EA Exam

Preparatory Program

For 2026-2027 Testing Cycle

Part 1

Individuals

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This study guide is designed for exam candidates who will take their exams in the July 1, 2026 to February 28, 2027 testing cycle.

This book covers tax year 2025.
"Current tax year" refers to calendar year 2025.

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Introduction

Congratulations on taking the first step toward becoming an Enrolled Agent, one of the most respected professional tax designations in the United States.

Enrolled Agents (EAs) are licensed by the Internal Revenue Service after passing a comprehensive examination that tests competency in federal tax law. Once enrolled, EAs have unlimited representation rights before all levels and offices of the IRS. This means you may represent taxpayers in audits, appeals, collections matters, and other proceedings — the same representation authority granted to CPAs and attorneys.

The Enrolled Agent exam consists of three parts covering the taxation of individuals, taxation of businesses, and representation, practice, and procedures. Each part is administered separately and may be taken in any order.

This study guide series is designed to prepare you thoroughly and efficiently for each part of the EA exam. The material reflects the structure, format, and subject matter tested by the IRS and is organized to build both technical knowledge and exam confidence.

EA Exam Structure

The Enrolled Agent (EA) exam consists of three separate parts. Candidates may take the parts in any order.

- **Part 1 – Individuals**
- **Part 2 – Business**
- **Part 3 – Representation**

Each part contains 100 multiple-choice questions. Some questions are experimental and are not scored. You will not know which questions are scored and which are not.

You will have 3.5 hours to complete each exam part. Scores are reported on a scaled range from 40 to 130, with a passing score of 105. The exam is not graded on a curve.

Candidates who do not pass receive diagnostic feedback identifying areas for additional study. Each exam part may be retaken during the active testing window, subject to IRS limitations.

2026-2027 Testing Location Update

The IRS has announced that beginning with the 2026–2027 testing cycle, the EA exam will be administered by PSI, Inc., replacing Prometric.

As of the publication date of this textbook, detailed operational guidance from PSI has not yet been released. Information regarding scheduling systems, testing logistics, candidate portals, and procedural requirements is forthcoming.

The HOCK International digital textbook will be updated once official guidance becomes available to ensure candidates have accurate and current information.

Additional Study Resources

The HOCK study guides are designed to cover the major areas of federal taxation that enrolled agents commonly encounter in practice and that are tested on the EA exam. The material is structured to keep your studying focused and efficient while helping you build a strong working understanding of tax law.

While these guides are comprehensive, strong candidates also take time to become comfortable reading IRS source material. Reviewing official IRS publications reinforces key concepts, clarifies common exceptions, and helps you develop confidence applying the rules the way the IRS explains them.

In addition to this study guide, we strongly recommend reviewing:

- **Publication 17, Your Federal Income Tax** (particularly helpful for Part 1 – Individuals)
- **Circular 230, Regulations Governing Practice before the Internal Revenue Service** (essential for Part 3 – Representation, Practice, and Procedures)

Circular 230 is especially important because it outlines the professional standards and responsibilities that govern enrolled agents.

Becoming comfortable with these materials not only strengthens your exam preparation but also prepares you for real-world practice.

Preparing for Success

The EA exam is designed to ensure enrolled agents are well-prepared to represent taxpayers before the IRS. Success comes from consistent study, clear understanding of core concepts, and the ability to apply tax rules accurately.

As you move through the units, focus on understanding how and why the rules work. Strong conceptual understanding will help you answer exam questions more confidently than memorization alone.

With steady preparation and a structured plan, passing the EA exam is absolutely achievable.

We are honored to be part of your journey.

Applying for Enrollment

Once you have passed all three parts of the EA exam, you can apply to become an enrolled agent. The process includes an IRS review of your tax compliance history. Failure to file or pay personal income taxes in a timely manner can be grounds for denial of enrollment.

The IRS Return Preparer Office will review the circumstances of each case and make determinations on an individual basis. You may not practice as an EA until the IRS approves your application and issues you an enrollment card, a process that takes up to 60 days or more.

Successfully passing the EA exam can open the door to a rewarding and respected professional career. While the exam requires focused preparation and commitment, HOCK International's comprehensive EA Review provides the structure, clarity, and practice you need to succeed.

We wish you every success on your journey to becoming an Enrolled Agent.

Essential Tax Law Updates for Individuals

Legislation Affecting the 2025 Tax Year

The One Big Beautiful Bill Act (OBBBA): Enacted on July 4, 2025, the OBBBA introduces sweeping changes to the tax code effective for the 2025 tax year. Key provisions include:

- **TCJA Permanence:** The OBBBA makes permanent many individual tax provisions of the Tax Cuts and Jobs Act (TCJA) that were scheduled to expire, including the increased standard deduction and the elimination of personal exemptions.
- **Increased Standard Deduction Amounts:** The OBBBA increases the standard deduction for 2025 to $31,500 (MFJ), $15,750 (Single/MFS), and $23,625 (HOH).
- **New Additional Deductions Reported on Schedule 1-A (Form 1040):** For 2025, OBBBA introduces several new deductions reported on the new Schedule 1-A:
  - **Qualified Tips ("No Tax on Tips"):** A deduction for up to $25,000 in qualified tips. This deduction is subject to a phaseout for Modified Adjusted Gross Income (MAGI) over $150,000 ($300,000 for joint filers) and is available for tax years 2025–2028.
  - **Qualified Overtime Pay ("No Tax on Overtime"):** A deduction for up to $12,500 ($25,000 for joint filers) in qualified overtime pay. This is subject to the same MAGI phaseout as tips and is available for 2025–2028.
  - **Qualified Passenger Vehicle Loan Interest:** A deduction for up to $10,000 of interest paid on loans for new vehicles purchased for personal use. To qualify, the vehicle must be a U.S.-assembled vehicle (final assembly in the United States). This deduction is subject to a phaseout for MAGI over $100,000 ($200,000 for joint filers).
  - **Enhanced Deduction for Seniors (Temporary):** An additional $6,000 deduction per eligible individual age 65+ for 2025–2028. This is phased out for MAGI over $75,000 ($150,000 for joint filers).
- **New: Trump Accounts (Pilot Program):** The OBBBA establishes "Trump Accounts," a new tax-advantaged investment account for children. For eligible children born after December 31, 2024, and before January 1, 2029, the federal government will make a one-time $1,000 contribution to the account. Parents, guardians, and employers may contribute up to $5,000 annually (indexed for inflation starting in 2028). Funds generally cannot be withdrawn before the child turns 18.

Note on Reporting: For 2025, the IRS will not update Forms W-2, 1099, or withholding tables to reflect these new deductions. Taxpayers will claim these deductions on their 2025 returns using IRS-provided guidance and substantiation methods (such as pay stubs or tip logs) as described in Notice 2025-69.

Federal Declared Disasters: The OBBBA extends the special rules for certain disaster-related personal casualty losses. In general, personal casualty losses remain limited to losses attributable to federally declared disasters. For all federally declared disasters, the loss is deductible without having to itemize deductions (it can be added to the Standard Deduction).

However, "qualified disaster losses" continue to receive enhanced, favorable treatment. For qualified disaster losses:

- The loss is not subject to the 10% of AGI limitation.
- The per-casualty floor is increased from $100 to $500.

Saver's Match Repealed: The OBBBA repealed the "Saver's Match" program (which was scheduled to replace the Saver's Credit in 2027). Instead, the existing Saver's Credit remains in effect.

Important Reminders for 2025

Income Exclusions: For 2025, the following specific relief payments are excluded from gross income:

- **Qualified Wildfire Relief Payments:** Compensation for expenses or losses incurred as a result of a qualified wildfire disaster declared after December 31, 2014.
- **East Palestine Train Derailment Payments:** Amounts received from a government agency, Norfolk Southern Railway, or its subsidiary/insurer related to the February 3, 2023, train derailment in East Palestine, Ohio.

SECURE Act 2.0, Continuing Provisions for 2025: This bill was signed into law as part of the Consolidated Appropriations Act of 2023. SECURE 2.0 includes many provisions affecting retirement plans. Provisions from the SECURE 2.0 Act and the newly enacted OBBBA affect retirement planning for the 2025 tax year.

- **Higher Catch-Up Limit (Ages 60–63):** Effective for 2025, the catch-up contribution limit for 401(k), 403(b), and governmental 457(b) plans is increased to **$11,250** for participants who are age 60, 61, 62, or 63 at the end of the year.
- **Roth Treatment of Employer Contributions:** Employers may allow employees to designate matching and nonelective contributions as Roth contributions. These amounts are included in the employee's gross income for the year.
- **529-to-Roth IRA Rollovers:** Beneficiaries of 529 qualified tuition programs may roll over funds directly to a Roth IRA tax-free, subject to a **$35,000 lifetime limit**. The 529 account must have been open for at least 15 years, and the rollover cannot exceed the annual Roth IRA contribution limit.
- **Penalty-Free Withdrawals:** Exceptions to the 10% early withdrawal penalty continue for:
  - **Emergency Withdrawals:** Up to $1,000 per year for unforeseeable or immediate financial needs.
  - **Domestic Abuse Victims:** The lesser of $10,000 or 50% of the account balance for victims of domestic abuse.

Individual Income Tax Return Filing Deadline: April 15, 2026. The extended filing deadline is October 15, 2026.[1]

FBAR Due Date: The due date for the FBAR (FinCEN 114, Report of Foreign Bank and Financial Accounts)[2] coincides with the filing of the federal tax return. An automatic 6-month extension is allowed, typically until October 15. FBARs must be timely e-filed separately from federal tax returns on the FinCEN website.

2025 Standard Deduction Amounts (by Filing Status)

- Single/MFS: $15,750
- MFJ or QSS: $31,500
- Head of Household: $23,625
- Additional Standard Deduction for age 65 and over and/or blindness:
  - MFJ, QSS or MFS: $1,600
  - Single or HOH: $2,000

[1] Taxpayers are automatically granted a 2-month extension of time to file (to June 15) if the taxpayer lives outside the U.S. and their tax home is outside the U.S.

[2] FBAR refers to FinCEN Form 114, Report of Foreign Bank and Financial Accounts, that must be filed with the Financial Crimes Enforcement Network (FinCEN), which is a bureau of the Treasury Department. The FBAR is not filed with the IRS, but the IRS is responsible for FBAR enforcement.

2025 Filing Thresholds Based on Filing Status and Gross Income

Reference: https://www.irs.gov/individuals/check-if-you-need-to-file-a-tax-return

Filing Status	Age	Filing threshold
Single	Under 65	$15,750
	65 or older	$17,750
Married Filing Joint and Qualifying Surviving Spouse (QSS)	Under 65 (both spouses)	$31,500
	65 or older (one spouse)	$33,100
	65 or older (both spouses)	$34,700
Married Filing Separate	Any age	$5 (not a typo)
Head of Household	Under 65	$23,625
	65 or older	$25,625
Any filing status	The taxpayer had net earnings from self-employment of at least $400.[3]	
Any filing status	Church employee income of $108.28 or more.	

Note: Beginning in 2025, eligible seniors may also qualify for a separate $6,000 senior deduction, which is claimed on Schedule 1-A and is not part of the standard deduction.

2025 Tax Rates and Brackets: The individual tax rates for 2025 for U.S. citizens and U.S. residents are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Nonresident aliens filing Form 1040-NR are taxed at a flat 30% rate on US-sourced income unless a tax treaty specifies a lower rate.

Dependency Gross Income Test: Although the deduction for personal exemptions remains permanently repealed, the gross income limitation for 2025 for a qualifying relative is $5,200 (also called the "deemed exemption" amount).[4]

2025 Retirement Plan Contribution Limits: Roth and traditional IRAs: $7,000 (additional catch-up contribution of $1,000 for taxpayers age 50 or older).

2025 "Kiddie Tax" Threshold: The "Kiddie Tax" age limit is for those under 18 and certain dependents under 24. The unearned income threshold is $2,700. The kiddie tax only applies to unearned income.[5]

2025 "Nanny Tax" on Household Employees: The nanny tax threshold is $2,800 in 2025. A household employer is normally obligated to withhold and pay federal FICA (Social Security and Medicare) taxes for any household employee above this threshold. A household employer is required to pay FUTA taxes if they paid a household employee $1,000 or more in a calendar quarter in the current or prior year. These thresholds are on a per-employee basis.

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[3] Table source: Publication 501, Section: Filing Requirements for Most Taxpayers. In some cases, taxpayers with gross income below these thresholds may still be required to file a return, such when special taxes are owed.

[4] A "deemed personal exemption" is used for purposes of determining who is a "qualifying relative" under IRC Sec. 152(d)(1)(B).

[5] The kiddie tax is reported on Form 8615, which is attached to the child's Form 1040. Alternatively, parents can elect to include the child's unearned income directly on their own return, using Form 8814, if certain requirements are met.

2025 Maximum Compensation Subject to FICA

- OASDI maximum wage base: $176,100
- Employee and employer portion: 7.65% (6.2% Social Security + 1.45% Medicare)
- Self-employed 15.30% (12.4% Social Security + 2.9% Medicare)
- Additional Medicare Tax: 0.9% on earned income exceeding the following thresholds:[6]
  - Married filing jointly: $250,000
  - Married filing separately: $125,000
  - Single, HOH, and QSS: $200,000

2025 Capital Gains and Long-Term Dividends: Short-term capital gains and ordinary dividends are taxed at ordinary income rates. The top rates for qualified dividends and long-term capital gains are as follows:

Long-Term Capital Gains & Qualified Dividends Tax Rates for 2025				
Rate	**Single**	**MFJ**	**MFS**	**HOH**
0%	$0 – $48,350	$0 – $96,700	$0 – $48,350	$0 – $64,750
15%	$48,351 – $533,400	$96,701 - $600,050	$48,351 - $300,000	$64,751 – $566,700
20%	$533,401+	$600,051+	$300,001+	$566,701+
Other long-term gains rates				
Gain on sale of collectibles		Examples: artwork, antiques, stamps, etc.		Maximum 28%
Unrecaptured §1250 gain		Applies to depreciable real estate property.		Maximum 25%

2025 Net Investment Income Tax: A 3.8% tax applies to individuals, estates, and trusts with net investment income above certain threshold amounts. The MAGI thresholds are:

- Married filing jointly and Qualifying Surviving Spouse: $250,000
- Single and HOH: $200,000
- Married filing separately: $125,000
- Estates and trusts: $15,650

2025 Bonus Depreciation: For 2025, the OBBBA made 100% bonus depreciation permanent for qualified property acquired and placed in service on or after January 19, 2025. Property acquired before January 19, 2025, is subject to a 40% bonus depreciation rate in 2025.

2025 Section 179 Deduction: The maximum Section 179 expense deduction is $2,500,000. This limit is reduced by the amount by which the cost of Section 179 property placed in service during the tax year exceeds $4,000,000. The investment phaseout threshold for Section 179 in 2025 ends at $6,500,000. This means that if your total investment in qualifying Section 179 property placed in service for the year exceeds this amount, a business will not be able to make any Section 179 election for the year.[7]

[6] Earned income of spouses is combined towards this Additional Medicare Tax threshold for MFJ returns. Employers must withhold this tax from wages or compensation when they pay employees more than $200,000 in a calendar year, regardless of the employee's filing status.

[7] Section 179 and bonus depreciation are covered more extensively in Part 2.

2025 QBI Deduction Limits: The Section 199A limitation modified taxable income threshold amounts are as follows:

- Married Filing Joint: $394,600 to $494,600.
- All other filing statuses: $197,300 to $247,300.

2025 Standard Mileage Rates:

- Business use: 70 cents per mile
- Medical and moving: 21 cents per mile
- Charitable: 14 cents per mile in service of charitable organizations

2025 Foreign Earned Income Exclusion: $130,000 per person.

2025 HSA Limits: For 2025, the annual contribution limits on deductions for HSAs for individuals with self-only coverage is $4,300 and $8,550 for family coverage. There is an additional contribution amount of $1,000 for taxpayers who are age 55 or older. To qualify to contribute to a health savings account, the taxpayer must have a high-deductible health insurance policy.

2025 FSA Limits

- Health Care FSA (HCFSA): $3,300.
- Dependent Care FSA (DCFSA): $5,000 for unmarried filers and couples filing jointly, and $2,500 for MFS filers.

2025 QSEHRA Limits: Maximum payments and reimbursements through the QSEHRA are $6,350 for an employee only and $12,800 for an employee plus family.

2025 Long-Term Care Premiums Maximum Deduction (Per Person): The limit on the deduction for premiums is for *each* person (not per tax return). Long-term care premiums up to the amounts below can be included as medical expenses on Schedule A.

Taxpayer's Age At the End of Tax Year	2025 Deductible Limit
40 or less	$480
More than 40 but not more than 50	$900
More than 50 but not more than 60	$1,800
More than 60 but not more than 70	$4,810
More than 70	$6,020

2025 Alternative Minimum Tax (AMT) Exemption Amounts

- Single or Head of Household: $88,100
- Married Filing Jointly or Surviving Spouse: $137,000
- Married Filing Separately: $68,500
- Estates and Trusts: $30,700

2025 Estate and Trust *Exemption* Amounts

- Estates: $600
- Simple trusts: $300
- Complex trusts: $100
- Qualified disability trusts: $5,100

2025 Estate and Gift Tax Exclusion Amounts

- Estate and gift tax (highest rate): 40%
- Combined estate tax and lifetime gift/GST exemption: $13,990,000 per person in 2025 ($27,980,000 per married couple)
- Gift tax annual exclusion: $19,000
- Annual exclusion for gifts to noncitizen spouse: $190,000

2025 Tax Credit Changes

2025 Earned Income Tax Credit (EITC)

- **Investment income:** The investment income limit in 2025 is $11,950. The investment income limitation is now increased and indexed for inflation.
- **Special rule for separated spouses.** Taxpayers who file married filing separately may qualify for the EITC in limited circumstances.[8]

Children Claimed	Maximum AGI (all filing statuses except MFJ)	Maximum AGI (MFJ filers only)
Zero ("childless EITC")	$19,104	$26,214
One	$50,434	$57,554
Two	$57,310	$64,430
Three or more	$61,555	$68,675

Maximum amount of the EITC in 2025

- No qualifying children: $649 (the "childless EITC")
- 1 qualifying child: $4,328
- 2 qualifying children: $7,152
- 3 or more qualifying children: $8,046

2025 Child and Dependent Care Credit (CDCTC): The Child and Dependent Care Credit or "Daycare credit" is a percentage ranging between 20% to 35% of up to $3,000 in qualifying expenses (for one dependent) or $6,000 (for two or more dependents). This credit is not refundable in 2025.

2025 Child Tax Credit (CTC): The maximum Child Tax Credit in 2025 is $2,200 per qualifying child. The Additional Child Tax Credit (ACTC) is the refundable component, of which a maximum of $1,700 is refundable in 2025. The credit phaseout begins at $400,000 (MFJ) and $200,000 for all other filing statuses. **New for 2025:** To claim the CTC or ACTC, the taxpayer must have a valid SSN issued before the due date of the return (if filing jointly, only one spouse is required to have an SSN).

2025 Adoption Credit: The maximum credit is $17,280. The AGI phaseout range is $259,190 - $299,190 for all filing statuses. The exclusion for employer-paid adoption reimbursement is the same. The adoption credit applies per adopted child. The adoption credit includes a refundable portion of up to $5,000, with any remaining nonrefundable amount eligible for a five-year carryforward. Indian tribal governments now have parity with state governments to determine whether a child has "special needs" for purposes of claiming the maximum credit.

2025 Credit for Other Dependents/Other Dependent Credit (ODC): The ODC is a tax credit available to taxpayers for dependents who do not qualify for the Child Tax Credit. The maximum credit amount is $500 for each dependent. There is no refundable portion. **New for 2025:** To claim the ODC, the taxpayer (and spouse if filing jointly) must have a valid SSN or ITIN issued on or before the due date of the return.

[8] Taxpayers claiming the EITC who file married filing separately must meet the eligibility requirements under a special rule in the American Rescue Plan Act (ARPA) of 2021, (explained later). The IRS cannot issue refunds claiming the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit (ACTC) before mid-February. This is a congressional provision in the Protecting Americans from Tax Hikes (PATH) Act. This time frame applies to the entire refund, not just the portion associated with these credits.

2025 Premium Tax Credit: The American Rescue Plan Act temporarily removed the 400% FPL ceiling (commonly called the "subsidy cliff") and increased the amount of the credit to qualifying households. For 2025, the repayment caps range from $375 to $3,250, depending on the taxpayer's income and filing status. Under OBBBA, repayment caps are repealed beginning in 2026, but this change does not apply for tax year 2025

2025 Retirement Savings Contributions Credit (Saver's Credit): This credit is between 10% to 50% of eligible contributions to IRAs and qualifying retirement plans up to a maximum credit of $1,000 ($2,000 MFJ). To claim this credit in 2025, the taxpayer's modified adjusted gross income (MAGI) must not be more than $39,500 for Single, Married Filing Separately, or Qualifying Surviving Spouse. MAGI must not be more than $59,250 for Head of Household, and $79,000 for Married Filing Jointly.[9]

2025 Individual Energy Credits

There are two types of residential energy credits, which are claimed on Form 5695, Residential Energy Credits:

- **Residential Clean Energy Credit:** (previously named the residential energy efficient property credit). Taxpayers may be eligible to claim this energy credit for:
  - Solar, wind and geothermal power generation equipment
  - Solar water heaters
  - Fuel cells
  - Battery storage

  Note: Under OBBBA, 2025 is the final year this credit is available. The credit does not apply to expenditures made after December 31, 2025, without regard to when the property is placed in service.

- **Energy Efficient Home Improvement Credit:** (previously named the nonbusiness energy property credit). The maximum total yearly credit of $3,200 is comprised of separate $1,200 and $2,000 limits. Some types of qualifying property include insulation material or air sealing material or systems, exterior doors, natural gas, propane, or oil furnaces or hot water boilers.

  Note: The Energy Efficient Home Improvement Credit is nonrefundable, does not allow a carryforward, and is terminated after 2025 under OBBBA.

- **New PIN Requirement:** To claim the Energy Efficient Home Improvement Credit for qualified home improvements placed in service in 2025, taxpayers must include the Product Identification Number (PIN) for any item of specified property on their tax return. Taxpayers may use the manufacturer's four-digit Qualified Manufacturer (QM) code if the manufacturer has one in place of the PIN.

[9] The IRS uses two different names for this particular credit: the "Saver's Credit" and the "Retirement Savings Contribution Credit." However, they are the same credit.

2025 Education-Related Credits and Deductions

American Opportunity Tax Credit (AOTC)

- **Credit Amount:** Up to $2,500 per eligible student.
- **Refundable portion**: Up to 40% of the credit (up to $1,000) can be refundable.
- **Qualified expenses**: Tuition, certain fees, and course materials required for attendance.
- **Eligibility**: Available only for the first four years of post-secondary education.
- **Phaseout**: Begins at $80,000 for single filers and $160,000 for married filing jointly. The credit is completely phased out at $90,000 and $180,000, respectively.

Lifetime Learning Credit

- **Credit amount**: Up to $2,000 per *tax return*.
- **Qualified expenses**: Tuition and fees for enrollment in eligible educational institutions.
- **Eligibility**: Available for all years of post-secondary education and for courses to acquire or improve job skills. There is no limit on the number of years this credit can be claimed.
- **Phaseout**: Begins at $80,000 for single filers and $160,000 for married filing jointly. The credit is completely phased out at $90,000 and $180,000, respectively.

Additional Information: Both education credits are claimed on Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits). Both credits have the same income phaseout ranges.

Non-Qualified Expenses: Room and board, transportation, insurance, medical expenses, and student health fees (even if mandatory) do not qualify for either credit.

Education Savings Accounts

- **Coverdell ESA (also called an "Education IRA"):** The maximum contribution limit is $2,000 per beneficiary in 2025.
- **Section 529 Plans (Qualified Tuition Programs or QTP):** The IRS does not specify a specific dollar amount for annual contribution limits to 529 college savings plans, but contributions are considered gifts. This means they are subject to the annual gift tax limit. For 2025, the annual gift tax exclusion is $19,000 per beneficiary.
- **Credentialing Expenses:** Under the OBBBA, effective for distributions after July 4, 2025, "qualified higher education expenses" now include qualified postsecondary credentialing expenses, such as fees for recognized trade school or professional licensure programs.
- **K-12 Expenses:** For 2025, tax-free distributions for qualified expenses (including tuition) at an elementary or secondary public, private, or religious school are limited to $10,000 per beneficiary per year.
- **Effective July 4, 2025**, the OBBBA expands qualified K-12 expenses to include books, tutoring, and educational therapies, though the $10,000 limit remains for 2025.
- **Section 529 Rollovers:** The SECURE Act 2.0 added a provision that permits rollovers from a Section 529 account into a Roth IRA; Beneficiaries of 529 accounts may roll over up to $35,000 (lifetime limit) to a Roth IRA (subject to annual limits) if the 529 account has been open for at least 15 years.

Student loan interest deduction: Student loan interest deduction begins to phase out for taxpayers with MAGI more than $85,000 ($170,000 for joint returns) and is completely phased out for taxpayers with MAGI of $100,000 or more ($200,000 or more for joint returns). The maximum deduction per return is $2,500, regardless of filing status. MFS filers cannot take this deduction.

Educational Savings Bond Expense Exclusion: The savings bond education tax exclusion allows taxpayers to exclude interest income upon redeeming eligible savings bonds when the bond owner pays qualified higher education expenses at an eligible institution. Phaseout ranges for 2025 are:

- **Single or Head of Household:** The exclusion begins to phase out at a modified adjusted gross income (MAGI) of $99,500 and is completely phased out at $114,500.
- **Married Filing Jointly:** The exclusion begins to phase out at a MAGI of $149,250 and is completely phased out at $179,250.

Taxpayers who file as married filing separately cannot take this exclusion.

Educator Expense deduction: The deduction for educator expenses is an adjustment to income set at $300 for the year 2025. If two teachers are married and file taxes jointly, they can claim a total deduction of up to $600 (with a limit of $300 for each spouse).

Student Loan Forgiveness

- **General Discharge:** Exclusion from gross income is available for most student loan forgiveness granted after 2020 and before 2026 (under the American Rescue Plan Act).
- **Death or Disability:** Under the OBBBA, the exclusion for student loans discharged on account of the death or total and permanent disability of the student is now permanent.
- **Employer Payments:** Also made permanent under OBBBA, an employer may contribute up to $5,250 annually toward an employee's student loans, and such payment is excluded from the employee's income. The $5,250 cap applies to both the student loan repayment benefit and other educational assistance (e.g., tuition, fees, books) provided by the employer.

2025 New Tax Law Provisions for Individuals

Emergency Distributions: There is a waiver of the 10% additional tax on early distributions for emergency personal expense distribution of as much as $1,000 which remains in effect for 2025. The distribution may also be repaid within three years from the date of distribution.

Domestic Violence Victim Distributions: For 2025, domestic abuse victims may distribute the lesser of $10,000 or 50% of accrued benefit from an eligible retirement plan without the 10% early distribution penalty (specific definitions and timing apply, see Publication 575). The distribution may be repaid within three years from the date of distribution.

Qualified Charitable Distributions: For 2025, the maximum amount of qualified charitable distributions (QCD) increased to $108,000 (an increase of $3,000 from the prior year). The maximum amount applies to each spouse if filing jointly.

2025 Increase in penalty for failure to file: The penalty for failure of an individual to file a tax return that is more than 60 days late shall not be less than the lesser of (1) $525 or (2) 100% of the tax due on the return.

Required Minimum Distribution Changes: The SECURE Act 2.0 changed the rules for RMDs. The first RMD for someone who turns 73 in 2025 is due by April 1, 2026. Accounts that are subject to RMDs include: Traditional IRAs, 401(k)s, 403(b), 457(b), and defined contribution plans.[10]

2025 Excess Business Loss Limit: Non-corporate taxpayers, including sole proprietors, are limited in their ability to use overall business losses to offset nonbusiness income. The excess business loss limitation is $626,000 for MFJ, and $313,000 for all other filing statuses in 2025.

E-file Mandate for Information Returns: The IRS requires most businesses to e-file information returns. This mandate applies to individuals and businesses who submit 10 or more information returns, such as Form 1099, W-2, and 1099-MISC.

- **New OBBBA Requirement:** Effective for taxable years beginning after July 4, 2025, the OBBBA mandates that returns filed by Qualified Opportunity Funds and Qualified Rural Opportunity Funds must be filed electronically (on magnetic media or other machine-readable form), regardless of the number of returns filed.

New: De Minimis Customs Entry Privilege Eliminated: Effective August 29, 2025, the "de minimis" entry privilege (which allowed duty-free entry for shipments valued at $800 or less) is revoked by Executive Order and OBBBA. Taxpayers importing goods may now be subject to duties and taxes regardless of value, and new penalties of $5,000 for the first violation and $10,000 for each subsequent violation apply.

[10] A defined contribution plan is a type of retirement plan where employees contribute a fixed amount or a percentage of their paychecks to an account intended to fund their retirement. A common example are 401(k) plans. These types of retirement plans are covered more extensively, from the employer's perspective, in Part 2, businesses.

2025 Tax Form Changes

Form 1040, U.S. Individual Income Tax Return: The form continues to allow taxpayers to elect to treat a nonresident alien spouse or dual-status alien spouse as a resident for tax purposes when filing jointly. Line references have been updated to accommodate the new Schedule 1-A deductions, specifically Line 13b, which now reports the total additional deductions from Schedule 1-A.

Schedule 1-A (Form 1040), Additional Deductions: This schedule is new for 2025 as part of the OBBBA. It is used to report new additional (below-the-line) deductions. Parts of the schedule include:

- **Part I: Modified Adjusted Gross Income (MAGI) Amount:** Used to figure the taxpayer's MAGI, which determines the phaseout limits for the new deductions.
- **Part II: No Tax on Tips:** Deducting qualified tips.
- **Part III: No Tax on Overtime:** Deducting qualified overtime compensation.
- **Part IV: No Tax on Car Loan Interest:** Deducting qualified passenger vehicle loan interest.
- **Part V: Enhanced Deduction for Seniors:** Claiming the new $6,000 deduction for eligible seniors.
- **Part VI: Total Additional Deductions:** The total amount from Schedule 1-A flows directly from here to Form 1040, Line 13b.

Schedule 1 (Form 1040), Additional Income and Adjustments to Income: Continues to be used for reporting adjustments related to Form 1099-K (such as amounts issued in error or for personal items sold at a loss) and for reporting digital asset (cryptocurrency) income, including staking rewards. Deductions that are now reported on Schedule 1-A are no longer reported on Schedule 1.

Form W-2, Wage and Tax Statement: Box 12 continues to use code II for Medicaid waiver payments excluded from income under Notice 2014-7. For **tax year 2025**, the IRS has announced that there are no changes to Form W-2 requiring separate reporting of qualified tips or qualified overtime for purposes of the OBBBA deductions. These reporting changes have been deferred until 2026.

New Form 1099-DA, Digital Asset Proceeds From Broker Transactions: This form is mandatory for 2025 regarding the reporting of gross proceeds. Brokers must report each sale of a digital asset effected for a customer in 2025.

Form 5329, Additional Taxes on Qualified Plans (Including IRAs), continues to include exception codes for domestic abuse victim distributions and emergency personal expense distributions, with these SECURE 2.0 exceptions remaining applicable for 2025 distributions.

Form 8888, Allocation of Refund: The federal government began phasing out paper tax refund checks on September 30, 2025. Consequently, Form 8888 is now used to allocate a refund among multiple direct deposit accounts. The option to receive a paper check or to purchase U.S. savings bonds with a refund has been permanently discontinued.

2025 Rules for Form 1099-K: For 2025, the reporting threshold for Form 1099-K is $20,000 and 200 transactions. Reporting is still required for any amount if backup withholding applies, and personal transactions (such as gifts or sales of personal items at a loss) are excluded.

Form 4547, Trump Account Election(s): This is a new form associated with Trump Accounts. It is used to elect to open an initial Trump Account for an eligible child and, if applicable, to request the one-time $1,000 pilot program contribution.

Study Unit
1
Preliminary Work with Taxpayer Data

Study Unit 1: Preliminary Work with Taxpayer Data

More Reading:

- Publication 17, *Your Federal Income Tax*

This section will cover the initial steps that tax return preparers must take in order to ensure accuracy when filing taxes for their individual clients. We will cover preliminary work with taxpayer data, as well as the importance of a taxpayer's biographical information in this unit.

Use of Prior Year Returns

When preparing tax returns for clients, tax professionals are expected to diligently gather and verify all necessary taxpayer information. This includes reviewing prior-year tax returns for accuracy, completeness, and compliance with tax laws. If any errors or omissions are discovered on a prior-year return, the preparer is required by law to inform the taxpayer of the mistake and explain the potential consequences if it is not corrected. However, the preparer is not obligated to fix the error.

Example: Leslie, an enrolled agent, noticed a serious error on her client Mark's prior-year tax return. He had self-prepared his return and reported a stock sale incorrectly, resulting in a significant understatement of tax. Leslie informed Mark of his mistake and advised filing an amended return. Grateful, Mark promised to correct it, and asked Leslie if she would help him by preparing the amended return. Leslie agrees to prepare the amended return for Mark for a reasonable fee.

Utilizing prior-year returns can help identify and prevent major mathematical mistakes and alert the preparer to any issues that may impact the current year's return. During this review process, the preparer must also consider any items from previous years that may affect the current year's return, such as:

- Carryovers.
- Net operating losses.
- Tax credit carryovers, examples of which include the prior year AMT tax credit and the adoption credit.
- Prior-year depreciation and asset basis.

Taxpayer Biographical Information

When filing tax returns, certain client biographical information is required. A tax professional must collect this information from each taxpayer to prepare an accurate tax return:

- Legal name, date of birth, and marital status.
- Residency status and/or citizenship.
- Dependent information.
- The taxpayer's identification number (SSN, ITIN, or ATIN).

Note: While ITINs allow for filing, a valid Social Security Number (SSN) is strictly required to claim the Child Tax Credit, the Deduction for Seniors, and the new deductions for Qualified Tips and Qualified Overtime.

In order to prevent fraudulent tax filings, it is important for tax preparers to request identification from taxpayers. Photo IDs are preferable and should include the taxpayer's name and current address. It is also crucial for tax preparers to verify social security cards, ITIN letters, and other documents to ensure that the correct TINs are used for the taxpayer, their spouse, and any dependents listed on the return.

Example: Mariana Lopez has always self-prepared her returns, but with a new job and investment income, she is looking for a professional tax preparer for the first time. She makes an appointment with Karl, an enrolled agent, to prepare her taxes. Before discussing her tax situation, Karl asks Mariana to provide a picture ID and a copy of her Social Security card for verification. Karl then carefully reviews her prior year's return and tax documents to ensure accuracy.

Identity Protection PIN (IP PIN): Taxpayers also have the option to request an Identity Protection PIN (IP PIN). An IP PIN is a six-digit number that helps protect a taxpayer's Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN) from unauthorized use.

This service is now available to anyone, regardless of whether they have been a victim of identity theft or not. If an IP PIN is issued or requested, the IP PIN must be entered into software for the IRS to accept an electronically filed tax return.[11] The IP PIN can either be requested for a single year (a one-time enrollment) or for the current and future years (continuous enrollment).

Example: Brenner's wallet was stolen while he was Christmas shopping. A few days after filing a police report, Brenner asks Laura, his enrolled agent, what else he should do to protect himself from being a victim of ID theft. Laura advises Brenner to file an ID theft affidavit with the IRS and request an IP PIN, which she does on his behalf. On January 20, 2026, Brenner receives his IP PIN, which will help prevent any fraudulent tax filings. Laura meets with Brenner two weeks later to prepare his 2025 tax return. She carefully reviews his tax documents, prepares his tax return, and enters his IP PIN into her software for secure e-filing. Brenner feels reassured about the process and knows his return will be processed without any issues.

[11] Protecting a taxpayer from tax-related ID theft is covered in more detail in Book 3, Representation, and is listed on the official test specifications for that exam section.

Taxpayer Identification Numbers

The IRS requires all individuals listed on a federal income tax return to have a valid Taxpayer Identification Number (TIN), including the taxpayer, their spouse (if married), and any dependents listed on the return. The types of TINs are:

- Social Security number (SSN).
- Individual taxpayer identification number (ITIN).
- Adoption taxpayer identification number (ATIN).[12]

Note: A taxpayer's personal and financial information is considered highly sensitive and confidential. Tax preparers must understand the importance of protecting this information and take all necessary precautions to ensure it remains secure. A preparer who wrongfully discloses a taxpayer's information could face civil and criminal charges.

A taxpayer who cannot obtain an SSN must apply for an ITIN in order to file a U.S. tax return. Generally, only U.S. citizens and lawfully admitted noncitizens authorized to work in the United States are eligible for a Social Security number.

Example: Umberto is an Italian citizen who has never been to the United States. On January 20, 2025, he inherited a rental property from his deceased aunt, Giuseppina, a green-card holder who was living in the U.S. On his accountant's advice, Umberto decides to keep the rental property as a passive income source. He hires a management company to receive the rents and manage the property in his absence. Umberto requests an ITIN for tax reporting purposes. He will report his U.S. rental income on Form 1040-NR. He will not be taxed on his worldwide income, only on his income from U.S. sources.

Nonresident aliens with a U.S. tax liability generally have ITINs, although not always. For example, an ITIN would be required when a U.S. soldier marries a foreign spouse and wishes to file jointly. The couple would need to request an ITIN for the alien spouse to file a joint return.

Example: Kristal is a U.S. citizen living in Norway. In 2025, she met and married Trond, a Norwegian citizen. The couple plans to live in Norway. Trond does not plan to apply for U.S. residency, but Kristal and Trond can make the election to file jointly and treat Trond as a U.S. resident alien by checking the appropriate box on Form 1040 and attaching a statement to their joint return. To make this election, Trond must request an ITIN.

People who do not have lawful status in the United States may obtain an ITIN for tax reporting purposes only.

The issuance of an ITIN does not affect an individual's immigration status or give the taxpayer the right to work in the United States. A taxpayer with an ITIN is not eligible to receive Social Security benefits or the Earned Income Tax Credit. Under the One Big Beautiful Bill Act (OBBBA), taxpayers using an ITIN are ineligible for the Child Tax Credit, the Deduction for Seniors, and the new deductions for Qualified Tips and Qualified Overtime in 2025. These provisions specifically require a valid SSN. ITINs are for federal tax reporting only and are not intended to serve any other purpose.

[12] A special form is used for ATIN requests; Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions. This form is used to apply for an ATIN for a child who is placed in the taxpayer's home for legal adoption.

ITIN Application Process

Taxpayers who need an individual taxpayer identification number (ITIN) must fill out Form W-7, also known as the Application for IRS Individual Taxpayer Identification Number. In addition to submitting this form, taxpayers must provide documentation that proves their foreign status and verifies their identity. There are three ways to apply for an ITIN.

- Using Form W-7,
- Using an IRS-authorized Certified Acceptance Agent (CAA), or
- In-person at a designated IRS Taxpayer Assistance Center.

A taxpayer can also engage the services of a CAA, or Certified Acceptance Agent,[13] to request an ITIN. CAAs can authenticate a passport and/or birth certificate for taxpayers who want to request an ITIN, but do not wish to mail their original documents to the IRS. All ITINs expire unless they are renewed.

Example: Maude, a U.S. citizen with a Social Security number, currently resides in Canada and is employed by an international shipping firm. She recently married Santino, a Canadian citizen, who has a daughter named Lucia from a previous marriage (both Santino and Lucia are Canadian citizens). Maude and Santino decide to file their taxes jointly as a married couple and claim Lucia as a dependent. To do so, they need to apply for Individual Taxpayer Identification Numbers (ITINs) for Santino and Lucia. Maude may enlist the help of a Certified Acceptance Agent (CAA) to obtain these ITINs for her new husband and stepdaughter.

Note: Typically, the process for obtaining an ITIN involves submitting an application (Form W-7) by mail along with a taxpayer's initial tax return. This filing must be done on paper. The Form W-7 *cannot* be filed electronically. There are limited situations where a foreign person may apply for an ITIN without filing a tax return, such as when claiming tax treaty benefits or providing an ITIN for reporting purposes to a third party, such as a bank or financial institution. A full list of exceptions can be found in the Form W-7 instructions.

Adoption Taxpayer Identification Number (ATIN)

ATINs are designed explicitly for adopted children who are not yet eligible for a Social Security number. An ATIN is requested using Form W-7A, *Application for Taxpayer Identification Number for Pending U.S. Adoptions*. For an adopted child who does not have an SSN, a taxpayer may request an ATIN if:

- The child is placed in the taxpayer's home for legal adoption.
- The adoption is a domestic adoption, or the adoption is a foreign legal adoption.
- The taxpayer cannot obtain the child's existing SSN, even though they made a reasonable attempt to obtain it from the birth parents, the placement agency, or other persons.
- The taxpayer cannot obtain an SSN for other reasons, such as the adoption not yet being final.

An ATIN issued for an adoptive child expires two years from the date it is issued, although an extension can be requested using IRS Form 15100, *Adoption Taxpayer Identification Number Extension Request*. An ATIN cannot be used to obtain the Earned Income Tax Credit, the Child Tax Credit, or the American Opportunity Tax Credit.

[13] A Certified Acceptance Agent (CAA) is an individual or organization that is authorized by the Internal Revenue Service to assist alien individuals and with obtaining ITINs. The IRS maintains a list of CAAs on its website.

Special Rules for a Deceased Child

If a child is born and dies within the same tax year and is not granted an SSN, the taxpayer may still claim that child as a dependent.

Example: On October 9, 2025, Diane had a newborn son. Sadly, he faced health complications and passed away just one week later. The child was issued both a birth certificate and a death certificate, but no Social Security number. When filing her taxes for 2025, Diane can still claim her son as a qualifying child. She will need to mail a paper return in order to do so. Her son will still be considered a "qualifying child" for tax purposes, even though he only lived for a short time.

The tax return must be filed on paper with a copy of the birth certificate or a hospital medical record attached. The birth certificate must show that the child was born alive; a stillborn infant does not qualify. The taxpayer should enter the word "DIED" in the space for the dependent's Social Security number on the tax return.

Recordkeeping Requirements for Individuals

It is the responsibility of taxpayers, with or without the assistance of a tax preparer, to maintain copies of their tax returns and related records for as long as necessary for the administration of federal tax laws. Typically, taxpayers are required to retain copies of their tax returns and supporting documentation for at least three years from either the date they were filed or the original due date (if filed before the original due date), whichever is later. If a taxpayer omits more than 25% of the gross income that should have been reported, the taxpayer must retain records for at least six years.

While the IRS has not issued specific guidelines on recordkeeping, it is important for individuals to maintain detailed records for various purposes. These include identifying sources of income, tracking expenses for tax deductions, documenting property costs and improvements, providing evidence in case of an audit,[14] and helping with future tax preparation.

The IRS allows taxpayers to maintain records in any way that will help determine the correct tax. Electronic records are acceptable as long as a taxpayer can reproduce the records in a legible format. The following are examples of necessary records that all taxpayers should keep, including items related to:

- **Income:** Forms W-2, Forms 1099, bank statements, pay stubs, brokerage statements, and Schedules K-1.

  For 2025: Because the 2025 Form W-2 will not separately report "Qualified Tips" or "Qualified Overtime," taxpayers claiming these new deductions must retain pay stubs, work schedules, and daily tip logs (such as Form 4070) to substantiate the specific amounts eligible for the deduction

- **Expenses:** Sales slips, invoices, receipts, credit card statements, canceled checks or other proof of payments, written communications from qualified charities, Forms 1098 to support mortgage interest and real estate taxes paid (if the taxes are paid through an impound account).
- **Car Loan Interest:** To claim the new deduction for 2025, records must show the loan originated after December 31, 2024, and verify the Vehicle Identification Number (VIN)
- **Home purchase and sale:** Closing statements, purchase and sales invoices, proof of payment, insurance records, receipts for improvement costs.
- **Energy Credits:** For energy-efficient improvements (windows, doors, etc.) placed in service in 2025, taxpayers must retain the Product Identification Number (PIN) or Qualified Manufacturer (QM) code to claim the credit

[14] In cases of an IRS audit, it is the responsibility of the taxpayer to provide proof and documentation for their claimed expenses. Even if a tax professional prepares and signs a tax return, the taxpayer is the one ultimately responsible for the accuracy of their own return.

- **Investments:** Brokerage statements, mutual fund statements, Forms 1099-DIV, and the new Form 1099-DA (Digital Asset Proceeds) for crypto-asset transactions.
- **Business records:** For business owners, keeping detailed records is essential for tracking income and expenses, managing payroll, invoicing clients, and preparing tax returns.

Basic Tax Forms for Individuals

Form 1040: The Form 1040 is the primary tax form used by U.S. taxpayers to file their annual income tax returns. The Form 1040 includes three numbered schedules:

- **Schedule 1, Additional Income and Adjustments to Income**: Schedule 1 is used to report income that is not listed directly on the Form 1040, such as taxable alimony, unemployment compensation, and gambling winnings. It also includes income adjustments, such as the student loan interest deduction, the self-employed health insurance deduction, and the deduction for educator expenses. Deductions now claimed on Schedule 1-A are not entered on Schedule 1.
- **Schedule 1-A — Temporary Additional Deductions (2025–2028) -** Beginning in 2025, Schedule 1-A is used to calculate several temporary adjustments to income created by the OBBBA. These amounts flow to Schedule 1 and then to Form 1040. Schedule 1-A reports:
  - **Part I:** Modified Adjusted Gross Income (MAGI) Amount
  - **Part II:** Deduction for Qualified Tips
  - **Part III:** Deduction for Qualified Overtime
  - **Part IV:** Deduction for Qualified Car Loan Interest
  - **Part V:** Enhanced Deduction for Seniors
  - **Part VI:** Total additional deductions

  Note: These temporary deductions apply only for tax years 2025 through 2028.
- **Schedule 2, Additional Taxes:** Schedule 2 is used to report additional taxes owed, such as the alternative minimum tax, self-employment tax, or household employment taxes.
- **Schedule 3, Additional Credits and Payments:** Schedule 3 has two main sections: nonrefundable credits, and other payments and refundable credits.

Form 1040-SR: This form is specifically for use by seniors who are age 65 or older. This form is essentially the same as the standard Form 1040 but is designed to be easier to read with a bigger font.

Form 1040-NR: Form 1040-NR is used by nonresident aliens to report their U.S. source income. Form 1040-NR uses Schedules 1, 2, and 3, just like Form 1040. The 1040-NR is never used by U.S. citizens or U.S. residents.

The IRS defines an "alien" as any individual who is not a U.S. citizen or U.S. national. A *nonresident* alien is an alien who has not passed the green card test or the substantial presence test. Form 1040-NR is widely used by foreign investors, as well as nonresident taxpayers who earn money while in the U.S.

Example: Angelo, a Filipino citizen and world-famous boxer, receives permission to enter the U.S. on a special visa in order to participate in a champion boxing match. He earns a substantial amount of income of $900,000 for his appearance but only stays in the U.S. for six days before returning to his home country. As he is not eligible for a Social Security Number (SSN), Angelo must request an Individual Taxpayer Identification Number (ITIN) to report his U.S. earnings. Without the ITIN, he would face automatic backup withholding on his income. Thankfully, Angelo's tax accountant requested the ITIN and correctly filed his income taxes using Form 1040-NR, which only required him to report the income he earned while in the United States and not his worldwide income.