EA Exam

Preparatory Program
For 2026-2027 Testing Cycle

Part 2

Businesses

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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

As of the publication date of this textbook, the IRS has announced that PSI Services will administer the Enrolled Agent exam beginning with the 2026-2027 EA-Exam testing cycle. IRS guidance states that scheduling for the 2026-2027 EA-Exam cycle will open on May 1, 2026, with testing availability expected to begin on July 1, 2026. Candidates should continue to check the IRS website for additional updates regarding scheduling procedures, testing logistics, and other candidate instructions.

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.

The One Big Beautiful Bill Act (OBBBA) and SECURE Act 2.0

On July 4, 2025, sweeping new legislation titled the One Big Beautiful Bill Act (OBBBA) was signed into law (Public Law 119-21). This landmark legislation fundamentally alters the federal tax landscape for both individuals and businesses. Notably, OBBBA makes permanent many of the expiring provisions from the Tax Cuts and Jobs Act (TCJA), aggressively scales back or eliminates various clean energy incentives, and introduces entirely new tax benefits, such as the "No Tax on Tips," "No Tax on Overtime," and "No Tax on Car Loan Interest" deductions.

Because OBBBA contains staggered effective dates, tax professionals and exam candidates must be highly vigilant. While some major provisions (like 100% bonus depreciation and the new individual deductions reported on Schedule 1-A) are effective immediately for the 2025 tax year, other massive changes (such as the $15,000,000 estate tax exemption, the Qualified Business Income minimum deduction, and the ability to fund Trump Accounts) do not take effect until 2026 or later.

For the Enrolled Agent exam cycle running from July 1, 2026, to February 28, 2027, you will be tested on the 2025 tax law.

Legislation Affecting the 2025 Tax Year

The SECURE Act 2.0 was signed into law as part of the Consolidated Appropriations Act of 2023. The Act included dozens of provisions affecting retirement plans. Many of the provisions in the SECURE Act 2.0 went into effect in 2024 and 2025.

- **Emergency withdrawals:** SECURE 2.0 creates a new exception for distributions made in 2024 and later that are used for emergencies that are "unforeseeable or immediate financial needs relating to personal or family emergency expenses." Only one distribution of up to $1,000 is allowed per year.
- **New early withdrawal exception for domestic abuse victims:** Victims of domestic abuse are also exempt from early withdrawal penalties. The maximum withdrawal allowed is the lesser of (1) $10,000 (inflation-adjusted) or (2) 50% of the account balance.
- **529 Rollovers:** Owners of 529 plans can transfer unused funds directly to the plan beneficiary's Roth IRA without incurring federal tax or the 10% penalty for nonqualified withdrawals.
- **New Roth Accounts:** Employers can offer their employees employer-sponsored Roth accounts, including Roth 401(k), Roth 403(b), and Roth 457 plans. These accounts must be funded with after-tax contributions.
- **IRA catch-up contributions:** Prior to 2024, the IRA catch-up contribution limit was $1,000 and was not indexed for inflation. SECURE 2.0 authorized inflation indexing beginning in 2024. However, the catch-up contribution limit for 2025 remains $1,000.
- **Higher Catch-Up Contributions (Super Catch-Up):** Beginning in 2025, individuals who are at least age 60, but younger than age 64, at the end of the year and participate in a deferred compensation plan qualify for a higher catch-up contribution limit. The specific maximum limit depends entirely on the type of plan, not the taxpayer's filing status:
  - $11,250 for participants in standard plans (including most 401(k), 403(b), governmental 457 plans, and the Thrift Savings Plan).
  - $5,250 for participants in section 401(k)(11) and SIMPLE plans.

Essential Tax Law Updates for Businesses

Trump Accounts and Contribution Pilot Program: Beginning with the 2025 tax return, an authorized individual (like a parent or guardian) can file Form 4547 to elect to establish a "Trump Account" for an eligible child. These accounts are a new type of tax-advantaged individual retirement account designed for children under age 18. Additionally, if the child was born between January 1, 2025, and December 31, 2028, is a U.S. citizen, and has a valid Social Security Number, the authorized individual can elect for the child to receive a one-time $1,000 pilot program contribution from the federal government. However, contributions cannot be made to a Trump Account before July 4, 2026.

2025 Increase in penalty for failure to file: For tax years beginning in 2025, the penalty for failure to file a tax return that is more than 60 days shall not be less than the lesser of (1) $525 or (2) 100% of the tax due on the return. This penalty applies to Form 1120 and Form 1040 returns.

2025 Partnership and S corporation late filing penalties: Standard failure-to-file penalties are $255 per month, per partner or shareholder in a partnership or an S corporation for business returns filed in 2026 (for 2025 tax year returns).

2025 Form 1099-K Reporting Requirement: For the 2025 tax year, Form 1099-K reporting for third-party network transactions applies only when a participating payee's activity exceeds the de minimis thresholds reinstated under federal law (the One Big Beautiful Bill Act repealed the previously scheduled drop to $600). A third-party settlement organization is strictly required to file Form 1099-K only if:

- The payee's aggregate payments for goods and services exceed **$20,000**; AND
- The payee has more than **200** such transactions during the calendar year.

Exemption: Personal transfers between friends and family are exempt from this requirement, as clarified by the IRS.

2025 E-file Mandate: Under current law, businesses are now required to e-file if they file 10 or more Federal returns. Filers must aggregate almost all return types covered by the regulation to determine whether a filer meets the 10-return threshold, including information, income tax, employment tax, and excise tax returns. (previously, a 250-return threshold applied). A waiver may be requested in cases of undue hardship. Failure to e-file, when required, may result in penalties imposed on taxpayers and businesses who file their information returns on paper instead. The ten-return threshold does not make electronic filing mandatory for employment tax returns, such as Forms 940 and 941.

IRIS Platform for Form 1099 filings: Under the Taxpayer First Act, the IRS was tasked with creating an online portal for taxpayers to submit Form 1099 electronically. IRIS is available for free and may be particularly beneficial for small businesses that currently file paper forms with the IRS.

Corporate AMT: The Tax Cuts and Jobs Act permanently eliminated the graduated rates for C Corporations. All C corporations are now taxed at a flat rate of 21%. The TCJA also permanently repealed the prior corporate alternative minimum tax (AMT). However, the Inflation Reduction Act of 2022 reintroduced a corporate minimum tax mechanism:

- The Corporate Alternative Minimum Tax (CAMT) is a **15%** minimum tax.
- It applies strictly to the Adjusted Financial Statement Income (AFSI) of certain large corporations.
- A corporation is subject to the CAMT only if its average annual financial statement income exceeds **$1 billion** over the prior **3** tax years.

2025 Credit for Small Employer Pension Plan Startup Costs: The SECURE 2.0 Act doubled the tax credit for new plans for small businesses with up to 50 employees to cover 100% of plan start-up costs.

- Eligible employers can claim a tax credit of up to **$5,000** per year for the first **3** years.
- This credit covers **100%** of the eligible start-up costs for employers with **50** or fewer employees and **50%** of the eligible start-up costs for employers with **51** to **100** employees.
- In addition, SECURE 2.0 added a new sub-credit to subsidize employer contributions to employee retirement accounts. This credit is available for **5** years, starting in the tax year the employer establishes the plan. The maximum credit is **$1,000** per employee per year.

Digital Asset Disclosure for Entities: For the 2025 tax year, the IRS continues to require business entities—including partnerships, C corporations, S corporations, and estates and trusts—to answer a digital asset disclosure question on their federal income tax returns. The question asks whether, at any time during 2025, the entity (a) received a digital asset as a reward, award, or payment for property or services, or (b) sold, exchanged, or otherwise disposed of a digital asset or a financial interest in a digital asset. This disclosure requirement applies regardless of whether the transaction resulted in taxable income and must be answered accurately for the return to be considered complete.

Research & Experimentation (R&E): Businesses may now immediately expense current domestic R&E expenditures paid or incurred in tax years beginning after December 31, 2024, rather than capitalizing and amortizing them over 5 years. However, *foreign* research expenditures must still be capitalized and amortized over **15** years

Business Interest Deduction: The calculation for Adjusted Taxable Income (ATI) is modified to eliminate deductions for depreciation, amortization, or depletion, thereby increasing the amount of deductible business interest expense.

Immediate Expensing for Qualified Sound Recording Productions: For productions commencing in taxable years ending after July 4, 2025, businesses may elect to immediately expense (rather than capitalize and depreciate) the costs of qualified sound recording productions produced and recorded in the United States. The annual limit for this deduction is $150,000 (which applies to the aggregate, cumulative cost of all such productions in the taxable year).

Rural and Agricultural Loan Interest Exclusion: To incentivize rural development, qualified lenders (such as banks, savings associations, and regulated insurance companies) can exclude 25% of the interest income received on a qualified real estate loan secured by rural or agricultural real property. This applies to tax years ending after July 4, 2025.

Deferral of Tax on Gain from the Sale of Farmland: For sales or exchanges occurring in taxable years beginning after July 4, 2025, taxpayers selling qualified farmland property to a "qualified farmer" may elect to pay the net income tax attributable to the gain in four equal annual installments.

Energy-Related Terminations and Modifications

The OBBBA aggressively scales back or eliminates many clean energy incentives for businesses:

- **Commercial Clean Vehicles:** The tax credit for purchasing qualified commercial clean vehicles is terminated for purchases made after September 30, 2025.
- **Energy Efficient Commercial Buildings (Section 179D):** The deduction for energy-efficient commercial building property ends for projects where construction begins after June 30, 2026.
- **Alternative Fuel Vehicle Refueling Property:** The credit for installing alternative fuel refueling property ends 5.5 years early, terminating for property placed in service after June 30, 2026.
- **Energy Property Cost Recovery:** The 5-year accelerated cost recovery for energy property is eliminated for property whose construction begins after December 31, 2024.
- **Clean Electricity Credits:** The Clean Electricity Production and Investment Credits are terminated for wind and solar facilities placed in service after December 31, 2027 (except for projects that begin construction by July 4, 2026). Additionally, businesses with ties to Prohibited Foreign Entities (PFEs) are entirely disqualified from claiming these credits.

Note: Many of the energy-related credits have staggered termination dates spanning from 2025 to 2027. Be sure to carefully track "placed in service" or "construction began" dates to determine if a specific credit or deduction is still viable under the new law.

Expansion of Qualified Small Business Stock (QSBS) Gain Exclusion (Section 1202)

For qualified small business stock issued after July 4, 2025, OBBBA significantly expands the tax benefits for investors.

- **Increased Exclusion Limit:** The maximum amount of per-issuer gain that can be excluded is increased to the greater of $15,000,000 or 10 times the adjusted tax basis of the stock.
- **Increased Asset Limit:** The total gross asset limit for the issuing corporation to qualify as a small business is raised from $50,000,000 to $75,000,000.
- **Tiered Holding Periods:** The holding period required to exclude gain is no longer a strict 5-year cliff. OBBBA introduces tiered exclusion levels:
    - 50% exclusion for stock held at least 3 years but less than 4 years.
    - 75% exclusion for stock held at least 4 years but less than 5 years.
    - 100% exclusion for stock held at least 5 years.

COVID-Related Employee Retention Tax Credit (ERTC) Enforcement

To combat widespread fraud, OBBBA imposes strict new enforcement and penalty provisions regarding the ERTC, effective July 4, 2025:

- **Retroactive Deadline**: No ERTC claim will be allowed, and no refund will be issued, unless the claim was filed by the taxpayer on or before January 31, 2024.
- **Assessment Extension**: The statute of limitations for the IRS to assess any amount attributable to an improperly claimed ERTC is extended to 6 years.
- **Promoter Penalties**: ERTC promoters who fail to meet due diligence requirements regarding client eligibility or credit calculations are subject to a $1,000 penalty for each failure.

Important Tax Figures for 2025

- **2025 General Filing Deadlines:** If a due date falls on a weekend or legal holiday, the deadline is pushed to the next business day.
- **Individual filing deadline:** April 15, 2026. This is the last day to file an individual extension (Form 4868). Extended due date: October 15, 2026.
- **FBAR:** The official due date for the FBAR (FinCen Form 114) coincides with the filing of the federal tax return (normally April 15). However, an automatic extension is allowed until October 15.
- **Estates and Trusts Income Tax Return Deadline (Form 1041):** April 15, 2026 (extension period of 5½ months; due September 30 for a calendar-year entity).
- **Estate Tax Return Deadline (Form 706):** Due within nine months after the date of the decedent's death (a 6-month extension is available).
- **Partnership Deadline (Form 1065):** March 15, 2026 (extended due date: September 15, 2026), or the 15th day of the 3rd month after the end of the partnership's tax year, for fiscal-year filers.
- **S Corporation Deadline (Form 1120-S):** March 15, 2026 (extended due date: September 15, 2026) or by the 15th day of the 3rd month after the end of the tax year for fiscal year-filers.
- **C Corporation Deadline (Form 1120):** April 15, 2026 (extended due date: October 15, 2026), or the 15th day of the fourth month after the end of the corporation's tax year, in the case of most fiscal-year filers. For June 30 year-end corporations, the due date is September 15, 2026 (extended due date: April 15, 2027).
- **Exempt Entity Deadline (Form 990):** May 15 for a calendar-year exempt entity (extended due date: November 15).
- **Employee benefit plan (Form 5500 series):** Due the last day of the 7th calendar month after the end of the plan's tax year; July 31 for a calendar-year plan (an extension is available to October 15 for a calendar-year plan).

Estimated Tax Due Dates

- **Individuals:** Quarterly estimated taxes are generally due by April 15, June 15, September 15, and January 15 of the following year.
- **Farmers and Fishermen:** January 15 (if *not* filing a return by March 1) or March 1 (if filing a tax return and paying all taxes due by March 1).
- **Corporations**: April 15, June 15, September 15, and December 15 (for calendar-year corporations).

2025 Maximum Compensation Subject to FICA

- 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:
  - Married filing jointly: $250,000.
  - Married filing separately: $125,000.
  - Single, HOH, and QSS: $200,000.

2025 FUTA Wage Base: The FUTA tax rate is 6% on the first $7,000 paid to each employee. Only the employer pays FUTA tax. The tax is not withheld from the employee's wages.

2025 Net Investment Income Tax (NIIT): The tax is 3.8% of the *lesser* of:

- Net investment income, or
- The amount of modified adjusted gross income (MAGI) over $15,650 for estates and trusts.

2025 Excess Business Loss Limitation: In 2025, the threshold amount is $313,000 ($626,000 for joint filers). Excess losses over these amounts must be carried forward. Excess business losses that are disallowed are treated as a net operating loss carryover to the following taxable year. In the subsequent year, the NOL deduction is subject to an 80% taxable income limitation.

Note: Under the OBBBA, the excess business loss limitation was made permanent, and different base amounts apply beginning in 2026. However, for the 2025 tax year, the applicable thresholds remain $313,000 ($626,000 for married individuals filing jointly.

Form 1099 Deadlines: The deadline for distributing 1099s and W-2s to the payees is January 31.

Gross receipts threshold: For the 2025 tax year, the gross receipts threshold for using the cash method of accounting has increased to $31 million. This means businesses with average annual gross receipts of $31 million or less can use the cash method.

2025 Contribution Limits – Retirement Plans

- **Roth and traditional IRAs:** $7,000 ($8,000 for taxpayers age 50 or older)
- **SIMPLE IRA/SIMPLE 401(k):** $16,500 For those aged 50 and over, an additional $3,500 catch-up contributions are permitted.
- **Traditional 401(k)/403(b) plans:** The 2025 employee elective deferral limit is $23,500. For those age 50 and over, an additional $7,500 catch-up contributions are permitted.).

  Super Catch-up: For employees strictly between the ages of 60–63 (inclusive) at the end of 2025, a higher catch-up limit of $11,250 for standard plans (including most 401(k), 403(b), governmental 457 plans, and the Thrift Savings Plan) and $5,250 in section 401(k)(11) and SIMPLE Plans applies under SECURE 2.0.

- **SEP-IRA contribution limits:** Up to 25% of compensation, up to a maximum contribution of $70,000 SEP-IRA contributions can be made up to the due date of the return, including extensions. No catch-up contributions are permitted in 2025.
- **Qualified plan contribution limits:** The limit on annual benefits for a participant in a defined benefit plan is $280,000 for 2025.

2025 Estate and Trust Exemption Amounts

- Estate Exemption Amount: $600
- Simple trust: $300
- Complex trust: $100
- Qualified disability trust: $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: $190,00