A&L | Arc & Ledger Accounting

PCC EXTENSION | FALL 2026 TEACHING EDITION · REVISION 2

Tax Essentials

Student activity workbook

Course facts	Schedule
Module 0354X	November 7 • November 14 • November 21
Pasadena City College, PCC Campus, Room R111	9:30 AM–12:00 PM
Instructor: Burak Genc	3 sessions • 7.5 instructional hours

Learner edition · revision 2

Prepared September 13, 2026. This is the controlled Fall 2026 teaching edition · revision 2. Time-sensitive rules and logistics must be refreshed at the checkpoints identified in this package.

General education only; not individualized tax, accounting, or legal advice.

Start · Your learning map

November 7: classify income and reconcile a payout. November 14: support deductions and separate federal/California payment plans. November 21: close a month and build an action plan.

Bring this workbook, a pen and a calculator. A laptop is optional. Use fictional or thoroughly redacted practice summaries only. Do not bring or enter Social Security numbers, account credentials, client details or full tax returns.

You may write, speak, point to choices or use an accessible digital copy. Contact PCC LARS for formal accommodations. The course uses general examples and does not calculate your personal tax return.

The workflow: observe a worked example → try one with support → explain a changed fact → complete an independent case.

My practical target and how I will know I can do it

D1 · Before-class diagnostic

Work independently. Choose an answer and mark confidence: low / medium / high. This is practice, not a grade.

D1. A client pays $500 for design work but sends no tax form. What happens next?

A: Ignore it. B: Put it in the income ledger and analyze reporting. C: Wait for IRS approval.

My choice: ______ Confidence: ______ Reason: ________________________

D2. A platform reports $1,000 gross and pays out $900 after a $100 fee. Which record is the starting point?

A: Reconcile $1,000 gross, $100 fee and $900 deposit. B: $900 only. C: Add $1,000 and $900.

My choice: ______ Confidence: ______ Reason: ________________________

D3. A $100 phone bill is supported as 60% business use. What amount is the initial business allocation?

A: $40. B: $100. C: $60.

My choice: ______ Confidence: ______ Reason: ________________________

D2 · Diagnostic continued

Work independently. Choose an answer and mark confidence: low / medium / high. This is practice, not a grade.

D4. An eligible taxpayer drove 100 business miles in August 2026. Which rate applies?

A: 72.5 cents. B: 76 cents. C: Choose either.

My choice: ______ Confidence: ______ Reason: ________________________

D5. Does forming an LLC itself remove self-employment tax?

A: No. B: Yes. C: Only if paid by an app.

My choice: ______ Confidence: ______ Reason: ________________________

D6. A November estimate worksheet shows an annual payment gap. Can four future equal payments repair all missed installments?

A: Yes. B: Only California. C: No.

My choice: ______ Confidence: ______ Reason: ________________________

L · Plain-language reference

Adjusted gross income (AGI): A federal return subtotal used in many thresholds; it is not the same as gross business receipts or taxable income.

Basis: A tax measure of investment in property or an entity used in gain, loss, depreciation, and limitation calculations.

California conformity: Whether California follows a particular federal tax rule; when it does not, a California adjustment may be required.

Gross receipts: Business receipts before subtracting platform fees, refunds, or deductible costs, subject to the reporting rules for the activity.

Net profit: Gross business income minus allowable business deductions, commonly shown on Schedule C for a sole proprietor.

Placed in service: Ready and available for its intended business use; this date can control when tax cost-recovery rules begin.

Qualified business income deduction (QBID): A federal deduction under section 199A for eligible owners, subject to limitations; California does not conform.

Safe harbor: A payment target that can protect against an underpayment penalty when its requirements and timing rules are satisfied; it is not necessarily the final tax.

1A · Draw the return map

Start with business gross receipts. Subtract allowable business costs to reach Schedule C net profit. Schedule SE and federal income tax are separate calculations. California needs a separate review.

Withholding and estimated payments belong in the payment lane; they are not business deductions.

Worked example: $50,000 profit × 92.35% = $46,175 initial net-earnings base. Under the simplified assumptions, ×15.3% = $7,064.78 self-employment tax. Assume no wages, earnings below the Social Security wage base and no other complications. This is not total tax.

Draw income, profit, taxes and payments in distinct lanes

1B · Read the transaction before the form

2026 federal TPSO reporting generally requires payments over $20,000 AND more than 200 transactions. Payment-card transactions do not use that minimum. A form can arrive below the threshold.

The threshold is not an income exclusion. Business cash, tips, direct-client payments, barter and property received for services need analysis even without a form. Specified 2026 information returns use a $2,000 payer threshold with exceptions; do not apply it to every form.

Personal reimbursements and personal sales need their own classification and evidence. A personal sale at a loss is not treated like business profit; a personal loss generally is not deductible.

Worked payout bridge: $1,000 gross − $100 platform fee = $900 deposit. Do not add the deposit a second time.

List three channels, the source record for each and any unresolved question

1C · Maya: one case, three branches

Maya’s $28,000 platform gross includes $2,100 fees; payout is $25,900. Brand $9,500; affiliate $2,400; direct tips $1,200. A laptop with supportable $1,800 fair market value was received for a required sponsored review. No duplicate forms; all amounts are 2026 receipts.

Build an income inventory. Reconcile the platform. List evidence for the laptop. Explain why tax-form thresholds do not remove any receipt.

Branch A: receipt / amount / evidence / next action

1D · What fact changed?

Keep Maya’s cash facts. Change only the laptop fact: the brand retains ownership, loaned it for 30 days and Maya must return it. The agreement provides no transfer of title.

What changed? Do not automatically include or expense the retail value. Identify possession, ownership, compensation terms and any taxable benefit requiring analysis. Explain why the answer depends on the contract.

A $600 personal reimbursement is also on Maya’s payment-app report. A receipt and shared-expense messages support that it repaid her own share-outlay. It is not payment for services.

Separate the transfer from business receipts, preserve the evidence and follow IRS correction/reconciliation instructions if it appears on Form 1099-K. Do not add $600 to Maya’s business income merely because it appears on a form.

Branch B and C: changed fact → conclusion → source/evidence

1E · Worker and entity decisions

Federal worker status considers behavioral control, financial control and the relationship. California's ABC test has a separate framework and exceptions. A contract label or Form 1099 does not settle status.

An LLC is a state-law entity. An S corporation is a tax classification/election with operational obligations. Before a decision, ask about stable profit, reasonable pay, payroll, bookkeeping, state tax and compliance costs.

Independent check: a client paid $500 for design without a form; another transfer is a substantiated $600 personal reimbursement. Explain what each is and what record proves it.

My explanation and one controlling fact

1F · Session 1 exit and transfer

Without notes: draw the return map; explain why a form threshold is not tax-free income; name the document that would change Maya's laptop analysis.

Before the next class: privately list each income channel and its record source. Bring only an invented or redacted summary. Five minutes of retrieval two days after class is useful practice.

My action within 48 hours, date and evidence of completion

2A · Deduction reasoning card

Ask: (1) Is it eligible and connected to the business? (2) What business share is supported? (3) What timing or limitation applies? (4) What evidence proves the answers?

Worked phone example: $1,200 annual service ×60% supported business use = $720 initial business portion. Arithmetic does not replace eligibility or evidence.

Separate a current expense, an asset with basis/timing questions and a personal cost. A card statement can prove payment while leaving purpose, use and eligibility unproven.

Apply the four questions to one fictional cost

2B · Mileage and home office

2026 eligible business standard mileage: January 1–June 30, $0.725 per mile; July 1–December 31, $0.76. Keep trip date, destination, purpose and distance. Commuting is generally personal; method eligibility matters.

Worked example: 2,000 ×$0.725 = $1,450; 3,000 ×$0.76 = $2,280; total $3,730. Do not add covered actual vehicle costs again under the standard method.

Home office: establish exclusive and regular use, business connection and a qualifying use before choosing a method. The simplified method is generally $5 per square foot up to 300 square feet, with limitations. Area alone is not eligibility.

Eligibility fact / calculation input / supporting record

2C · Jordan's costs: classify first

Jordan is a freelance videographer with $72,000 of 2026 gross receipts before expenses.

A $2,400 laptop is placed in service (ready and available for business use) on July 1 and is supported as 80% business use.

Phone service costs $1,440; a contemporaneous sample supports 70% business use.

Business mileage: 2,000 miles through June 30 and 3,000 miles July–December. Jordan is eligible to use the standard-mileage method.

A dedicated 150-square-foot room is used exclusively and regularly for administration; total home area is 1,200 square feet. Additional facts are needed before calculating the home-office deduction.

Concert tickets cost $600 and were used personally with a potential client present.

Cost / classification / business amount / unresolved fact

2D · Federal payment model

Generally, federal estimates apply when expected tax after withholding/refundable credits is at least $1,000 and the withholding/credit test is not met. The usual annual target compares 90% of current-year tax with 100% of prior-year tax on a full-year return; high prior-year AGI generally substitutes 110%. Exceptions apply.

Worked assumptions: prior tax $10,000, prior AGI below $150,000 threshold (below $75,000 if married filing separately), projected tax $13,000, withholding $2,000. Lower target = min($11,700,$10,000) = $10,000; annual gap = $8,000.

This is an annual planning number. In November, analyze actual prior payments, due dates, withholding, annualization and possible penalty. Four future equal checks do not make missed installments timely.

What records and timing facts are needed for today's payment decision?

2E · California payment model

California generally uses a $500 expected balance trigger ($250 married/RDP filing separately) with its own withholding/credit and safe-harbor tests. High-income rules can change the prior-year comparison; current-year California AGI at least $1 million ($500,000 separately) removes use of prior-year tax.

Worked supplied target: $6,000 less $1,000 withholding = $5,000 annual balance. Standard 30% / 40% / 0% / 30% pattern gives $1,500 / $2,000 / $0 / $1,500.

Dates: April 15, June 15, September 15, 2026 and January 15, 2027. The standard zero third allocation is not a blanket exemption from catch-up or other required payments. California is a separate computation.

Federal and California: one similarity, two differences, one November action

2F · Independent check and retrieval

Phone: $120 service at 60% supported business use. Mileage: 400 eligible business miles in May and 600 in August. Camera: $2,000 at 75% business use; current deduction method not established.

Compute each supported initial amount. Name which amount is basis rather than an established current deduction. Explain the two mileage rates without looking at the reference.

Privately calendar your next full-year projection and list the records needed. Use the fictional exercise for classroom discussion.

Arithmetic, assumptions, unresolved question and next action

3A · A monthly close you can repeat

Gather: all income channels, statements, invoices, receipts and payment confirmations. Reconcile: gross activity, refunds, fees, reserve changes and bank cash. Resolve: duplicates, personal items and missing records. Archive: keep the evidence and an open-question log.

Worked bridge: $12,000 gross −$800 refunds −$1,100 fees −$500 reserve increase = $9,600 payout. A reserve movement explains cash and is not automatically an expense. The case assumes recognition of the supplied gross receipts; real recognition can require contract/accounting-method facts.

A zero difference alone is not proof that every item is correctly classified.

Exception / amount / source / owner / due date / resolution evidence

3B · Your year-end evidence index

Build six sections: income and reconciliations; expenses and allocations; assets and placed-in-service facts; mileage/home office; returns and payments; unresolved questions.

Point each amount to an original record and any adjustment explanation. Keep credentials and sensitive personal identifiers out of class materials.

2026 California LLC examples generally use the $800 annual tax and a separate income-based fee starting at $250,000. Future years can change: current FTB guidance lists a $400 first-year annual tax for qualifying LLC/LP/LLP tax years starting in 2027–2029. Recheck the year and eligibility before acting.

Section / what belongs there / how I will name and retain it

3C · Choose tools and check sources

Open the included tax-essentials-practice-lab.html offline, or tax-essentials-tools.xlsx. Use fictional inputs. Predict an output before changing an input, then explain the result. A limited practice calculation is not a complete tax return or payment instruction.

Federal QBI, qualified-tip and equipment rules require their own eligibility tests. California does not automatically adopt federal changes; confirm the specific provision and year.

Choose one source from the reference card. Record its authority, tax year, effective period and date opened. Identify the exact question it answers.

Source / question / applicable period / next refresh

3D · Independent capstone: Sam

Work alone first; a calculator and source card are allowed. Read all facts before calculating. Explain uncertainty instead of inventing a missing fact.

Sam is a California sole proprietor selling design services. October platform gross is $12,000; customer refunds $800; platform fees $1,100; reserve balance rises from $0 to $500; bank payout $9,600. Assume the gross receipts are properly recognized for this exercise; reserve timing is outside this exercise.

A separate direct client pays $1,500, not included in the platform gross. A friend repays $200 for a shared personal meal; documentation supports a reimbursement. No receipt appears twice.

Phone cost $120 supports 60% business use. Eligible standard-method business miles: 400 in May and 600 in August. Assume these are the only mileage inputs in this short practice case. A $2,000 camera is used 75% for business, with sufficient allocation evidence; deduction timing is unresolved.

3E · Sam: payment and decision facts

Independent estimate exercise: prior-year federal tax $7,000 on a full 12-month return; prior-year AGI $90,000; projected current-year total federal tax $9,000; expected federal withholding $1,000. Ignore credits and special rules not stated. No estimated payments yet. Today is November 21, 2026.

A separate supplied California required annual payment before withholding is $3,000; expected California withholding is $500. Treat the annual allocation as a teaching model, then analyze the elapsed dates. Do not derive California tax from the federal figures.

Sam asks whether an S election automatically saves 15.3% and whether a camera receipt alone proves a current deduction. Identify facts needed before either conclusion.

3F · Sam: your response

Reconcile the platform to the bank; compute business receipts after the supplied refunds and before fees, then show where the direct receipt and personal reimbursement belong.

Calculate the supported phone amount, split-date mileage amount and camera business basis. Identify which number is not yet a current-year deduction.

Draw the return and payment lanes. Explain why the case does not contain enough information to compute Sam's complete tax return.

Calculate the federal annual target and annual estimate gap. Allocate the California supplied annual balance using 30% / 40% / 0% / 30%. State a November next step.

Give an evidence plan, three S-election decision factors and a dated 48-hour/monthly action.

Show work; use the sources; name what cannot yet be concluded

3G · Correction and self-check

Check five skills: income reconciliation; supported deductions; tax/payment lanes; separate federal/California planning; judgment and next actions.

For each, mark “needs support,” “partly independent,” or “can explain independently.” Compare your answer with instructor feedback after your attempt; correct the controlling fact or reasoning, not just the final number.

Retry one missed skill with a changed amount or date. Record whether you used a hint. These are learning measures, not a PCC grade or professional certification.

My correction, supporting source and new practice result

Plan · Your 30-day action plan

Within 48 hours: choose one small records improvement. In the first week: reconcile one period and log unresolved differences. Every month: reserve a recurring close appointment. Before a tax decision or payment: refresh the relevant official guidance.

Name one obstacle, one workaround and one question requiring professional help. Keep your private financial details outside the class copy.

Action / date / evidence of completion / monthly appointment

R · Official source card

Source check: September 13, 2026. Use the tax year and effective period that match your question. Publications 463, 587, 946 and 1001 are the 2025 editions currently used for general rules; check for a later edition before applying a 2026 return position.

Income and Form 1099-K

2026 information-return rules

Self-employment tax

2026 federal estimates

2026 California estimates

2026 split-date mileage

Vehicle and meal records

Home-office eligibility

Business recordkeeping

California conformity

California adjustments (2025 publication)

California LLC rules

Future-year changes, including the 2027–2029 first-year annual-tax reduction

Refresh changing figures before class and before acting. Record the source, the year/period, the date opened and the fact it answers. A search snippet or AI summary is a starting point, not the authority.