EA PART 1 QUESTION BANK (2026-2027)

Hock Passkey

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Practice Exam

1. Question ID: 94850266 (Topic: The Estate Tax)

The fair market value of property at the time of death is usually its value for estate tax purposes. However, the executor may elect to value the decedent's estate using the alternative valuation method. What is the alternate valuation date for an estate?

- A. The value of the estate six months after the decedent's death is substituted for the value at the date of death. correct
- B. The value of the estate six months before the decedent's death is substituted for the value at the date of death.
- C. The value of the estate twelve months after the decedent's death is substituted for the value at the date of death.
- **D. The value of the estate nine months after the decedent's death is substituted for the value at the date of death.** wrong

Study Unit 18: Estate and Gift Taxes for Individuals covers the information for this question.

This question is answered correctly on the first attempt by 90% of students.

correct Answer Explanation for A:

For estate tax purposes, assets are generally valued on the estate tax return as of the decedent's date of death. However, if the executor elects to use alternate valuation, the assets are generally valued as of six months after date of death. Alternate valuation cannot be applied to only a part of the property, it must be applied to all the assets of the estate. In addition,

- The use of the alternate valuation date must reduce the gross estate value.
- The use of the alternate valuation date must reduce the total net estate taxes due after application of all allowable statutory deductions.

For more information about the alternate valuation date, see Publication 559, Survivors, Executors and Administrators.

2. Question ID: 95850154 (Topic: How Much Income to Report)

Sammy had the following income items received during the year. How much taxable income should he report on his Form 1040?

- $4,000 in Worker's compensation benefits

- $2,000 in interest earned on a high-yield savings account
- $3,000 winnings from a scratch-off ticket
- $1,500 in holiday pay from his employer
- $16,000 in regular wages
- A. $22,500 correct
- **B. $25,000** wrong
- C. $26,500
- D. $17,500

Study Unit 4: Taxable and Nontaxable Income covers the information for this question.

You last answered this question on June 2nd and got it correct. This question is answered correctly on the first attempt by 89% of students.

correct Answer Explanation for A:

All of the income would be taxable, except for the Worker's compensation benefits. Worker's compensation is not treated as wages, and is not taxable. Worker's compensation should not be confused with disability insurance, sick pay, or unemployment compensation; it is a type of benefit that pays workers who are injured on the job.

3. Question ID: 94815887 (Topic: Gambling Winnings)

On which form are gambling winnings reported to the winner?

- A. Form 1099-B.
- B. Form W-2.
- C. Form W-2G. correct
- **D. Form 1099-MISC.** wrong

Study Unit 10: Other Taxable Income covers the information for this question.

This question is answered correctly on the first attempt by 87% of students.

correct Answer Explanation for C:

Gambling winnings are reported to the recipient on Form W-2G. Gambling income is covered in IRS Topic No. 419, Gambling Income and Losses.

4. Question ID: 94849607 (Topic: Cancellation of Debt Income)

Kendra bought a new car for $30,000. She made a $5,000 down payment and borrowed the remaining $25,000 from her bank via a recourse loan. After she stopped making payments, the bank repossessed the car. The balance due on the loan at the time of the repossession was $15,000. The FMV of the car when repossessed was $12,000. She later receives a 1099-C for the canceled debt. She was not insolvent when the debt was canceled, because she has $40,000 in a traditional IRA account. What amount is Kendra's loss and what amount must she report as cancellation of debt income?

- A. $18,000 nondeductible loss; $3,000 COD. correct
- **B. $13,000 deductible loss; $0 COD.** wrong
- C. $15,000 nondeductible loss; $12,000 COD.
- D. $13,000 nondeductible loss; $3,000 COD.

Study Unit 10: Other Taxable Income covers the information for this question.

This question is answered correctly on the first attempt by 36% of students.

correct Answer Explanation for A:

A taxpayer is personally liable for a recourse loan. Since a repossession is treated as a sale, the gain or loss must be computed. Kendra compares the amount realized ($12,000) with her adjusted basis ($30,000) in the vehicle to determine that she has an **$18,000 nondeductible loss**. She also has ordinary income from cancellation of debt. That income is **$3,000** ($15,000 canceled debt – $12,000 FMV). Kendra must report the canceled debt as income on her Form 1040.

5. Question ID: 94849714 (Topic: Basis of Assets - General)

Floris purchased her first home this year. Which of the following costs would be added to the basis of the home?

- A. Legal fees for the title search and preparation of the sales contract and deed. correct
- B. Fire insurance premiums.
- C. Cost of a credit report.
- **D. Rental costs for occupying the home before closing.** wrong

Study Unit 6: Calculating the Basis of Assets covers the information for this question.

This question is answered correctly on the first attempt by 92% of students.

correct Answer Explanation for A:

A taxpayer can include in a home's basis the settlement fees and closing costs paid for buying the home. The following are some of the settlement fees and closing costs that can be included in the original basis of a taxpayer's home.

- Abstract fees (abstract of title fees).
- Charges for installing utility services.
- Legal fees (including fees for the title search and preparation of the sales contract and deed).
- Recording fees and land surveys.
- Transfer or stamp taxes.
- Owner's title insurance.
- Any amount the seller owes that the buyer agrees to pay, such as back taxes or interest, recording or mortgage fees, cost for improvements or repairs, and sales commissions.

These items are NOT added to a home's basis and are also not deductible:

- Fire insurance premiums.
- Charges for using utilities or other services related to occupancy of the home before closing.
- Rent for occupying the home before closing.
- Charges connected with getting or refinancing a mortgage loan, such as: Loan assumption fees, Cost of a credit report, and Fee for an appraisal required by a lender.

See Publication 530, Tax Information for Homeowners, for more information.

6. Question ID: 94849538 (Topic: Like-Kind Exchange)

Penny wishes to exchange her rental duplex in Miami, Florida with a triplex in Las Vegas, Nevada. Penny's duplex has an existing mortgage of $500,000 and a basis of $500,000. The triplex in Las Vegas has an existing mortgage of $900,000 which Penny assumes. Penny also adds $100,000 of her own cash to the deal in order to close the sale. The buyer assumes the $500,000 existing mortgage on Penny's Miami Duplex. The Section 1031 exchange is completed within 60 days, and Penny takes possession of the triplex in Las Vegas. What is Penny's basis in the new rental property (the Nevada triplex)?

- A. $900,000
- B. $1,000,000 correct
- **C. $600,000** wrong

- D. $500,000

Study Unit 8: Nonrecognition Property Transactions covers the information for this question.

This question is answered correctly on the first attempt by 38% of students.

correct Answer Explanation for B:

The answer is $1,000,000. Her basis in the Las Vegas triplex is calculated as follows:
Basis of Relinquished Property (Miami duplex) $500,000
ADD: Mortgage liability assumed by Penny +$900,000
Plus: Amount of cash boot paid by Penny +$100,000
Less: Liabilities assumed by other party ($500,000)
Equals: Penny's basis in the Las Vegas property = $1,000,000

7. Question ID: 94815922 (Topic: Filing Requirements and Due Date)

Tomas is a U.S. citizen living in Florida. He requested an extension of time to file his individual tax return, what is his extended due date?

- A. August 15
- B. June 15
- C. October 15 correct
- **D. December 15** wrong

Study Unit 1: Preliminary Work with Taxpayer Data covers the information for this question.

This question is answered correctly on the first attempt by 94% of students.

correct Answer Explanation for C:

With the extension, Tomas will have until October 15 to file. This is an extension of time for the taxpayer to file, not an extension of time to pay taxes that are due.

8. Question ID: 94849853 (Topic: Interest Expense)

Kendra and Richard are married and file jointly. During the year, they paid the following amounts related to their main home:

- $4,280 home mortgage interest that was reported on Form 1098
- $40 late fee for paying the mortgage late one month
- $600 in credit card interest. They used the credit card to pay for a new roof on their home.

- $1,500 paid for hazard insurance on the property
- $1,700 in property taxes on the home
- $450 in appraisal fees

How much can they report as deductible mortgage interest on Schedule A?

- A. $4,280
- **B. $6,520** wrong
- C. $4,320 correct
- D. $7,970

Study Unit 12: Standard Deduction and Itemized Deductions covers the information for this question.

This question is answered correctly on the first attempt by 71% of students.

correct Answer Explanation for C:

They can deduct $4,320 as mortgage interest ($4,280 + $40 late fee) on Schedule A. The property tax is deductible, but not as mortgage interest. Instead, it would be deductible as taxes, and subject to the SALT cap. The other choices would not be deductible on Schedule A.

9. Question ID: 758501773 (Topic: Health Savings Accounts)

Kavish starts a new job in the middle of the year, and accidentally makes an excess contribution to his HSA by contributing $900 over the maximum allowable amount. What is the penalty on excess contributions if Kavish does not withdraw the overcontribution?

- A. 6% penalty correct
- B. 50% penalty
- C. 10% penalty
- **D. 20% penalty** wrong

Study Unit 11: Adjustments to Gross Income and Additional Deductions covers the information for this question.

This question is answered correctly on the first attempt by 78% of students.

correct Answer Explanation for A:

Kavish will have to pay a 6% excise penalty if he does not properly correct the overcontribution. A 6% penalty applies to excess contributions to a health savings account.

Note: To correct an over-contribution, the taxpayer must withdraw the excess amount before the filing deadline (including extensions) and also must include any income earned on the excess contribution on their tax return for that year. This process is also known as a " corrective" distribution.

10. Question ID: 94849644 (Topic: Basis of Assets - General)

Maura was granted 50 nonqualified stock options by her employer, Yancey Corporation, on June 8, 2025, to purchase stock in the company. At the date of the grant, the company was privately-held and the FMV of the stock was not readily determinable. The option price was $10 a share. Yancey Corporation completed an initial public offering (IPO) on November 1, and Maura exercised her options on December 15, 2025. The stock's FMV on the exercise date was $32 a share. Maura immediately sold the stock upon exercise and received gross proceeds of $1,600. How should Maura report this transaction on her tax return?

- A. Capital gain of $1,100
- B. Ordinary income of $1,100 correct
- **C. Capital gain of $1,600** wrong
- D. Dividend income of $1,600

Study Unit 6: Calculating the Basis of Assets covers the information for this question.

This question is answered correctly on the first attempt by 27% of students.

correct Answer Explanation for B:

The difference between the option price ($10/share) and the FMV ($32/share) is included in Maura's taxable compensation ($22 × 50 shares = **$1,100)** and thus is taxable as ordinary income. For more information and examples of stock options, see IRS Tax Topic 427, Stock Options.

11. Question ID: 94816025 (Topic: Qualifications for Dependency)

Angelo is the sole support of his mother, Rosalie. To claim her as a dependent on his Form 1040, Rosalie must be a citizen or resident of which of the following countries?

- A. United States, Mexico, or Canada correct
- B. United States, Mexico, or India
- C. United States or Canada
- **D. United States** wrong

Study Unit 3: Dependency Relationships covers the information for this question.

This question is answered correctly on the first attempt by 74% of students.

correct Answer Explanation for A:

An individual claimed as a dependent must be a citizen, national, or resident of the United States, or a resident of Canada or Mexico.

12. Question ID: 94849958 (Topic: Other Itemized Deductions)

Which of the following investment expenses is still allowable in 2025 as an itemized deduction on Schedule A?

- A. Investment interest expense correct
- B. Legal fees to form a grantor trust to hold a primary residence
- C. The cost of a safe deposit box in a bank
- **D. Advisory fees paid to a financial planner** wrong

Study Unit 12: Standard Deduction and Itemized Deductions covers the information for this question.

This question is answered correctly on the first attempt by 88% of students.

correct Answer Explanation for A:

The Tax Cuts and Jobs Act suspended certain “miscellaneous itemized deductions,” which included investment fees and most investment expenses (i.e., tax prep fees, advisory expenses, safe deposit box fees). However, investment interest expense is still deductible. Investment interest expense is the interest paid on money borrowed to purchase taxable investments.

While the TCJA suspension of miscellaneous itemized deductions was originally scheduled to sunset at the end of 2025, the One Big Beautiful Bill Act (OBBBA) made this elimination permanent for tax years beginning after December 31, 2025.

13. Question ID: 94849759 (Topic: Gambling Winnings)

Ishmael is in the United States visiting his sister, who lives in Nevada. Ishmael entered the U.S. on a visitor's visa. He visits the strip in Las Vegas and happily wins $100,000 on a slot machine. Ishmael is considered a nonresident alien for U.S. tax purposes. The casino automatically withholds a large sum from his winnings. Ishmael is a citizen of Canada, which has a beneficial tax treaty with the United States. What does Ishmael have to do if he believes that he is owed a refund for the withheld amounts?

- A. He should file a Form 1040-NR to report his gambling winnings, and see if he is entitled to a refund for the withheld amounts. correct

- **B. He should file a Form 1040-SR to report his gambling winnings, and see if he is entitled to a refund for the withheld amounts.** wrong
- C. He can do nothing, since he is a nonresident alien.
- D. Ishmael's gambling winnings are illegal and must be forfeited to U.S. customs.

Study Unit 10: Other Taxable Income covers the information for this question.

This question is answered correctly on the first attempt by 97% of students.

correct Answer Explanation for A:

He should file a Form 1040-NR to report his gambling winnings, and see if he is entitled to a refund for the withheld amounts. The IRS requires nonresidents of the U.S. to report gambling winnings on Form 1040-NR. Gambling winnings, are considered to be "not effectively connected" and must generally be reported on Form 1040-NR. Such income is generally taxed at a flat rate of 30%, (although a tax treaty with the taxpayer's home nation may allow for a lower tax rate).

16. Question ID: 94849992 (Topic: Interest Expense)

Henry and Monique are married and own a home together. They sold their home on August 15. Up until the date of the sale, they made home mortgage interest payments of $14,300. The settlement sheet (HUD-1) for the sale of the home showed an additional $150 of interest for the 15-day period in August up to, but not including, the date of sale. They also had a mortgage prepayment penalty of $5,000. In March and April, they paid $220 in late payment fees to their mortgage lender due to missed payments. Based on these facts, how much can they deduct for mortgage interest on Schedule A?

- A. $19,300
- B. $19,450
- **C. $14,300** wrong
- D. $19,670 correct

Study Unit 12: Standard Deduction and Itemized Deductions covers the information for this question.

This question is answered correctly on the first attempt by 77% of students.

correct Answer Explanation for D:

All of the charges are deductible as mortgage interest on their tax return. Their mortgage interest deduction is $19,670 ($14,300 + $150 + $5,000 + $220). Taxpayers can deduct a late charge on a mortgage loan as mortgage interest. The taxpayers can deduct a prepayment penalty as home mortgage interest. When taxpayers sell their home, they can deduct home mortgage interest paid up to, but not including, the date of the sale.

17. Question ID: 94850124 (Topic: Capital Gains and Losses)

Morgan buys 100 shares of Fairview Property stock and then later sells them for a $500 loss. Almost immediately, though, she regrets the sale, so she decides to repurchase the same number of shares of Fairview Property. How long must Morgan wait after the sale of the stock in order to avoid the wash sale rules?

- A. 366 days.
- B. 30 days.
- C. 31 days. correct
- **D. 365 days.** wrong

Study Unit 7: Capital Gains and Losses covers the information for this question.

This question is answered correctly on the first attempt by 46% of students.

correct Answer Explanation for C:

Under the wash sales rules, Morgan must wait 31 days after the sale of the initial stock before purchasing identical shares if she wants to be able to deduct her loss from the earlier sale. The wash sale rules disallow recognition of a loss from a sale if the taxpayer purchases identical securities within 30 days before or 30 days after the sale date.

19. Question ID: 94815906 (Topic: Qualifications for Dependency)

Karlita, Melissa, Gina, and Megan are sisters who support their elderly mother financially. Their mother is in a long-term care facility and does not have any taxable income or live with any of her children. The four sisters paid the following amounts toward their mother's total support of $50,000:

- Karlita: $12,500
- Melissa: $12,500
- Gina: $20,000
- Megan: $5,000

Who among the four sisters could claim their mother as a dependent under a written multiple support agreement?

- A. Either Gina, Karlita, or Melissa correct

- **B. Any of the four sisters could potentially claim the dependency exemption, if they are in agreement** wrong
- C. Only Gina
- D. None of the sisters can claim their mother

Study Unit 3: Dependency Relationships covers the information for this question.

This question is answered correctly on the first attempt by 49% of students.

correct Answer Explanation for A:

The sisters provided the following percentages of their mother's support:

- Karlita: 25%
- Melissa: 25%
- Gina: 40%
- Megan: 10%

Under a multiple support agreement, a taxpayer must provide more than 10% support in order to claim a dependent, so Megan is not eligible to claim her mother as a dependent. Only one taxpayer can claim the dependent each year, so Gina, Karlita, and Melissa must agree which one will claim their mother. Note that the rules for multiple support agreements apply to claiming an exemption for a qualifying relative and don't apply to claiming an exemption for a qualifying child. Taxpayers use Form 2120, Multiple Support Declaration, to report a multiple support agreement to the IRS.

20. Question ID: 94850215 (Topic: The Estate Tax)

Which credit is allowed to compute a deceased taxpayer's net estate tax on Form 706?

- A. Credit for charitable contributions.
- B. Credit for funeral expenses.
- C. Credit for foreign death taxes. correct
- **D. Credit for state administrative expenses.** wrong

Study Unit 18: Estate and Gift Taxes for Individuals covers the information for this question.

This question is answered correctly on the first attempt by 24% of students.

correct Answer Explanation for C:

The amount of estate tax due is reduced by certain allowable credits, which includes the credit for foreign death taxes. The other items listed (debts owed by the estate, the marital deduction, funeral and administrative expenses paid by the estate, charitable contributions, and state death taxes) are deductions, not credits, from the gross estate in determining the taxable estate.

For more information, see Publication 559, Survivors, Executors and Administrators.

22. Question ID: 98939168 (Topic: Rental Property and Income)

Jenny and Blaze are married and file jointly. Jenny earns $80,000 as a registered nurse. Blaze earns $92,000 as a school administrator. They co-own and manage a residential rental together. They actively participate in the rental activity, but neither is a real estate professional. The rental activity is not profitable, and Jenny and Blaze incur a ($29,000) loss on Schedule E. Based on these facts, what is the maximum amount of rental losses that Jenny and Blaze can deduct from their nonpassive income (their wages)?

- A. $29,000
- **B. $25,000** wrong
- C. $12,500
- D. $0 correct

Study Unit 9: Rental and Royalty Income covers the information for this question.

This question is answered correctly on the first attempt by 52% of students.

correct Answer Explanation for D:

They cannot deduct any of their rental losses. Under the passive activity rules, you can deduct up to $25,000 in passive losses against your ordinary income (W-2 wages) if your modified adjusted gross income (MAGI) is $100,000 or less. This deduction phases out $1 for every $2 of MAGI above $100,000 until $150,000 when it is completely phased out. Blaze and Jenny's wages exceed the maximum threshold ($80,000 wages + $92,000 wages = $172,000). Their passive loss must be carried forward to future tax years to offset any passive income.

Note: If their income drops below the threshold in future years, (for example, if one of them stops working) or, if they decide to dispose of the activity (they sell the rental) then the carryover losses will be released at that time. Learn more about the special rules for rental losses in Publication 925, Passive Activity and At-Risk Rules.

23. Question ID: 94815833 (Topic: Qualifications for Dependency)

Gwendolyn is a 21-year-old college student who is supported completely by her mother, Rhiannon. Gwendolyn attends college full-time. During the summer, Gwendolyn stays in an apartment near her college to work on campus. Gwendolyn only goes home to visit her mother during Christmas. Does Gwendolyn still pass the residency test, and can her mother Rhiannon still claim Gwendolyn as a qualifying child on her tax return?

- A. Yes, Gwendolyn passes the residency test. Her mother can claim Gwendolyn as a qualifying child on her tax return because college attendance is considered a temporary absence. correct
- **B. No, Gwendolyn does not pass the residency test for a qualifying child; however, her mother can claim her as a qualifying relative.** wrong
- C. Gwendolyn passes the residency test, but her mother cannot claim her as a qualifying child because Gwendolyn is more than 19 years old.
- D. No, Gwendolyn does not pass the residency test for a qualifying child because she did not live with her mother for at least six months of the year.

Study Unit 3: Dependency Relationships covers the information for this question.

This question is answered correctly on the first attempt by 90% of students.

correct Answer Explanation for A:

Gwendolyn passes the residency test. Her mother can claim Gwendolyn as a qualifying child on her tax return even though she was not living with her mother for more than six months because college attendance is considered a temporary absence.

24. Question ID: 7585019513 (Topic: Individual Energy Credits)

Benny plans to purchase a brand new energy-efficient vehicle in June. What is one of the key requirements for Benny to qualify for the New Clean Vehicle Tax Credit?

- A. Benny must claim the credit in the tax year he actually receives the vehicle. correct
- B. The vehicle must be purchased from a private party.
- C. The vehicle must be used primarily for business purposes in order to qualify.
- **D. The vehicle must cost less than $25,000.** wrong

Study Unit 13: Individual Tax Credits covers the information for this question.

This question is answered correctly on the first attempt by 81% of students.

correct Answer Explanation for A:

The New Clean Vehicle Tax Credit offers up to $7,500 for purchasing a qualified new electric vehicle. To qualify, the vehicle must meet specific criteria. The credit depends on whether the vehicle meets the critical minerals requirement ($3,750), the battery component requirement ($3,750), or both ($7,500).

The taxpayer must claim the credit in the tax year they actually receive the vehicle. Key elements to claim this credit:

- The final assembly of the vehicle must occur in North America.
- The manufacturer's suggested retail price cannot exceed $55,000, or $80,000 for a pick-up truck, SUV, or van.
- The taxpayer's modified adjusted gross income cannot exceed certain limits.

Note: While the Inflation Reduction Act originally extended this credit through 2032, the One Big Beautiful Bill Act (OBBBA) terminated the electric vehicle tax credits early. For the 2025 tax year, the New Clean Vehicle Credit is strictly prohibited for any vehicle acquired after September 30, 2025.

25. Question ID: 94849558 (Topic: Retirement Income)

Which of the following is true of Roth IRA required minimum distributions?

- A. If a taxpayer misses a required minimum distribution from a Roth IRA, a 50% penalty may apply.
- B. There are no required minimum distributions for Roth IRAs that are not inherited. correct
- C. Roth IRA required minimum distributions must begin at age 59 1/2.
- **D. Roth IRA required minimum distributions are taxable.** wrong

Study Unit 16: Individual Retirement Accounts covers the information for this question.

This question is answered correctly on the first attempt by 69% of students.

correct Answer Explanation for B:

There are no required minimum distributions for Roth IRAs that are not inherited. Contributions to Roth IRAs are not tax-deductible for federal income tax purposes, and there is no age limit for making contributions. Generally, Roth IRA withdrawals are not taxable for federal income tax purposes, if the individual has had the retirement account for more than five years and has reached 59 ½ years of age.

26. Question ID: 98939121 (Topic: Alimony Paid)

Which of the following statements regarding alimony is CORRECT?

- A. Alimony and child support payments are always are included in the gross income of the payee and are deductible from the gross income of the payor.

- B. Alimony or separate maintenance payments are includible in the gross income of the payee and are deductible from the gross income of the payor if the divorce was finalized prior to January 1, 2019. correct
- **C. Alimony or separate maintenance payments are includible in the gross income of the payee and are deductible from the gross income of the payor if the divorce was finalized after January 1, 2019.** wrong
- D. Child support payments are includible in the gross income of the payee and are deductible from the gross income of the payor.

Study Unit 11: Adjustments to Gross Income and Additional Deductions covers the information for this question.

This question is answered correctly on the first attempt by 92% of students.

correct Answer Explanation for B:

Alimony or separate maintenance payments are includible in the gross income of the payee and are deductible for income tax purposes from the gross income of the payor if the divorce was finalized prior to January 1, 2019.

Child support payments, however, are not deductible and are never included in income.

27. Question ID: 94849662 (Topic: Basis of Assets - General)

Hyun purchases an empty parking lot for $90,000 at a county property auction. He plans to use the property for investment purposes. He pays $20,000 in cash and finances the remaining $70,000 with a bank loan. The lot has a $12,000 lien against it for unpaid property taxes that were owed by the previous owner. Hyun agrees to pay the delinquent property taxes as a condition of the sale. Which of the following statements is correct?

- A. His basis in the property is $102,000. correct
- B. His basis in the property is $32,000.
- **C. His basis in the property is $90,000, and he can deduct the property taxes on his Schedule A as property taxes paid.** wrong
- D. His basis in the property is $78,000.

Study Unit 6: Calculating the Basis of Assets covers the information for this question.

This question is answered correctly on the first attempt by 78% of students.

correct Answer Explanation for A:

Hyun's basis in the property is determined as follows: ($90,000 + $12,000 = **$102,000**). Hyun cannot deduct the delinquent property taxes as a current expense, because the property taxes were not his liability (they were assessed on the previous owner and owed by the previous owner). Any obligations of the seller that are assumed by the buyer increase the basis of the asset, and are not currently deductible. Since Hyun did not own the property when the taxes accrued but agreed to pay them as a condition of the sale, he should add the property tax payment to his basis in the property.

29. Question ID: 95850139 (Topic: Medicare Waiver and Disability Payments)

Which type of disability-related payments are generally not taxable at all?

- A. Social Security benefits
- B. Worker's compensation correct
- C. Retirement benefits
- **D. Unemployment compensation** wrong

Study Unit 4: Taxable and Nontaxable Income covers the information for this question.

You last answered this question on June 2nd and got it wrong. This question is answered correctly on the first attempt by 83% of students.

correct Answer Explanation for B:

Workers' compensation provides cash benefits or medical care for workers who suffer an injury due to their workplace. Worker's compensation specifically pays workers who are injured on the job. It is always exempt from tax.

31. Question ID: 94849909 (Topic: Retirement Planning)

Wally received a qualified disaster distribution from his traditional IRA in the amount of $18,000 in 2024. Wally elected to have the full income from the distribution recognized in 2024, and it was properly reported on his return. In 2025, he changes his mind and decides to repay the distribution. He makes a repayment of $9,000 on December 1, 2025. How should this repayment be reported?

- **A. The entire repayment of $9,000 will offset income in 2025.** wrong
- B. The entire $9,000 repayment must be carried back to 2024, the year the distribution was made. The repayment will be treated as a trustee-to-trustee transfer. correct
- C. The entire $45,000 repayment must be carried forward to 2025.

- D. The repayment of $9,000 will not be reported, it is treated as a nondeductible contribution in 2025.

Study Unit 16: Individual Retirement Accounts covers the information for this question.

This question is answered correctly on the first attempt by 66% of students.

correct Answer Explanation for B:

The entire $9,000 repayment must be carried back to 2024. This question is based directly on an example in the Form 8915-F instructions. In general, participants who take a disaster distribution and later wish to repay these amounts, may repay all or part of the distribution within three years. The repayment is treated as a trustee-to-trustee transfer, not included in income. For an IRA distribution, the carryback is reported on 2024 Form 8915-F, line 25.

Form 8915-F, Qualified Disaster Retirement Plan Distributions and Repayments

32. Question ID: 94850010 (Topic: Qualified Business Income Deduction)

Which of the following entities would not be eligible for the QBI deduction?

- A. An irrevocable trust.
- B. C Corporation. correct
- C. A farmer who runs his business as a sole-proprietorship.
- **D. The estate of a deceased taxpayer.** wrong

Study Unit 15: Additional Taxes and Credits covers the information for this question.

This question is answered correctly on the first attempt by 81% of students.

correct Answer Explanation for B:

C corporations are not eligible for the QBI deduction. Individuals, estates, and trusts may take a QBI deduction. S corporations and partnerships are not eligible to take the deduction directly on their business returns, instead, the QBI deduction is "passed-through" to individual shareholders and partners. To see more information about the 199A QBI deduction, see the IRS page for the Qualified Business Income Deduction.

37. Question ID: 94850235 (Topic: Gift Taxes)

Gerald is wealthy and likes to help his favorite grandson, Paul. Which of the following payments made in 2025 on Paul's behalf might be subject to the generation-skipping tax (GST)?

- A. Payment of Paul's college tuition made directly to a university.

- **B. A cash gift of $16,000 made directly to Paul.** wrong
- C. Payment of Paul's student loans directly to the lender. correct
- D. Payment of Paul's medical expenses made directly to a hospital.

Study Unit 18: Estate and Gift Taxes for Individuals covers the information for this question.

This question is answered correctly on the first attempt by 47% of students.

correct Answer Explanation for C:

The generation-skipping tax (GST) can be incurred when grandparents directly transfer money or give property to their grandchildren. Any payments for tuition or medical expenses on behalf of a "skip person" (i.e., a grandchild) that are made directly to an educational or medical institution are exempt from gift tax and GST, and also do not need to be reported on a gift tax return. Payment of a grandchild's student loan, however, would not qualify. The cash gift would not be subject to the GST because it is under the annual gift limit and does not need to be reported at all.

The annual gift exclusion is $19,000 (in 2025). Gifts under this threshold do not have to be reported. Generally, the following gifts are not taxable or reportable gifts (i.e., a Form 709 does not have to be filed for these gifts).

- Gifts that are not more than the annual exclusion for the calendar year (in 2025, this is $19,000 per person).
- Tuition or medical expenses paid on behalf of another person (the educational and medical exclusions).
- Gifts to a spouse.
- Gifts to a charity or nonprofit group.
- Gifts to a political organization for its use.

In addition to this, gifts to qualifying charities are deductible as long as the taxpayer has the correct substantiation records. For additional information about reportable gifts, review Form 709 and its instructions.

38. Question ID: 95850123 (Topic: Receipt of Income)

Orson owns a rental property. Orson asks his sister, Betty, to pick up a check from one of his tenants while he is out of town on vacation. Betty picks up the check on December 31, but Orson doesn't cash the check until a few months later. In this scenario, when is income "constructively received" by Orson if he authorizes his sister to receive the rental income on his behalf?

- A. The rental income is taxable on December 31, when his sister, Betty, receives the check. correct
- **B. The rental income is taxable to Betty, because she is the one who actually accepted the check.** wrong
- C. The rental income is taxable when Orson cashes the check.
- D. The rental income is taxable when Orson returns from his vacation.

Study Unit 4: Taxable and Nontaxable Income covers the information for this question.

You last answered this question on June 2nd and got it correct. This question is answered correctly on the first attempt by 90% of students.

correct Answer Explanation for A:

The income is taxable to Orson when his sister receives the check. In this scenario, Orson's sister acts as his "agent," and income is deemed to be constructively received by an individual when their authorized agent receives it.

The doctrine of constructive receipt requires that cash-basis taxpayers be taxed on income when it becomes available and is not subject to substantial limitations or restrictions, regardless of whether it is in their physical possession. Income received by an agent for a taxpayer is constructively received in the year the agent receives it. Most individuals are cash-basis taxpayers who report income when it is actually or constructively received during the tax year.

39. Question ID: 94815853 (Topic: Taxpayer Personal Information)

Penny was the victim of identity theft last year. She received an IP PIN from the IRS this year. She plans to use a paid preparer to file her return. How should the IP PIN be used?

- A. The preparer should enter Penny's IP PIN on the tax return next to her signature block. correct
- B. The preparer does not need to enter Penny's IP PIN on the tax return. It is for her records only.
- **C. The preparer should enter Penny's IP PIN on the tax return in the third-party designee area.** wrong
- D. The preparer should enter Penny's IP PIN on the tax return in the PTIN section.

Study Unit 1: Preliminary Work with Taxpayer Data covers the information for this question.

This question is answered correctly on the first attempt by 58% of students.