility rules described in the lesson.

The Lifetime Learning Credit is nonrefundable and may cover a broader range of education, but it has different limits and eligibility rules.

Form 1098-T is an important starting document, not the final answer. Reconcile amounts paid, scholarships, grants, refunds, required course materials, and who claims the student.

Prevent double benefits: the same expense cannot support multiple credits, a tax-free distribution, and another deduction.

Also screen for the Premium Tax Credit when Form 1095-A is present, the retirement savings contributions credit, adoption credit, foreign tax credit, and eligible residential energy credits.

Lesson 5.8 — PATH Act Refund Timing

When a return claims EITC or ACTC, federal law generally prevents the IRS from issuing the refund before mid-February.

The delay applies to the entire refund.

Do not promise a specific deposit date. Acceptance is not the same as approval or payment.