

Advanced Tax Concept 175

Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. If an employee receives reimbursement from a flexible spending account, which of the following statements is true regarding gross income?**
 - A. Gross income is reduced by the total reimbursement received**
 - B. Gross income is reduced by the salary reduction amount**
 - C. Gross income is unaffected by the reimbursement**
 - D. Gross income is increased by any unreimbursed amount**
- 2. Helene Corporation's income apportioned to State A is determined by what factor?**
 - A. Double-weighted sales factor**
 - B. Three-factor equal weighting**
 - C. Payroll only**
 - D. Single-factor based on payroll**
- 3. When calculating Belinda's basis in the LLC, what factors are included?**
 - A. Only the initial investment**
 - B. Her share of LLC liabilities and guaranteed debts**
 - C. Expenses incurred during participation**
 - D. Only cash contributions made to the LLC**
- 4. Under the current tax law, what do penalties for late filings aim to achieve?**
 - A. Encourage timely payments**
 - B. Promote tax transparency**
 - C. Facilitate IRS audits**
 - D. Support noncompliance**
- 5. Which strategy can a taxpayer use to mitigate the negative tax effects of the unitary theory?**
 - A. Acquire a profitable entity**
 - B. Affiliate with a service division showing an operating loss**
 - C. Both a. and b.**
 - D. None of the above**

6. Which tax law provision cannot be justified as promoting administrative feasibility?

- A. Penalties for failure to file a return**
- B. Annual adjustments for indexation of the standard deduction**
- C. Personal casualty losses exceeding 10% of AGI**
- D. Deductions for charitable contributions**

7. Which of the following is a result of a corporation's assumption of a mortgage in a property transfer?

- A. The mortgage value is considered as part of the fair market value of the distribution.**
- B. The corporation assumes full ownership without liabilities.**
- C. The transferor does not recognize any gain if the transfer is solely for stock.**
- D. The total distribution will always result in taxable income for the transferor.**

8. In the context of IRS regulations, which holds more weight?

- A. The Internal Revenue Code**
- B. The Regulations**
- C. State law**
- D. Judicial decisions**

9. Where will General Corporation's sales from its State A headquarters be included in the sales factor numerator?

- A. 100,000 in State A**
- B. 0 in both State A and State B**
- C. 50,000 in State A**
- D. 100,000 in State B**

10. What is the basis of the property to the shareholder in a qualifying stock redemption for Finch Corporation?

- A. \$-0-**
- B. \$140,000**
- C. \$225,000**
- D. \$300,000**

Answers

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

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Explanations

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1. If an employee receives reimbursement from a flexible spending account, which of the following statements is true regarding gross income?

- A. Gross income is reduced by the total reimbursement received**
- B. Gross income is reduced by the salary reduction amount**
- C. Gross income is unaffected by the reimbursement**
- D. Gross income is increased by any unreimbursed amount**

When an employee receives reimbursement from a flexible spending account (FSA), it is important to understand how this affects gross income. The correct answer highlights that gross income is reduced by the salary reduction amount. This is because contributions made to an FSA are deducted from the employee's salary before taxes, effectively reducing the employee's taxable income. Therefore, the salary reduction amount is excluded from gross income upfront. As for the reimbursement itself, funds that are withdrawn or reimbursed from an FSA are not included in gross income because they are considered a return of previously excluded amounts (the salary reduction). Consequently, while the total reimbursement doesn't directly reduce gross income at the time of reimbursement, it is the initial deduction from salary that has already lowered the gross income. In contrast, other options are incorrect for various reasons: the notion that gross income would be reduced by the total reimbursement misunderstands the nature of reimbursements; stating that gross income is unaffected overlooks the tax advantage provided during the initial salary reduction; and the idea that gross income increases due to unreimbursed amounts misinterprets how unreimbursed expenses generally relate to tax considerations.

2. Helene Corporation's income apportioned to State A is determined by what factor?

- A. Double-weighted sales factor**
- B. Three-factor equal weighting**
- C. Payroll only**
- D. Single-factor based on payroll**

Helene Corporation's income apportioned to State A is determined by the three-factor equal weighting method. This approach involves three key factors: sales, payroll, and property. Each of these factors contributes equally to the overall formula used to apportion income to the state. Using this method allows the corporation to reflect a more balanced view of its business operations across different states. It recognizes that a company's income-generating activities are influenced by its presence in multiple areas, which includes not just where sales occur, but also where employees work and where property is located. Each factor is typically weighted equally, meaning that sales, payroll, and property each contribute one-third to the apportionment calculation. The double-weighted sales factor would give more emphasis to sales relative to the other factors, which may not present a comprehensive view of the company's activities in the apportioning state. Similarly, payroll-only and single-factor based on payroll approaches would ignore crucial elements of the business operation related to sales and property, potentially skewing the income apportionment to State A. This comprehensive method ensures a fairer basis for taxation, as it captures the diverse contributions of different operational locations.

3. When calculating Belinda's basis in the LLC, what factors are included?

- A. Only the initial investment**
- B. Her share of LLC liabilities and guaranteed debts**
- C. Expenses incurred during participation**
- D. Only cash contributions made to the LLC**

In determining Belinda's basis in the LLC, her share of LLC liabilities and guaranteed debts plays a vital role. Basis is essentially the amount of a taxpayer's investment in a property, and for an LLC, it includes not only the cash or property that Belinda has initially contributed but also her share of the LLC's liabilities. When an individual invests in an LLC, their basis increases with any share of debt the LLC incurs, as it reflects the risk the individual takes on. This is particularly relevant in pass-through entities like LLCs, where income, losses, and liabilities pass through to the members. If the LLC has outstanding liabilities, Belinda's share of those liabilities enhances her financial stake in the LLC, thereby increasing her basis. In contrast, contributions of cash or property alone do not capture the complete financial picture, as they neglect the implications of the LLC's overall financial obligations which might affect her equity. This aligns with the principles of tax law, where investors are allowed to adjust their basis for various factors reflecting their actual economic investment in partnership entities. Thus, including her share of liabilities in her basis calculation ensures a more accurate reflection of her economic interest and aligns with the rules governing partnership and LLC taxation.

4. Under the current tax law, what do penalties for late filings aim to achieve?

- A. Encourage timely payments**
- B. Promote tax transparency**
- C. Facilitate IRS audits**
- D. Support noncompliance**

Penalties for late filings are primarily designed to encourage timely payments. When taxpayers fail to submit their tax returns on time, the penalties serve as a financial deterrent against procrastination and compliance failures. This system aims to ensure that individuals and businesses fulfill their tax obligations within the required timeframe, ultimately supporting the overall integrity and functionality of the tax system. By imposing penalties, the tax authorities reinforce the importance of adhering to deadlines which in turn helps maintain revenue for public services. The other choices do not accurately capture the purpose of the penalties. For instance, promoting tax transparency relates to the clarity and openness of tax reporting, which is not directly tied to the timing of filings. Facilitating IRS audits refers to the examination processes of taxpayer returns and does not align with the immediate aim of penalties. Supporting noncompliance contradicts the fundamental goal of tax penalties, which is to improve compliance and ensure that taxpayers meet their obligations. Thus, the focus remains clearly on encouraging timely payment through the implementation of these penalties.

5. Which strategy can a taxpayer use to mitigate the negative tax effects of the unitary theory?

- A. Acquire a profitable entity**
- B. Affiliate with a service division showing an operating loss**
- C. Both a. and b.**
- D. None of the above**

In the context of mitigating the negative tax effects stemming from the unitary theory, the ability to utilize both acquiring a profitable entity and affiliating with a service division showing an operating loss becomes clear. The unitary theory aims to assess the income of a unitary group as a whole, which can lead to unfavorable tax liabilities due to the aggregation of profits and losses across the entities. Acquiring a profitable entity can strategically enhance the overall profitability of the unitary group. When income from this profitable entity is integrated, it can help offset the losses from other affiliates, leading to a more favorable tax landscape. By increasing the aggregate income, the taxpayer can reduce the overall tax burden faced under the unitary system. Similarly, by affiliating with a service division that is showing an operating loss, a taxpayer can utilize those losses to offset income within the unitary group. This approach can effectively reduce the taxable income and lower tax liabilities. The losses can be highly valuable when considered in conjunction with the overall income of the group. Therefore, both strategies combined provide a comprehensive approach to mitigating the adverse tax implications of the unitary theory, illustrating the effectiveness of using both profitable acquisitions and loss-affiliated divisions strategically within a taxpayer's overall tax strategy.

6. Which tax law provision cannot be justified as promoting administrative feasibility?

- A. Penalties for failure to file a return**
- B. Annual adjustments for indexation of the standard deduction**
- C. Personal casualty losses exceeding 10% of AGI**
- D. Deductions for charitable contributions**

The reasoning behind selecting annual adjustments for indexation of the standard deduction as the provision that cannot be justified as promoting administrative feasibility lies in the nature and implications of this provision. Indexing the standard deduction to inflation increases the complexity of tax administration because it requires ongoing adjustments to be calculated and applied each year based on inflation metrics. While this provision serves to keep the deduction relevant to current economic conditions, it does not necessarily enhance efficiency or ease for tax administration, as it introduces additional steps and resources for adjusting and informing taxpayers about the new deduction amounts each year. In contrast, penalties for failure to file a return, personal casualty losses exceeding a certain percentage of Adjusted Gross Income (AGI), and deductions for charitable contributions have clearer administrative justifications. These provisions can facilitate more straightforward enforcement of compliance measures and provide clear frameworks that help in both tax compliance and administration. Therefore, the indexation of the standard deduction does not align with the goal of administering tax laws in a way that maximizes efficiency and simplicity in operations for both taxpayers and the IRS.

7. Which of the following is a result of a corporation's assumption of a mortgage in a property transfer?

- A. The mortgage value is considered as part of the fair market value of the distribution.**
- B. The corporation assumes full ownership without liabilities.**
- C. The transferor does not recognize any gain if the transfer is solely for stock.**
- D. The total distribution will always result in taxable income for the transferor.**

When a corporation assumes a mortgage during a property transfer, the value of that mortgage is indeed considered part of the fair market value of the distribution. This treatment aligns with tax principles where the liabilities associated with a property are treated as part of the property's value for tax calculation purposes. In simple terms, when the corporation takes on the mortgage, this assumption reflects the economic reality of the transaction: the corporation is not only acquiring an asset (the property) but also a corresponding liability (the mortgage). Therefore, the value of the mortgage can impact various tax implications, including gain recognition or basis calculations for both the transferor and the corporation. The other scenarios do not accurately reflect the implications of a corporation assuming a mortgage. Full ownership without liabilities does not occur, as the assumption of the mortgage means that those liabilities remain tied to the property even as it changes hands. If a transfer occurs solely for stock, tax deferment may apply under certain conditions, but gain recognition can still happen under different circumstances. Lastly, a distribution does not automatically result in taxable income for the transferor; tax treatment depends on factors like the basis in the property and the nature of the transaction. Understanding these nuances is crucial to grasping the tax consequences of property transfers involving corporate

8. In the context of IRS regulations, which holds more weight?

- A. The Internal Revenue Code**
- B. The Regulations**
- C. State law**
- D. Judicial decisions**

In the context of IRS regulations, the correct answer indicates that the regulations hold an important authoritative role in tax law interpretation and application. The Internal Revenue Code is the primary source of federal tax law enacted by Congress, but the regulations issued by the IRS provide detailed guidance on how the provisions of the Code are to be implemented. They are designed to clarify the Code and provide taxpayers and practitioners with necessary instructions and interpretations, making them highly authoritative. IRS regulations can take various forms, including proposed, temporary, and final regulations, and they reflect the IRS's official stance on various tax matters. Courts generally defer to the IRS's interpretations as long as they are reasonable and align with the intent of the Internal Revenue Code. Therefore, while the Internal Revenue Code is the foundational law, the regulations are critical for practical compliance and understanding of how the Code operates in real-life scenarios. State law does play a significant role in tax matters at the state level but does not hold weight in the context of federal IRS regulations. Judicial decisions also provide important interpretations and determine how laws are applied, but they are typically viewed as secondary to the regulations issued by the IRS. In summary, the weight of IRS regulations is significant as they serve as the bridge between the broad legislative language of the

9. Where will General Corporation's sales from its State A headquarters be included in the sales factor numerator?

- A. 100,000 in State A**
- B. 0 in both State A and State B**
- C. 50,000 in State A**
- D. 100,000 in State B**

When determining where General Corporation's sales from its State A headquarters will be included in the sales factor numerator, it is crucial to understand the sourcing rules for sales under state apportionment formulas. In most states, sales are typically sourced to the state where the customer is located or where the product is delivered. If the sales were made to customers in State B, then according to these rules, the sales would be included in the numerator for the sales factor calculation in State B. Therefore, the correct answer reflects that the total sales made to customers in State B would be considered in the sales factor for that state. This consideration is particularly important because it impacts how the corporation's income is allocated across different states, influencing its overall tax liability. Understanding the nuances of state apportionment formulas allows corporations to navigate tax obligations more effectively, ensuring compliance while optimizing their tax positions.

10. What is the basis of the property to the shareholder in a qualifying stock redemption for Finch Corporation?

- A. \$-0-**
- B. \$140,000**
- C. \$225,000**
- D. \$300,000**

In a qualifying stock redemption scenario, the basis of the property received by a shareholder typically reflects the original investment or the adjusted basis in the stock that is redeemed. However, in the specific case of Finch Corporation's qualifying stock redemption, the answer indicating a basis of zero suggests that certain conditions must be met to result in a non-taxable event for the shareholder. If the stock redemption qualifies under certain provisions of the tax code, such as being treated as a sale rather than a dividend, the gain or loss recognized may not apply to the basis of the shares received. Rather, a shareholder may effectively end up with a basis of zero in the redeemed stock if it has been fully offset or rendered unnecessary due to specific tax provisions. Additionally, if this redemption qualifies for tax-free treatment, it may not lead to any taxable gain or loss which correlates to a zero basis in this particular context. This situation often arises when the stock's value has decreased substantially or if certain exclusions apply based on the shareholder's individual tax situation or the nature of the redemption. As for the other choices provided, they likely represent either the original basis of various scenarios that did not take into account the specific tax treatment applicable to the redemption or may imply various other underlying transactions

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://advtaxconcept175.examzify.com>

We wish you the very best on your exam journey. You've got this!

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