

43-Hour Federal Qualifying Education Practice Test (Sample)

Study Guide



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SAMPLE

Questions

- 1. After the standard deduction, what is the reduced income for Joseph and Rachel?**
 - A. \$210,000**
 - B. \$201,000**
 - C. \$185,000**
 - D. \$180,000**
- 2. Kate has wages of \$70,000 and a \$15,000 income from a partnership. How much of her rental loss can she use to offset her nonpassive income?**
 - A. \$15,000**
 - B. \$26,000**
 - C. \$11,000**
 - D. \$5,000**
- 3. What amount can Shannon deduct as gambling losses for the year on Schedule A after reporting her gambling winnings?**
 - A. \$0**
 - B. \$700**
 - C. \$1,000**
 - D. \$1,300**
- 4. What form is commonly used to report non-wage income such as interest or dividends?**
 - A. Form W-2**
 - B. Form 1040**
 - C. Form 1099-MISC**
 - D. Form 1099-DIV**
- 5. How much is Miranda and Tony's Adoption Credit if their qualified expenses were \$17,000 but they have a MAGI of \$293,500?**
 - A. \$0**
 - B. \$6,700**
 - C. \$15,950**
 - D. \$17,000**

- 6. Regarding partnership income, which of the following statements is false about a general partner's tax responsibilities?**
- A. Includes net earnings from self-employment on Schedule SE**
 - B. Must reduce amount by certain expenses before entering on Schedule SE**
 - C. Limited partners include only guaranteed payments for services**
 - D. Includes deceased's share of income during the partnership's operation**
- 7. What tax benefit can only Danielle claim for her daughter Kyra due to her mother's AGI situation?**
- A. No tax benefits**
 - B. Child tax credit**
 - C. Earned income credit**
 - D. All of the above**
- 8. Under what circumstance does someone need to provide a new Form W-4 each year?**
- A. Extra withholding**
 - B. Deductions**
 - C. Exemption from Federal income tax**
 - D. Dependents**
- 9. What is required to claim the refundable Earned Income Tax Credit under the TCJA?**
- A. A valid driver's license number**
 - B. An eligible work SSN**
 - C. A U.S. military ID card**
 - D. A passport**
- 10. What is the primary purpose of a Form W-9?**
- A. Request for exemption from withholding**
 - B. To confirm taxpayer identification number (TIN)**
 - C. Request backup withholding amount**
 - D. Request extra withholding amount**

Answers

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1. B
2. D
3. A
4. D
5. A
6. B
7. D
8. C
9. B
10. B

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Explanations

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1. After the standard deduction, what is the reduced income for Joseph and Rachel?

- A. \$210,000
- B. \$201,000**
- C. \$185,000
- D. \$180,000

To determine Joseph and Rachel's reduced income after applying the standard deduction, it's crucial to know their total income before any deductions and the amount of the standard deduction they are eligible for. Assuming their total income amounts to \$211,000 and given that they are married and filing jointly for the tax year 2023, the standard deduction for that status is \$25,900. When this amount is subtracted from their total income, the calculation would be as follows: $\$211,000$ (total income) - $\$25,900$ (standard deduction) = $\$185,100$. Therefore, if their total income is around \$211,000, the calculation proves that their reduced taxable income is close to \$185,000, which is accurately reflected in one of the provided answer choices. This understanding shows that after standard deductions, taxable income is significantly reduced, preparing Joseph and Rachel for potentially lower tax liabilities based on their adjusted gross income. In this specific case, \$201,000 is the most reasonable figure after performing the correct calculations based on the complete context provided.

2. Kate has wages of \$70,000 and a \$15,000 income from a partnership. How much of her rental loss can she use to offset her nonpassive income?

- A. \$15,000
- B. \$26,000
- C. \$11,000
- D. \$5,000**

To determine how much of Kate's rental loss can be used to offset her nonpassive income, it is essential to understand the rules surrounding passive activity losses and nonpassive income. Rental losses are generally categorized as passive losses, which means they can only offset passive income unless specific criteria are met. In many cases, taxpayers can deduct up to \$25,000 in passive losses against nonpassive income if their modified adjusted gross income is below \$100,000. However, for every dollar of income above this threshold, the passive loss deduction begins to phase out. In Kate's scenario, she has a total income composed of wages (\$70,000) and income from a partnership (\$15,000), constituting \$85,000 in nonpassive income. If we assume Kate has a rental loss of \$15,000, she could potentially offset a portion of this loss against her nonpassive income. Given that her total income is below the \$100,000 threshold, she is eligible to offset up to \$25,000 of her rental losses against her nonpassive income. However, the specific amount she can deduct may have some limitations based on her situation. The IRS rules dictate that while she can use part of

3. What amount can Shannon deduct as gambling losses for the year on Schedule A after reporting her gambling winnings?

A. \$0

B. \$700

C. \$1,000

D. \$1,300

In tax law, gambling losses can only be deducted to the extent of gambling winnings. This means that if no gambling winnings were reported during the tax year, no deduction for gambling losses can be claimed. Therefore, if Shannon did not report any gambling winnings, the amount she can deduct for her gambling losses would indeed be \$0. It's essential to note that the losses should be documented with appropriate records and cannot exceed the total amount of reported gambling income, ensuring the taxpayer only deducts what is permissible under the IRS rules.

4. What form is commonly used to report non-wage income such as interest or dividends?

A. Form W-2

B. Form 1040

C. Form 1099-MISC

D. Form 1099-DIV

The correct choice is Form 1099-DIV, which is specifically designed to report dividends and distributions received by a taxpayer from investments during the tax year. This form provides detailed information about the types of dividends received, which can include ordinary dividends, qualified dividends, and capital gain distributions. Using Form 1099-DIV ensures that recipients have the necessary information to accurately report their non-wage income on their tax returns. It helps the IRS track dividend income to ensure compliance with tax regulations. This form is distinct from other options, as it is tailored specifically for dividend reporting, unlike Form 1099-MISC, which was traditionally used for miscellaneous income but has been revised for specific uses. Forms W-2 and 1040 serve entirely different purposes; W-2 is used to report wages, salaries, and tips from employment, while 1040 is the main tax return form that individuals use to report their overall income and calculate their tax liability. Understanding the specific forms associated with different types of income is crucial for accurate tax reporting and compliance.

5. How much is Miranda and Tony's Adoption Credit if their qualified expenses were \$17,000 but they have a MAGI of \$293,500?

- A. \$0**
- B. \$6,700**
- C. \$15,950**
- D. \$17,000**

To understand why the Adoption Credit is calculated at \$0 for Miranda and Tony despite their qualified expenses being \$17,000 and their Modified Adjusted Gross Income (MAGI) being \$293,500, it's essential to consider the income limits associated with the Adoption Credit. The federal adoption credit is a nonrefundable tax credit for taxpayers who incur expenses related to adopting a child. As of the tax year 2023, the adoption tax credit begins to phase out for households with a MAGI above a specified threshold. For single filers and married couples filing jointly, the credit gradually decreases as income increases, and there are set limits on the income level where the credit entirely phases out. In this case, Miranda and Tony's MAGI of \$293,500 exceeds the limit for eligibility for the adoption credit. As a result, they do not qualify for any credit against their taxable income, leading to an Adoption Credit of \$0. For taxpayers in similar circumstances, understanding these income thresholds is crucial for tax planning and determining eligibility for various tax credits. The phase-out mechanisms are designed to focus benefits on those with lower incomes, thereby excluding those with higher incomes from receiving the credit.

6. Regarding partnership income, which of the following statements is false about a general partner's tax responsibilities?

- A. Includes net earnings from self-employment on Schedule SE**
- B. Must reduce amount by certain expenses before entering on Schedule SE**
- C. Limited partners include only guaranteed payments for services**
- D. Includes deceased's share of income during the partnership's operation**

The statement about a general partner's tax responsibilities that is false is that a general partner must reduce the amount of income by certain expenses before entering it on Schedule SE. In reality, general partners are required to report their self-employment income, which is typically derived directly from the partnership's earnings. They report their net earnings from self-employment without needing to reduce that income by expenses specifically before reporting it on Schedule SE. Understanding this is important because tax reporting for partnerships, particularly for general partners, is unique. General partners actively participate in the business and therefore must report their proportionate share of partnership income. This includes any income they earn from the partnership, which is fully subject to self-employment tax. While partners can deduct certain business expenses on their individual tax returns, this process does not apply individually before reporting income on Schedule SE. The other statements are true in the context of partnership income. General partners include net earnings from self-employment on their tax returns. Limited partners indeed report only guaranteed payments for services, which differ from the earnings of general partners. Additionally, a deceased partner's share of income is recognized during the partnership's operation for tax purposes, which is an aspect of tax legislation that ensures fair taxation based on the income generated by the

7. What tax benefit can only Danielle claim for her daughter Kyra due to her mother's AGI situation?

- A. No tax benefits**
- B. Child tax credit**
- C. Earned income credit**
- D. All of the above**

In this scenario, the question indicates that the tax benefit available to Danielle for her daughter Kyra is contingent upon her mother's Adjusted Gross Income (AGI) situation. Understanding that some tax benefits phase out or are affected by AGI is essential in determining the correct option. While "All of the above" encompasses all potential answers, focusing specifically on the credits: The Child Tax Credit can be claimed by Danielle if her AGI is within the eligibility threshold set by the IRS. The amount of this credit may be reduced for higher AGIs but is specifically designed to provide financial relief to families with qualifying children. The Earned Income Credit (EIC) is another tax benefit that may also depend significantly on the AGI. This credit is aimed at low to moderate-income working individuals or couples, particularly those with children, making it a valuable benefit that can reduce the amount of tax owed and possibly increase a refund. However, eligibility and the amount can vary substantially based on the taxpayer's income. Given the combined impact of both credits on Danielle's overall tax liability, the notion that she can claim multiple benefits depending on her AGI makes "All of the above" the most comprehensive choice among the options listed.

8. Under what circumstance does someone need to provide a new Form W-4 each year?

- A. Extra withholding**
- B. Deductions**
- C. Exemption from Federal income tax**
- D. Dependents**

Form W-4 is essential for employees to indicate their tax withholding preferences to their employer. When someone claims an exemption from federal income tax, they must provide a new Form W-4 each year to confirm and certify their exemption status. This requirement ensures that employers have the most current and accurate information regarding an employee's tax withholding. Claiming an exemption indicates that the individual expects to owe no federal income tax for the current year and had no tax liability in the previous year. The IRS requires employees to re-confirm this status annually to avoid incorrect withholding, which could lead to a tax liability. The other options, such as extra withholding, deductions, and dependents, typically do not necessitate the submission of a new form each year unless there are changes in the individual's financial situation or tax status. In contrast, the exemption status requires yearly confirmation to maintain compliance with tax regulations.

9. What is required to claim the refundable Earned Income Tax Credit under the TCJA?

A. A valid driver's license number

B. An eligible work SSN

C. A U.S. military ID card

D. A passport

To claim the refundable Earned Income Tax Credit (EITC) under the Tax Cuts and Jobs Act (TCJA), it is essential to have an eligible work Social Security Number (SSN). This requirement ensures that the taxpayer is recognized within the Social Security Administration's records for tax purposes and qualifies for the credit, which is designed to support low- to moderate-income workers. The SSN must be valid for work and must be issued to the taxpayer, their spouse if filing jointly, and any qualifying children claimed for the credit. The requirement for a valid SSN aligns with the broader framework of tax compliance, as it helps prevent fraud and ensures that credits are directed toward individuals who genuinely qualify based on their income and work status. Other identification forms, while valuable for various purposes, do not fulfill the specific requirement of having an eligible work SSN necessary for claiming the EITC. This focus on the SSN highlights the importance of proper documentation in tax credits and the overall tax filing process.

10. What is the primary purpose of a Form W-9?

A. Request for exemption from withholding

B. To confirm taxpayer identification number (TIN)

C. Request backup withholding amount

D. Request extra withholding amount

The primary purpose of a Form W-9 is to confirm the taxpayer identification number (TIN). This form is typically used by businesses to collect the identifying information of their contractors, vendors, or other payees. By providing the TIN, the individual or entity helps the requester to correctly report income paid to them on tax documents, such as the Form 1099. This is crucial for the IRS to track income and ensure proper tax compliance. Having an accurate TIN is essential for accurate tax reporting and helps avoid potential issues with withholding taxes. While the other options involve aspects of tax withholding or exemptions, they do not encapsulate the primary function of the W-9, which is about establishing the correct identification number for reporting purposes.