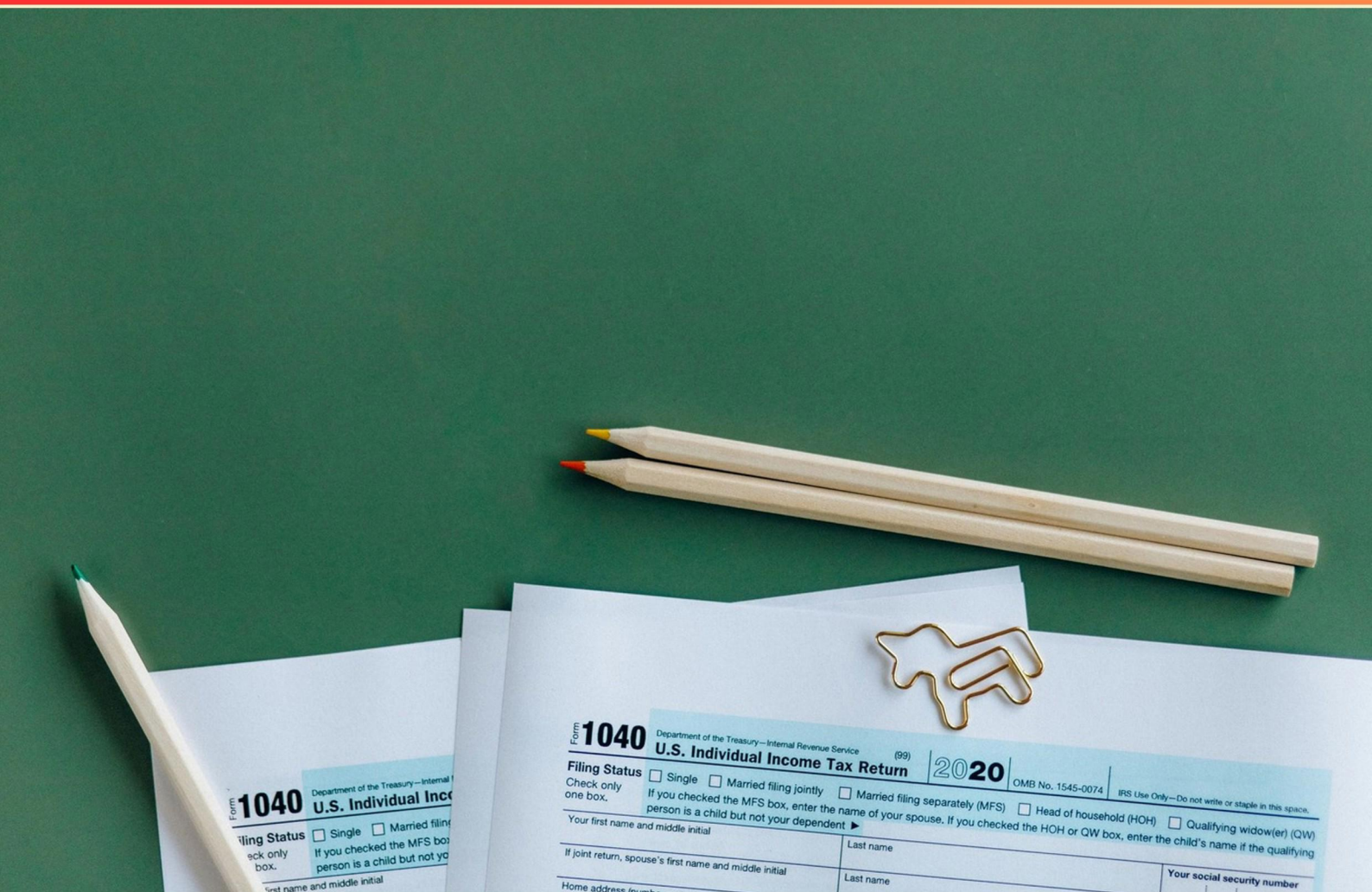


ADVANCED TAX CONCEPT 175 PRACTICE TEST (SAMPLE)

STUDY GUIDE



Prepare with structure. Pass with confidence



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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. When a taxpayer receives inherited property, what principle governs the basis for that property?**
 - A. Adjusted basis
 - B. Cost basis
 - C. Fair market value at decedent's death
 - D. Original owner's basis

- 2. What is the maximum allowable percentage for cash contributions according to AGI rules?**
 - A. 30%
 - B. 50%
 - C. 60%
 - D. 100%

- 3. Does a limited partnership provide all partners with protection from claims by the LP's creditors?**
 - A. Yes
 - B. No
 - C. Only general partners
 - D. Only limited partners

- 4. What is typical for the payment received by a transferor upon the sale of a patent?**
 - A. A lump sum and/or periodic payments
 - B. Only stock options
 - C. Only a lump sum payment
 - D. Only royalty payments

- 5. Which entity receives a carryover basis for assets contributed by a partner?**
 - A. Partnership
 - B. General Partner
 - C. Limited Partner
 - D. Shareholders

6. Which of the following is not a required test for the deduction of a business expense?
- A. Ordinary
 - B. Necessary
 - C. Reasonable
 - D. Unavoidable
7. What is the net passive income calculated for an S corporation if the taxable income exceeds the ENPI?
- A. Varying based on taxable income
 - B. Zero
 - C. Exempt from taxation
 - D. Subject to penalty tax
8. When is the current year business interest expense considered deductible by Tern, Inc.?
- A. Only if it is used for payroll expenses.
 - B. Based on total gross receipts.
 - C. When it does not exceed the limit.
 - D. Only if considered as floor plan financing.
9. What is Binita's adjusted basis for her partnership interest at year-end after receiving a cash distribution?
- A. \$36,000.
 - B. \$38,000.
 - C. \$60,000.
 - D. \$70,000.
10. Which of the following is NOT an adjustment to a partner's basis in a partnership interest?
- A. Increased by contributions made to the partnership
 - B. Decreased by guaranteed payments on Schedule K-1
 - C. Increased by the partner's share of tax-exempt income
 - D. Decreased by any increase in the partner's share of liabilities

Answers

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

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Explanations

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1. When a taxpayer receives inherited property, what principle governs the basis for that property?

- A. Adjusted basis
- B. Cost basis
- C. Fair market value at decedent's death**
- D. Original owner's basis

When a taxpayer receives inherited property, the basis of that property is determined by its fair market value at the time of the decedent's death. This principle is known as the "step-up in basis," which allows the heir to use the fair market value as their starting point for calculating any future gains or losses should they sell the property. This approach benefits heirs because it often minimizes capital gains tax that would be owed if the property is sold. For instance, if the decedent purchased a property for much less than its current value, the heir can base their gain calculations on this higher fair market value rather than the lower original purchase price. This principle significantly impacts the taxation of the heir when they ultimately sell the property. The other options provided do not apply to inherited property. An adjusted basis typically refers to basis after considering improvements and deductions but is not the starting point for inherited property. Similarly, cost basis pertains to what was originally paid for the property by the original owner, which is not relevant in this context. Lastly, the original owner's basis is a consideration in regular transfers of property but does not apply to inheritance, where the fair market value at death is utilized instead. This established rule underscores the importance of assessing inherited property based on its current

2. What is the maximum allowable percentage for cash contributions according to AGI rules?

- A. 30%
- B. 50%
- C. 60%**
- D. 100%

The maximum allowable percentage for cash contributions according to the Adjusted Gross Income (AGI) rules is 60%. This percentage applies to cash donations made to qualifying public charities and certain private foundations, allowing taxpayers to deduct cash contributions that do not exceed 60% of their AGI in the year they are made. The increase to this 60% limit reflects the IRS's efforts to encourage charitable giving, particularly in the context of recent tax reforms and disaster relief provisions that expanded the deductibility of cash contributions. It's important to note that while certain types of contributions have different limits, cash gifts to eligible charities maintain this higher deduction rate, making them more advantageous for donors when calculating their tax liabilities. Understanding these limits is crucial for taxpayers seeking to maximize their charitable contributions and minimize their taxable income.

3. Does a limited partnership provide all partners with protection from claims by the LP's creditors?

- A. Yes
- B. No**
- C. Only general partners
- D. Only limited partners

A limited partnership does not provide all partners with protection from claims by the limited partnership's creditors due to the inherent structure of this type of business entity. In a limited partnership, there are two types of partners: general partners and limited partners. General partners have unlimited liability, meaning they are personally responsible for the debts and obligations of the partnership. This exposure comes from their active role in the management and operation of the business. Conversely, limited partners enjoy limited liability, which means their personal risk is restricted to the amount of their investment in the partnership. They are not involved in daily management and thus shield themselves from direct involvement in the partnership's liabilities. However, while limited partners have protection against claims beyond their investment, this does not extend to all partners equally. The general partners, because of their active role and the nature of their liability, do not receive the same degree of protection. Consequently, the correct answer reflects that not all partners benefit from protection against creditor claims, as only limited partners are shielded to a certain extent, while general partners face unlimited personal liability.

4. What is typical for the payment received by a transferor upon the sale of a patent?

- A. A lump sum and/or periodic payments**
- B. Only stock options
- C. Only a lump sum payment
- D. Only royalty payments

The payment received by a transferor upon the sale of a patent is typically characterized by a lump sum and/or periodic payments. This reflects the nature of how intellectual property transactions are often structured. When a patent is sold, the parties involved may agree on an upfront lump sum payment for the rights to the patent. This provides immediate cash flow to the seller. Additionally, it is not uncommon for sellers to receive periodic payments, often structured as royalties, which are payments based on the future revenue generated from the use of the patent by the buyer. This arrangement can be advantageous for both parties: the seller receives ongoing revenue based on the patent's performance, and the buyer minimizes initial costs by potentially sharing profits instead of making a large upfront payment. This flexibility in payment options allows for a negotiated transaction that best suits the financial needs and expectations of both the transferor and the transferee.

5. Which entity receives a carryover basis for assets contributed by a partner?

- A. Partnership**
- B. General Partner
- C. Limited Partner
- D. Shareholders

The partnership receives a carryover basis for assets contributed by a partner because the tax treatment of contributions to a partnership stems from the Internal Revenue Code. Specifically, under Section 721 of the IRC, when a partner contributes property to a partnership, they do not realize gain or loss at the moment of contribution. Instead, the partnership takes on the basis that the partner had in the property immediately before the contribution. This principle helps to maintain the continuity of tax attributes associated with the asset and avoids any immediate tax consequences for the partner. In this context, the partnership effectively inherits the partner's basis in the contributed assets, which affects how those assets will be treated in terms of depreciation and when they're eventually disposed of. This is key in ensuring that tax attributes are preserved, and it aligns with the nature of partnerships where the entities operate as a passthrough for tax purposes. The other choices, such as general partners, limited partners, or shareholders, do not receive the carryover basis directly in the same manner since they do not hold the contributed assets in the entity's name; rather, they have their individual interests in the partnership as a whole. Thus, the correct choice reflects the tax treatment applied to partnerships and highlights their unique structure in regards to asset contributions

6. Which of the following is not a required test for the deduction of a business expense?

- A. Ordinary
- B. Necessary
- C. Reasonable
- D. Unavoidable**

The deduction of a business expense must meet specific criteria to be considered valid under tax law. The tests that are required include the predicates of being "ordinary," "necessary," and "reasonable." An ordinary expense is one that is common and accepted in the taxpayer's trade or business. A necessary expense is one that is appropriate and helpful for the business, while a reasonable expense refers to the idea that the amount spent is not excessive for the services or products provided. The concept of "unavoidable," however, is not a criterion for deductibility. While business owners strive to avoid unnecessary expenses, the IRS does not require that business expenses be unavoidable for them to be deductible. This means that as long as the expenses are ordinary, necessary, and reasonable, they may still be deducted even if they could have been avoided in other ways, thus making "unavoidable" the correct choice for what is not a required test for the deduction of a business expense.

7. What is the net passive income calculated for an S corporation if the taxable income exceeds the ENPI?

- A. Varying based on taxable income
- B. Zero**
- C. Exempt from taxation
- D. Subject to penalty tax

The concept of net passive income for an S corporation is fundamental to understanding how income is taxed, especially regarding the limitations imposed by the Internal Revenue Service (IRS). When taxable income exceeds the Excess Net Passive Income (ENPI) threshold, net passive income is calculated, and the implications follow specific rules. If an S corporation has taxable income that surpasses its ENPI, the calculation leads to a net passive income of zero. This occurs because the IRS rules dictate that once the taxable income exceeds the ENPI, any passive income component does not further contribute to the corporation's income reporting for that period. The corporation is not required to pay tax on passive income in excess; thus, the net passive income is zero. This zero calculation is also significant as it impacts the corporation's ability to distribute funds without incurring additional tax consequences. Non-distribution scenarios are created, ensuring that passive activities are managed efficiently within the limits set by the tax laws. Understanding these nuances is crucial as it impacts the strategic planning of S corporations regarding income sources and how they deal with passive income streams.

8. When is the current year business interest expense considered deductible by Tern, Inc.?

- A. Only if it is used for payroll expenses.
- B. Based on total gross receipts.
- C. When it does not exceed the limit.**
- D. Only if considered as floor plan financing.

The correct choice is based on the business interest expense deduction rules outlined in the Internal Revenue Code. For businesses, interest expenses are generally deductible, but there are limitations in place to prevent excessive interest deductions that could reduce taxable income disproportionately. Specifically, the Tax Cuts and Jobs Act introduced a limitation on the amount of business interest that can be deducted. A business can deduct its interest expense only up to a certain threshold, generally calculated as 30% of the business's adjusted taxable income. This means that Tern, Inc. can deduct its current year business interest expense only if it does not exceed this limit as defined by the tax code. This provision encourages businesses to manage their debt levels responsibly and ensures that the tax benefits associated with interest expenses are aligned with the business's income generation capacity. If Tern, Inc. had an interest expense that surpassed this limit, any amount over the limit could not be deducted in the current year but might be carried forward to future years. In contrast, the other options do not align with the established tax rules on interest deductions. A stipulating deductions only for payroll expenses or based on total gross receipts does not reflect the specific regulatory framework governing business interest expenses. Additionally, limiting deductions to cases of floor plan financing is

9. What is Binita's adjusted basis for her partnership interest at year-end after receiving a cash distribution?

- A. \$36,000.
- B. \$38,000.**
- C. \$60,000.
- D. \$70,000.

To determine Binita's adjusted basis for her partnership interest after receiving a cash distribution, it's essential to consider how the basis is calculated for partnership interests. The adjusted basis generally starts with the initial investment, including any additional contributions and income allocated to the partner, then adjustments are made for distributions, losses, and other factors. In this scenario, if Binita's adjusted basis before the distribution was, for example, \$38,000 and she received a cash distribution, then the cash would reduce her basis. If the cash distribution is less than her basis, her adjusted basis after the distribution would simply be reduced by the cash amount received. This results in a new basis that reflects her remaining investment in the partnership after taking the distribution into account. If the given answer is \$38,000, it indicates the amount of her adjusted basis after considering all relevant adjustments, including prior contributions, earnings, and the distribution she received. This amount would be calculated net of the cash distributed to her and is likely aligned with various factors that would lead to this specific figure, such as partnership income and distributions over time. Understanding how to adjust a partner's basis, especially in relation to cash distributions, is a fundamental concept in partnership taxation, and accurately calculating this helps

10. Which of the following is NOT an adjustment to a partner's basis in a partnership interest?

- A. Increased by contributions made to the partnership
- B. Decreased by guaranteed payments on Schedule K-1
- C. Increased by the partner's share of tax-exempt income
- D. Decreased by any increase in the partner's share of liabilities**

In a partnership, a partner's basis in their partnership interest can be adjusted based on various transactions and events that occur throughout their involvement with the partnership. It's important to understand each type of adjustment to clarify why one of the options does not constitute a proper adjustment. A partner's basis is increased by contributions made to the partnership, which reflects the capital being committed to the business. Similarly, the basis is increased by the partner's share of tax-exempt income, as this income contributes to the economic benefits realized by the partner, thus increasing their investment in the partnership. In terms of decreases, a partner's basis is affected by distributions and certain payments. For instance, guaranteed payments—payments made to a partner for services or capital—are treated as deductible expenses for the partnership, leading to a decrease in the partner's basis. Focusing on the adjustment related to an increase in the partner's share of liabilities, this is where the distinction lies. A partner's basis includes their share of partnership liabilities, meaning that an increase in those liabilities typically would increase a partner's basis rather than decrease it. Rather than diminishing their investment, rising liabilities manifest an obligation that the partner is responsible for, thus enhancing the basis in their interest. Therefore, the assertion

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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