

# CERTIFIED FINANCIAL PLANNER (CFP) TAX PLANNING PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. What is adjusted gross income (AGI)?**
  - A. Total income minus standard deductions
  - B. Total income minus specific deductions used to determine tax liabilities
  - C. Total income before any deductions
  - D. Total income plus additional income sources
- 2. Which of the following is allowable in the computation of total income on Form 1040?**
  - A. Net capital losses of up to \$3,000
  - B. Penalty on the early withdrawal of savings
  - C. Investment interest expense
  - D. Deductible IRA contributions
- 3. What does joint and several liability imply for Issa and Dion regarding their unpaid tax liability?**
  - A. Only Dion is responsible for the unpaid taxes.
  - B. They both owe the liability and may be required to pay it.
  - C. Issa can claim innocent spouse relief automatically.
  - D. Neither is liable for the taxes owed based on the other's earnings.
- 4. How should Arthur's rental income and expenses be reported on his federal income tax return?**
  - A. A \$1,000 loss should be reported on Schedule E.
  - B. The \$1,000 loss will be reduced due to Arthur's personal use.
  - C. Interest expense and taxes should be reported on Schedule A as an itemized deduction.
  - D. No rental income or expenses will be reported.
- 5. Which of these statements regarding long-term capital gains rates is NOT correct?**
  - A. Net long-term capital gains are generally subject to a maximum rate of 15% or 20%.
  - B. A 28% maximum capital gains rate applies to collectibles held for more than one year.
  - C. A 25% maximum capital gains rate applies to unrecaptured Section 1250 income.
  - D. The long-term capital gain holding period is one year.

- 6. What is the maximum Section 179 expense election that Gabe can claim this year?**
- A. \$1,170,000.
  - B. \$1,750,000.
  - C. \$1,220,000.
  - D. \$1,500,000.
- 7. What is the primary difference between a tax deduction and a tax credit?**
- A. A tax deduction reduces taxable income; a tax credit reduces tax owed dollar for dollar
  - B. A tax credit is more beneficial than a tax deduction
  - C. A tax deduction is available only to businesses; a tax credit is for individuals
  - D. A tax credit can be carried forward; a tax deduction cannot
- 8. What is the primary function of a tax deduction?**
- A. To eliminate tax liability completely
  - B. To increase the taxpayer's refund significantly
  - C. To lower taxable income and potentially reduce overall tax owed
  - D. To convert a tax credit into a deduction
- 9. When assessing proposed recommendations, what is the key consideration for a financial planner?**
- A. Immediate implementation by the planner.
  - B. Client engagement in the process.
  - C. Focus solely on tax implications.
  - D. Implementation without professional involvement.
- 10. What does "basis step-up" refer to at death?**
- A. The decrease in the tax basis of inherited assets
  - B. The increase in the tax basis of inherited assets to fair market value
  - C. The tax basis remaining the same as when the asset was acquired
  - D. Adjustment of tax basis based on the executor's discretion



## **Answers**

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

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## **Explanations**

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## 1. What is adjusted gross income (AGI)?

- A. Total income minus standard deductions
- B. Total income minus specific deductions used to determine tax liabilities**
- C. Total income before any deductions
- D. Total income plus additional income sources

*Adjusted gross income (AGI) is the amount of income used to determine how much of your income is taxable. It is calculated by taking your total income and subtracting certain specific deductions, which are often referred to as "above-the-line" deductions. These deductions can include items such as contributions to traditional IRAs, student loan interest, and certain business expenses, among others. The focus on specific deductions is crucial because these adjustments are used to lower your taxable income before applying either the standard or itemized deductions. This makes AGI a key figure in tax calculations, as it not only influences your tax liability but also affects eligibility for various credits and deductions. Understanding AGI is essential for tax planning, as it impacts how much tax you will owe and which deductions you can claim on your tax return.*

## 2. Which of the following is allowable in the computation of total income on Form 1040?

- A. Net capital losses of up to \$3,000**
- B. Penalty on the early withdrawal of savings
- C. Investment interest expense
- D. Deductible IRA contributions

*The correct response is based on the treatment of net capital losses in the computation of total income for Form 1040. Taxpayers can deduct net capital losses against their taxable income, and the IRS allows a limit of up to \$3,000 per year to be offset against ordinary income for individual filers. This reduces the taxable income reported on Form 1040 and is an essential consideration for tax planning and calculations. While the penalty on the early withdrawal of savings, investment interest expense, and deductible IRA contributions may be relevant for determining taxes or deductions elsewhere in the tax return, they do not directly represent allowable deductions in the computation of total income on Form 1040. The penalty on early withdrawals is typically an adjustment in calculations rather than a direct subtraction from total income, while investment interest expense is often limited to net investment income. Deductible IRA contributions, although they function to reduce taxable income, are not included in the total income computation but rather serve to lower the taxable income calculated after total income is established. Focusing specifically on net capital losses provides a clear and impactful adjustment to total income, aligning this deduction with the IRS guidelines for individuals filing their taxes.*

**3. What does joint and several liability imply for Issa and Dion regarding their unpaid tax liability?**

- A. Only Dion is responsible for the unpaid taxes.
- B. They both owe the liability and may be required to pay it.**
- C. Issa can claim innocent spouse relief automatically.
- D. Neither is liable for the taxes owed based on the other's earnings.

*Joint and several liability means that both Issa and Dion are fully responsible for the entire amount of the unpaid tax liability. This implies that each individual can be held accountable for the total debt, regardless of their individual contributions or earnings. If the tax authorities pursue the debt, they can seek the full amount from either Issa or Dion; it is not divided equally or proportionally based on their incomes. This concept is particularly important when dealing with tax liabilities arising from joint returns, as it reinforces that both parties are equally liable for the total amount due. In this scenario, if one party pays the tax liability in full, they could then seek reimbursement from the other to recover their share, but the tax authority's claims can be directed to either individual for the complete amount owed. Understanding this joint responsibility is essential when managing shared tax obligations in a partnership or marriage.*

**4. How should Arthur's rental income and expenses be reported on his federal income tax return?**

- A. A \$1,000 loss should be reported on Schedule E.**
- B. The \$1,000 loss will be reduced due to Arthur's personal use.
- C. Interest expense and taxes should be reported on Schedule A as an itemized deduction.
- D. No rental income or expenses will be reported.

*Arthur's rental income and expenses should be reported on Schedule E of his federal income tax return because this form is specifically designated for reporting income or loss from rental real estate. In this case, if Arthur has incurred a \$1,000 loss from his rental activities, it should be reflected directly on Schedule E, which allows landlords to report their rental income and expenses, including operating costs like repairs and depreciation, as well as any losses they are experiencing. By using Schedule E, Arthur can accurately report his rental income, offset it with allowable expenses, and capture the resulting net loss, which can be beneficial for tax purposes. This approach enables the loss from rental activities to potentially offset other income, thereby reducing his overall taxable income. It's important to recognize that while rental properties often involve both personal use and rental periods, the reporting for tax purposes is primarily handled through Schedule E, where losses are clearly delineated. This makes it the most straightforward answer for accurately reporting his rental activities for tax compliance.*

**5. Which of these statements regarding long-term capital gains rates is NOT correct?**

- A. Net long-term capital gains are generally subject to a maximum rate of 15% or 20%.
- B. A 28% maximum capital gains rate applies to collectibles held for more than one year.
- C. A 25% maximum capital gains rate applies to unrecaptured Section 1250 income.

**D. The long-term capital gain holding period is one year.**

*The statement regarding the long-term capital gain holding period being one year is not accurate because the holding period for capital gains is indeed one year. The distinction here lies in understanding that for an asset to qualify as a long-term capital asset, it must be held for more than one year. This means if an asset is sold after being held for one year or longer, it will be considered a long-term capital gain. Each of the other statements is correct regarding capital gains rates and the specific maximum rates applicable to certain types of assets, including collectibles and unrecaptured Section 1250 income. Thus, the confusion arises from the wording of the statement about the holding period, which must exceed one year for the gains to be classified as long-term.*

**6. What is the maximum Section 179 expense election that Gabe can claim this year?**

- A. \$1,170,000.**
- B. \$1,750,000.
- C. \$1,220,000.
- D. \$1,500,000.

*The maximum Section 179 expense election for the tax year can vary based on the IRS guidelines for that specific year. For the current tax year in question, the limit usually reflects adjustments for inflation and may also consider the total amount of equipment purchased during the year. The maximum amount that can be expensed under Section 179 is contingent upon the total cost of qualifying property placed in service during the tax year, along with the phase-out thresholds. For the year being referenced, the maximum Section 179 deduction is indeed \$1,170,000, which is the correct choice. This limitation indicates that if Gabe purchased qualifying equipment or tangible property up to this amount, he could potentially deduct it fully in the current tax year, provided his business taxable income is sufficient to support the deduction. Understanding the context for Section 179, it's also important to recognize that the limits can shift with legislative updates. Thus, knowledge of these figures is crucial for accurate tax planning and strategy. The other options typically exceed the maximum allowable deduction for this tax period, which indicates they are not valid.*

## 7. What is the primary difference between a tax deduction and a tax credit?

- A. A tax deduction reduces taxable income; a tax credit reduces tax owed dollar for dollar**
- B. A tax credit is more beneficial than a tax deduction
- C. A tax deduction is available only to businesses; a tax credit is for individuals
- D. A tax credit can be carried forward; a tax deduction cannot

*The primary difference between a tax deduction and a tax credit lies in how they impact a taxpayer's financial situation, particularly in terms of taxable income and tax owed. A tax deduction reduces a taxpayer's taxable income, which in turn decreases the amount of income that is subject to taxation. This means that the taxpayer pays taxes on a smaller income base, leading to potential savings, but the actual amount saved depends on their tax rate. Conversely, a tax credit directly reduces the amount of tax owed on a dollar-for-dollar basis. For example, if a taxpayer owes \$1,000 in taxes and qualifies for a \$200 tax credit, their tax liability drops to \$800. This makes tax credits generally more valuable than deductions because they have a direct effect on the amount of tax owed, regardless of the taxpayer's income level or tax bracket. The other options present various misconceptions about deductions and credits that don't accurately capture their fundamental differences or practical implications. Understanding the operation of deductions and credits is crucial for effective tax planning.*

## 8. What is the primary function of a tax deduction?

- A. To eliminate tax liability completely
- B. To increase the taxpayer's refund significantly
- C. To lower taxable income and potentially reduce overall tax owed**
- D. To convert a tax credit into a deduction

*The primary function of a tax deduction is to lower taxable income and potentially reduce overall tax owed. When taxpayers claim a deduction, they decrease their total income subject to taxation, which can lead to a lower overall tax liability. For example, if an individual has a taxable income of \$50,000 and qualifies for a deduction of \$10,000, their new taxable income would be \$40,000. This lower income could place them in a reduced tax bracket or simply lessen the amount of tax owed, effectively making deductions a useful tool for tax planning. Deductions can take various forms, including those for mortgage interest, medical expenses, and charitable contributions, and their benefits depend on the taxpayer's circumstances and marginal tax rate. It's important to understand that while deductions reduce taxable income, they do not provide a direct dollar-for-dollar reduction of tax liability like credits do. Therefore, the focus of deductions is on improving tax efficiency rather than eliminating tax responsibility entirely or directly increasing refunds.*

**9. When assessing proposed recommendations, what is the key consideration for a financial planner?**

- A. Immediate implementation by the planner.
- B. Client engagement in the process.**
- C. Focus solely on tax implications.
- D. Implementation without professional involvement.

*The key consideration for a financial planner when assessing proposed recommendations is client engagement in the process. Engaging the client ensures that their values, goals, and preferences are understood and respected throughout the planning process. This collaborative approach not only enhances the likelihood of client satisfaction but also increases the chances of successful implementation of financial recommendations. Client engagement is essential because it allows the financial planner to tailor their advice to the unique needs of the client, fostering a relationship built on trust and communication. When clients are actively involved, they are more likely to provide relevant information and feedback, which can lead to better-informed choices that align with their financial objectives. Involving the client also promotes accountability, as they are more likely to commit to the actions necessary to achieve their goals. This approach leads to a more comprehensive and effective financial plan, as it actively incorporates the client's preferences and acceptance of the proposed strategies.*

**10. What does "basis step-up" refer to at death?**

- A. The decrease in the tax basis of inherited assets
- B. The increase in the tax basis of inherited assets to fair market value**
- C. The tax basis remaining the same as when the asset was acquired
- D. Adjustment of tax basis based on the executor's discretion

*"Basis step-up" refers to the adjustment of the tax basis of inherited assets to their fair market value on the date of death of the decedent. This is a critical concept in tax planning because it can result in significant tax savings for heirs or beneficiaries. When an individual inherits assets, the heirs receive a new tax basis that reflects the fair market value at the time of the decedent's death, rather than the original purchase price (also known as the carryover basis). This means that if the inherited asset is sold shortly after the decedent's death, the capital gains tax owed may be minimal or even zero, since any increase in value that occurred during the decedent's ownership is effectively wiped out for tax purposes. This mechanism is particularly favorable because it prevents heirs from being taxed on gains that accrued during the life of the decedent, thus serving as a tax relief benefit for those who inherit assets. Understanding the basis step-up is essential for effective estate and tax planning, allowing beneficiaries to minimize the tax implications of an inherited estate.*



## 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](mailto:hello@examzify.com).

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

<https://cfptaxplanning.examzify.com>

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

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