

Enrolled Agent Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. What is NOT the responsibility of a personal representative of an estate?**
 - A. Form 1040**
 - B. Form 1041**
 - C. Form 706**
 - D. None of the above**
- 2. What is false about the election of net unrealized appreciation (NUA) on a stock sale?**
 - A. The stock must be of a company for which the individual was employed**
 - B. Roth IRAs are not eligible**
 - C. The stock must be placed in a tax-deferred account**
 - D. They are taxed as ordinary income at the time of distribution**
- 3. What is the required means of repayment for individuals who claimed the First-time Homebuyer Credit in 2008?**
 - A. Equal installments of \$750 per year over 10 years**
 - B. Equal installments of \$500 per year over 15 years**
 - C. Increasing payments dependent on income over 10 years**
 - D. Increasing payments dependent on income over 15 years**
- 4. Which of the following closing costs is NOT included in the basis for the purchase of real property?**
 - A. Cost of obtaining a credit report**
 - B. Title insurance**
 - C. Legal fees**
 - D. Recording fees**
- 5. Which of the following items can individuals claim as a qualified education expense under IRS rules?**
 - A. Room and board costs**
 - B. Transportation costs**
 - C. Health insurance premiums**
 - D. Books and supplies**

- 6. Which individual scenario is not eligible for the foreign earned income exclusion?**
- A. U.S. resident alien present in a foreign country only for two months**
 - B. U.S. citizen physically present in a foreign country for more than six months**
 - C. A U.S. citizen who resides in a foreign country for an entire tax year**
 - D. A U.S. resident alien eligible for an income tax treaty with the U.S.**
- 7. What type of stock does not have a requisite for qualifying dividends, specifically in terms of duration held before the ex-dividend date?**
- A. Common stock**
 - B. Preferred stock**
 - C. Restricted stock**
 - D. Equity securities**
- 8. Which of the following is not subject to the "Nanny Tax"?**
- A. A part-time yard worker**
 - B. An hourly housekeeper**
 - C. A babysitter who works with multiple families**
 - D. A once per week private nurse**
- 9. What is the amount of the standard deduction for a full-time college student with a part-time job making \$6,600, who is claimed as a dependent?**
- A. \$1,100**
 - B. \$6,600**
 - C. \$6,950**
 - D. \$12,200**
- 10. For the purpose of qualifying for the Child Tax Credit, which aspect is essential?**
- A. Residence**
 - B. Age**
 - C. Support**
 - D. Income**

Answers

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

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Explanations

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1. What is NOT the responsibility of a personal representative of an estate?

- A. Form 1040**
- B. Form 1041**
- C. Form 706**
- D. None of the above**

The role of a personal representative of an estate involves a range of responsibilities primarily focused on managing the estate's financial affairs after the death of the individual. This includes filing various tax returns that are required by the IRS to accurately report the income and assets of the deceased. One of the primary responsibilities is filing the final individual income tax return, known as Form 1040, which accounts for the income earned by the deceased up to the date of death. Additionally, the personal representative must file Form 1041, which is the income tax return for estates and trusts if the estate generates taxable income after the individual's death. Form 706, on the other hand, is the estate tax return used to report the estate's value for federal tax purposes when the estate exceeds a certain exemption threshold. While it is also a responsibility of the personal representative, it specifically deals with estate taxes rather than ongoing income. When considering the original question about what is NOT the responsibility of a personal representative, the answer denoted suggests that none of these forms are excluded from the personal representative's duties, thereby affirming that it is indeed part of their responsibilities to deal with all these forms properly. This includes ensuring compliance with both income tax obligations and potential estate tax obligations as necessary.

2. What is false about the election of net unrealized appreciation (NUA) on a stock sale?

- A. The stock must be of a company for which the individual was employed**
- B. Roth IRAs are not eligible**
- C. The stock must be placed in a tax-deferred account**
- D. They are taxed as ordinary income at the time of distribution**

The choice stating that net unrealized appreciation (NUA) is taxed as ordinary income at the time of distribution is false because, under specific conditions, the NUA is not taxed as ordinary income when the stock is distributed from the retirement account. Instead, the NUA portion is taxed as a capital gain when the stock is eventually sold, which generally provides a more favorable tax rate compared to ordinary income. When an individual elects NUA upon taking a distribution of employer stock from a qualified retirement plan, they can separate the appreciation on the stock from the original investment amount. The original investment (basis) is taxed as ordinary income at the time of distribution, while any gain above that basis—known as the NUA—is taxed as a capital gain when the stock is sold, potentially benefiting from lower tax rates. Recognizing this distinction in taxation is crucial for individuals considering distributions from a retirement account that includes employer stock, as it can lead to significant tax savings.

3. What is the required means of repayment for individuals who claimed the First-time Homebuyer Credit in 2008?

- A. Equal installments of \$750 per year over 10 years**
- B. Equal installments of \$500 per year over 15 years**
- C. Increasing payments dependent on income over 10 years**
- D. Increasing payments dependent on income over 15 years**

Individuals who claimed the First-time Homebuyer Credit in 2008 are required to repay the credit through equal installments of \$500 per year over a period of 15 years. The First-time Homebuyer Credit provided eligible taxpayers with a tax credit of up to \$7,500 for acquiring their first home. However, this credit was structured as an interest-free loan that taxpayers had to begin repaying in the second year following the credit claim. This means that starting two years after the initial credit was claimed, individuals were obligated to repay the credit in equal annual installments. The amount of \$500 per year for 15 years results in a total repayment of \$7,500, covering the full amount of the initial credit. This structured repayment plan allowed individuals to incrementally return the benefit they received without overwhelming their financial situation since the payments were manageable over a longer period.

4. Which of the following closing costs is NOT included in the basis for the purchase of real property?

- A. Cost of obtaining a credit report**
- B. Title insurance**
- C. Legal fees**
- D. Recording fees**

In the context of purchasing real property, the basis for the property includes all capital expenditures that are necessary to acquire the property and prepare it for its intended use. Closing costs play a crucial role in determining this basis. The cost of obtaining a credit report is akin to an expense related to securing financing, rather than a cost directly associated with the acquisition of the property itself. Typically, this fee is one that the buyer incurs to evaluate creditworthiness, and it does not directly contribute to the physical acquisition or improvement of the property. On the other hand, title insurance, legal fees, and recording fees are all expenses that are directly associated with the transfer of the property title and are essential components of the transaction. Title insurance protects against any claims against the property, legal fees are incurred for the services necessary to execute the transaction, and recording fees are required to register the property deed with the local government authorities. Each of these helps establish clear ownership and ensures that all legal formalities are adhered to, thereby being included in the purchase basis.

5. Which of the following items can individuals claim as a qualified education expense under IRS rules?

- A. Room and board costs**
- B. Transportation costs**
- C. Health insurance premiums**
- D. Books and supplies**

Individuals can claim books and supplies as qualified education expenses under IRS rules. According to IRS guidelines, qualified education expenses are costs that are necessary for enrollment or attendance at an eligible educational institution. This includes tuition and fees, as well as required books, supplies, and equipment that students need for a course of study. Books and supplies are essential for students to successfully complete their coursework, and these expenses are recognized by the IRS as directly related to their education. Thus, claiming the cost of books and necessary supplies is aligned with the purpose of education-related tax benefits. In contrast, room and board costs, transportation costs, and health insurance premiums do not qualify as necessary expenses associated with enrollment or attendance to the same extent. While they may be significant costs for students, they are not directly related to the educational services provided. The IRS specifically delineates which expenses are eligible, focusing on those that enable a student to pursue their education effectively, which is why books and supplies fit into the category of qualified education expenses.

6. Which individual scenario is not eligible for the foreign earned income exclusion?

- A. U.S. resident alien present in a foreign country only for two months**
- B. U.S. citizen physically present in a foreign country for more than six months**
- C. A U.S. citizen who resides in a foreign country for an entire tax year**
- D. A U.S. resident alien eligible for an income tax treaty with the U.S.**

The foreign earned income exclusion is a tax benefit that allows qualifying U.S. citizens and resident aliens living and working abroad to exclude a portion of their foreign earned income from U.S. taxation. However, to qualify for this exclusion, individuals must meet specific requirements related to their physical presence in a foreign country. In the scenario presented, a U.S. citizen who is physically present in a foreign country for more than six months would generally meet the qualifications for the foreign earned income exclusion, as one of the primary tests is the Physical Presence Test. Under this test, a person must be present in a foreign country for at least 330 full days during a 12-month period. The correct answer highlights that a U.S. resident alien present in a foreign country only for two months does not qualify for the foreign earned income exclusion because they fail to meet the necessary duration to establish tax residency or qualify under the Physical Presence Test. Only being in a foreign country for a mere two months does not satisfy the requirements for the exclusion, which demands a more substantial time commitment to foreign residency or presence. Throughout the other scenarios, the individuals either meet residency requirements or are in eligible situations that comply with the IRS criteria for the foreign earned income exclusion. Thus, the reasoning

7. What type of stock does not have a requisite for qualifying dividends, specifically in terms of duration held before the ex-dividend date?

- A. Common stock**
- B. Preferred stock**
- C. Restricted stock**
- D. Equity securities**

The correct answer is preferred stock because this type of stock typically offers a fixed dividend that is paid out to shareholders before any dividends are distributed to common stockholders. Preferred stock doesn't require shareholders to hold the stock for a specific length of time before the ex-dividend date in order to qualify for the dividend. In contrast, common stock often has a stipulation regarding the duration the stock must be held before the ex-dividend date to qualify for dividends. The ex-dividend date is set to establish who is eligible to receive the upcoming dividend payment. Restricted stock, which is subject to limitations and cannot be freely traded until certain conditions are met, may also be bound by specific holding periods and does not guarantee dividends. Equity securities is a broad term that encompasses various stock types, including both common and preferred stocks, and does not specifically address the unique characteristics of the dividends associated with preferred stock. Thus, the absence of a holding duration requirement for preferred stock in relation to qualifying dividends distinguishes it from other types of stock.

8. Which of the following is not subject to the "Nanny Tax"?

- A. A part-time yard worker**
- B. An hourly housekeeper**
- C. A babysitter who works with multiple families**
- D. A once per week private nurse**

The "Nanny Tax" refers to the IRS taxes that are applicable to household workers such as nannies, housekeepers, and caregivers, under certain conditions. This tax is specifically focused on workers who are hired to work in a private household. The babysitter who works with multiple families is not subject to the "Nanny Tax" because they are considered self-employed if they have multiple clients and set their own hours. This classification means that they are not classified as a household employee. Under IRS guidelines, a household employee is someone who is controlled by the employer in terms of how and when the work is done, as opposed to someone who operates independently and markets their services to a variety of clients. On the other hand, a part-time yard worker, an hourly housekeeper, and a once-per-week private nurse would likely be classified as household employees since they perform work directly for a single household under the control of that household's owner. Therefore, their wages would be subject to the "Nanny Tax" if they meet the earnings threshold established by the IRS.

9. What is the amount of the standard deduction for a full-time college student with a part-time job making \$6,600, who is claimed as a dependent?

- A. \$1,100**
- B. \$6,600**
- C. \$6,950**
- D. \$12,200**

For a full-time college student who is claimed as a dependent, the standard deduction is determined differently than for those who are not dependents. The key component to consider in this scenario is that dependents have a standard deduction that is limited to the greater of \$1,100 or the individual's earned income plus \$350, with a cap based on the standard deduction amount for a single filer. In this case, the student has earned income of \$6,600. Therefore, the calculation for their standard deduction would be as follows: 1. The earned income (\$6,600) plus \$350 gives \$6,950. 2. The standard deduction for a single taxpayer, which typically is higher than the dependent calculation, is \$12,200 for the 2021 tax year, but as a dependent, the student must take the lesser of this or their calculated amount of \$6,950. As a result, since \$6,950 (the calculation based on their income) is less than the maximum standard deduction they would qualify for as a single taxpayer, that becomes the student's standard deduction amount. Thus, \$6,950 becomes the correct answer for this student's standard deduction when claimed as a dependent.

10. For the purpose of qualifying for the Child Tax Credit, which aspect is essential?

- A. Residence**
- B. Age**
- C. Support**
- D. Income**

To qualify for the Child Tax Credit, the aspect of support is essential because the credit is designed to provide financial assistance for the child's upbringing. The IRS requires that the taxpayer claiming the credit must have provided more than half of the child's financial support during the tax year. This means that to claim the credit, you need to demonstrate that you have contributed substantially to the financial needs of the child. While residence, age, and income are indeed important factors in determining eligibility, they are not the primary requirements that underpin the credit. For instance, the child must reside with the taxpayer for more than half the year, and the child must be under a certain age at the end of the tax year. Similarly, income considerations can affect the amount of the credit but do not impact the basic eligibility requirements as significantly as the aspect of support does. Therefore, establishing that you have provided the necessary support is crucial for qualifying for the Child Tax Credit.