

# Registered Tax Return Preparer RTRP Practice Exam (Sample)

## Study Guide



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## **Questions**

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- 1. Which test would disqualify an individual from being a Qualifying Relative if they provided over half of their own support for the year?**
  - A. QR support test**
  - B. QR relationship or member of household test**
  - C. QR for HOH status**
  - D. QR gross income test**
- 2. What is the eligibility criteria for the Tuition and Fees deduction?**
  - A. Limited to undergraduate education only**
  - B. Restricted to specific vocational courses**
  - C. Available for all postsecondary education**
  - D. Dependent's education expenses only**
- 3. What information is required to claim a home office deduction?**
  - A. Annual income from the business**
  - B. Square footage of the home and area used for business**
  - C. Utility bills for the entire year**
  - D. Sales receipts from business transactions**
- 4. Which factor can commonly trigger an IRS audit?**
  - A. Claiming fewer deductions than average taxpayers**
  - B. Stating an income much higher than previous years**
  - C. Lack of business expenses reported**
  - D. Large inconsistencies in claimed income or deductions**
- 5. What types of expenses can self-employed individuals deduct?**
  - A. Personal expenses and retirement contributions**
  - B. Business expenses like supplies and equipment**
  - C. Luxury items purchased for work**
  - D. Childcare costs and home improvements**

- 6. How are educational expenses generally treated for tax purposes?**
- A. Always deductible without limitation**
  - B. They can qualify for various credits and deductions if eligible**
  - C. Fully taxable income**
  - D. Not deducted at all**
- 7. Which of the following is NOT a test for qualifying a child for EIC?**
- A. Age**
  - B. Residency**
  - C. Joint Return**
  - D. Net Worth**
- 8. What penalty is imposed for unauthorized disclosure of taxpayer information?**
- A. \$250 per use**
  - B. Criminal - \$1000 fine and/or 1-year prison**
  - C. Automatic representation privileges**
  - D. 1040EZ**
- 9. Which form is used to report an independent contractor's income?**
- A. Form 1040**
  - B. Form 1099-NEC**
  - C. Schedule C (Form 1040)**
  - D. Form W-2**
- 10. What is the recovery period for office furniture and fixtures for tax purposes?**
- A. 3 years**
  - B. 5 years**
  - C. 7 years**
  - D. 10 years**

## **Answers**

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

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## **Explanations**

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**1. Which test would disqualify an individual from being a Qualifying Relative if they provided over half of their own support for the year?**

**A. QR support test**

**B. QR relationship or member of household test**

**C. QR for HOH status**

**D. QR gross income test**

The correct response centers on the support test, which determines who qualifies as a Qualifying Relative. Under this test, for someone to be considered a Qualifying Relative, they must not provide over half of their own support during the year. If an individual provides more than half of their own support, they fail to meet this critical criterion and therefore cannot be classified as a Qualifying Relative. The focus here lies in understanding that the support test directly assesses the financial dependency of the individual. If they are financially self-sufficient to the extent that they cover more than half of their own support, it indicates that they do not rely on the taxpayer for support, which is essential for qualifying. This makes it clear why the support test is decisive in this context.

**2. What is the eligibility criteria for the Tuition and Fees deduction?**

**A. Limited to undergraduate education only**

**B. Restricted to specific vocational courses**

**C. Available for all postsecondary education**

**D. Dependent's education expenses only**

The correct answer is C. The Tuition and Fees deduction is available for all postsecondary education, not limited to undergraduate education only or specific vocational courses. This deduction allows taxpayers to deduct qualified education expenses paid for eligible students for higher education. It can be claimed for undergraduate and graduate programs, as well as professional and vocational courses. Additionally, it is not restricted to dependent's education expenses only, making option D incorrect.

### **3. What information is required to claim a home office deduction?**

- A. Annual income from the business**
- B. Square footage of the home and area used for business**
- C. Utility bills for the entire year**
- D. Sales receipts from business transactions**

To claim a home office deduction, it is essential to provide the square footage of the home and the area used for business purposes. This information is crucial because the home office deduction is based on the percentage of the home devoted to business use. The IRS requires taxpayers to substantiate the area of the home specifically used for business activities in order to accurately compute the deduction. Calculating the deduction involves determining how much of the total home square footage is used exclusively for business. This direct correlation between the measurement of the office space and the deduction amount is fundamental to the home office deduction process, making it a critical requirement when preparing the tax return. While other options might seem relevant for business operations, including income, utility bills, or sales receipts, they do not directly relate to the calculation of the home office deduction itself. Therefore, having the specific measurement of the home office and the total area helps ensure compliance with tax laws and accuracy in claiming the appropriate deduction.

### **4. Which factor can commonly trigger an IRS audit?**

- A. Claiming fewer deductions than average taxpayers**
- B. Stating an income much higher than previous years**
- C. Lack of business expenses reported**
- D. Large inconsistencies in claimed income or deductions**

Large inconsistencies in claimed income or deductions is a common trigger for an IRS audit because the IRS uses sophisticated algorithms to detect discrepancies in tax returns. If a taxpayer reports income or deductions that do not align with their previous filings or the information available to the IRS, it raises red flags. For example, if a taxpayer claims significantly higher deductions compared to their income, or if the deductions are disproportionate to industry standards, the IRS may see this as a reason to investigate further. The IRS aims to ensure compliance with tax laws, and inconsistencies can indicate either unintentional errors or potential tax fraud. Thus, when there are large discrepancies, taxpayers may find themselves subjected to additional scrutiny, prompting an audit. Addressing these inconsistencies is crucial for maintaining tax compliance and minimizing the risk of an audit.

**5. What types of expenses can self-employed individuals deduct?**

- A. Personal expenses and retirement contributions**
- B. Business expenses like supplies and equipment**
- C. Luxury items purchased for work**
- D. Childcare costs and home improvements**

Self-employed individuals can deduct business expenses that are both ordinary and necessary for their trade or business. These expenses include the costs for supplies, equipment, advertising, travel, and other operational necessities that are directly related to running their business. By deducting these costs, self-employed individuals can effectively lower their taxable income, thereby reducing their overall tax liability. For example, if a self-employed graphic designer purchases software or hardware specifically for their design work, these expenditures qualify as business expenses. Additionally, any materials used in the course of providing services or creating products are also deductible. The other options encompass various types of expenses that do not qualify for deduction in the same manner. Personal expenses are unrelated to business and cannot be deducted, while luxury items may not be deemed necessary for operating a business, thus not qualifying as deductibles. Childcare costs typically serve personal rather than business needs, and while home improvements might contribute to business operations if part of a home office, they generally do not qualify without proper allocation and documentation.

**6. How are educational expenses generally treated for tax purposes?**

- A. Always deductible without limitation**
- B. They can qualify for various credits and deductions if eligible**
- C. Fully taxable income**
- D. Not deducted at all**

Educational expenses are generally treated as a flexible category for tax purposes, primarily qualifying for various credits and deductions based on eligibility criteria. This means that taxpayers may benefit from several education-related tax incentives, such as the American Opportunity Credit or the Lifetime Learning Credit, which can reduce their tax liability. For instance, the American Opportunity Tax Credit allows for a credit of up to a certain amount per eligible student for qualified education expenses during the first four years of higher education. The Lifetime Learning Credit, on the other hand, provides a credit for tuition and fees for any post-secondary education and can be claimed for an unlimited number of years. Additionally, certain educational expenses can be deducted as business expenses if they are required for a job or if they improve skills required in your current occupation. This treatment recognizes that educational expenses can have varying implications and tax benefits based on individual circumstances, rather than being a flat-out deduction or being entirely taxable. Therefore, identifying the correct options for tax benefits related to educational expenses is crucial for maximizing a taxpayer's financial outcome.

**7. Which of the following is NOT a test for qualifying a child for EIC?**

- A. Age**
- B. Residency**
- C. Joint Return**
- D. Net Worth**

The correct choice is that net worth is not a test for qualifying a child for the Earned Income Credit (EIC). The EIC has specific criteria that must be met to claim the credit, which primarily revolve around the relationship, age, residency, and joint return status of the qualifying child. For qualifying a child for the EIC, the age test ensures that the child is under a certain age at the end of the tax year, which helps determine eligibility based on how dependent the child is. The residency test requires that the child live with the taxpayer for more than half the year, an indication of a stable living situation that supports claiming the credit. The joint return test stipulates that the child cannot file a joint return with a spouse to be considered a qualifying child, as this indicates a different tax situation that generally precludes the parent from qualifying for the EIC based on that child. Given that net worth is not one of the established criteria for the EIC, it correctly stands out as the option that does not belong in the list of qualifying tests.

**8. What penalty is imposed for unauthorized disclosure of taxpayer information?**

- A. \$250 per use**
- B. Criminal - \$1000 fine and/or 1-year prison**
- C. Automatic representation privileges**
- D. 1040EZ**

The correct answer is B. Criminal - \$1000 fine and/or 1-year prison. This penalty is imposed for the unauthorized disclosure of taxpayer information as outlined in the tax law. Unauthorized disclosure of taxpayer information is a serious offense and can result in both financial penalties and potential imprisonment to ensure the protection of taxpayer privacy and confidentiality. Options A, C, and D are incorrect: A. \$250 per use is not the penalty imposed for unauthorized disclosure of taxpayer information. C. Automatic representation privileges are not relevant to the penalty imposed for unauthorized disclosure of taxpayer information. D. 1040EZ is not the penalty imposed for unauthorized disclosure of taxpayer information.

**9. Which form is used to report an independent contractor's income?**

**A. Form 1040**

**B. Form 1099-NEC**

**C. Schedule C (Form 1040)**

**D. Form W-2**

An independent contractor's income is reported using Form 1099-NEC. This form specifically caters to reporting non-employee compensation, which is the type of income typically earned by independent contractors. When a business pays an independent contractor \$600 or more in a calendar year for services rendered, it is required to issue a Form 1099-NEC to report this payment to both the contractor and the IRS. In contrast, Form 1040 is the individual income tax return used by taxpayers to report their overall income, but it doesn't specifically address the reporting of independent contractor income itself. Schedule C (Form 1040) is often used by independent contractors to report their profits or losses from their business, but it is derived from the information reported on Form 1099-NEC, not a direct reporting mechanism itself. Form W-2 is for employees and is used by employers to report wages paid to employees, which does not apply to independent contractors. Thus, Form 1099-NEC is the correct form that directly addresses the requirement to report income for independent contractors.

**10. What is the recovery period for office furniture and fixtures for tax purposes?**

**A. 3 years**

**B. 5 years**

**C. 7 years**

**D. 10 years**

The correct recovery period for office furniture and fixtures for tax purposes is five years. This is in accordance with the Modified Accelerated Cost Recovery System (MACRS), where most office furniture and fixtures are classified under a five-year property class. This classification allows taxpayers to depreciate the cost of these assets over a shorter time frame, which is beneficial for obtaining tax deductions sooner rather than later. Understanding the appropriate recovery periods is crucial for effective tax planning and compliance, as it affects how businesses report their assets and calculate depreciation for tax return purposes. The choices of three, seven, and ten years do not align with the established depreciation schedule for office furniture and fixtures under current IRS guidelines. Thus, the option identified in the question is not accurate based on the standard practices for depreciation.