CERTIFIED FINANCIAL PLANNER (CFP) TAX PLANNING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. A multiple support agreement allows what regarding dependent claims?

A. Only one taxpayer can claim the dependent.

B. Taxpayers must list the dependent on their tax returns.

C. They can agree among themselves who will claim the dependent.

D. Each relative can claim a different dependent.

2. What is an alternative minimum tax (AMT)?

A. A tax for individuals earning less than a certain threshold

B. A parallel tax system that ensures high-income earners pay a minimum level of tax

C. A tax that applies exclusively to corporations

D. A tax on long-term capital gains

3. When is child support not subject to income tax?

A. When paid directly to the child.

B. When the payer deducts it on their return.

C. When the recipient has no other income.

D. When it is identified as such on the agreement.

4. Which of these statements regarding long-term capital gains rates is NOT correct?

A. Net long-term capital gains are generally subject to a maximum rate of 15% or 20%.

B. A 28% maximum capital gains rate applies to collectibles held for more than one year.

C. A 25% maximum capital gains rate applies to unrecaptured Section 1250 income.

D. The long-term capital gain holding period is one year.

5. How is interest related to a rental property treated on a tax return if the property is for personal use?

A. It is reported as rental income.

B. It may be deductible as mortgage interest.

C. It is reported as capital gains.

D. It cannot be deducted under any circumstances.

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6. What is the correct tax treatment of Nate and Teddi's rental income and expenses?

A. The other allocated rental expenses are limited to the gross rental income.

B. The $7,000 portion of mortgage interest and property taxes can be deducted.

C. The full $1,600 loss should be deducted.

D. All expenses can be deducted without limitation.

7. How do tax implications influence investment choices?

A. Tax benefits deter investors from less profitable assets

B. Tax rates have no influence on long-term investments

C. Investors typically seek vehicles with favorable tax treatment

D. Investors are unaffected by tax consequences in asset allocation

8. Which of the following tax benefits is available for education-related expenses?

A. Child Tax Credit and Business Expense Deduction

B. Retirement Savings Credit and American Opportunity Tax Credit

C. American Opportunity Tax Credit and Lifetime Learning Credit

D. Standard Deduction and Itemized Deductions for Education

9. Which rule may limit the availability of income tax benefits from a particular investment?

A. Tax conduit

B. The substantial economic effect doctrine

C. The at-risk rule

D. The passive activity loss rule

10. What are investments intended to defer or eliminate taxes for the investor called?

A. Passive activity investments

B. At-risk investments

C. Tax shelter investments

D. Deductible investments

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Answers

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

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Explanations

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1. A multiple support agreement allows what regarding dependent claims?

A. Only one taxpayer can claim the dependent.

B. Taxpayers must list the dependent on their tax returns.

C. They can agree among themselves who will claim the dependent.

D. Each relative can claim a different dependent.

A multiple support agreement allows a group of individuals, typically relatives, to agree among themselves as to which one of them will claim a qualifying dependent on their tax returns. This setup is particularly useful in situations where no single taxpayer provides more than half of the support for the dependent, yet multiple people together may provide enough support collectively. The correct option highlights this flexibility in claiming the dependent, underscoring that as long as the group meets specific criteria regarding support and dependency, they can come to a mutual agreement about who will take the tax benefits associated with claiming that dependent. This can provide strategic tax advantages for the individuals involved, ensuring that the dependent status is utilized effectively among those who contribute to the dependent's support. Contextually, the other options do not reflect the nuances of the multiple support agreement. For example, stating that only one person can claim the dependent does not recognize the collaborative aspect of multiple support agreements. Similarly, saying all taxpayers must list the dependent on their returns or that each relative can claim a different dependent fails to acknowledge the essential premise of the agreement, which revolves around a designated claimant rather than multiple simultaneous claims.

2. What is an alternative minimum tax (AMT)?

A. A tax for individuals earning less than a certain threshold

B. A parallel tax system that ensures high-income earners pay a minimum level of tax

C. A tax that applies exclusively to corporations

D. A tax on long-term capital gains

An alternative minimum tax (AMT) is indeed a parallel tax system designed to ensure that high-income earners pay at least a minimum level of tax. The AMT functions by disallowing certain deductions and credits that are typically available under the regular tax system, which can result in a higher taxable income for individuals with substantial earnings. This system was established to prevent wealthy individuals from exploiting loopholes and deductions that would allow them to significantly reduce their tax liability, ensuring a more equitable tax structure. The option highlighting that AMT applies to individuals earning more than a specific threshold reflects its primary focus on high-income earners rather than serving the interests of those with lower incomes or corporations. The AMT calculation is primarily based on adjusted gross income plus certain add-backs of tax preferences, which ultimately leads to a minimum tax obligation intended for those benefiting from significant tax advantages. This definition correctly captures the essence and purpose of the AMT in the broader context of tax policy and fairness in the tax system.

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3. When is child support not subject to income tax?

A. When paid directly to the child.

B. When the payer deducts it on their return.

C. When the recipient has no other income.

D. When it is identified as such on the agreement.

Child support is not subject to income tax when it is directly paid to the child because child support is considered a financial obligation meant to provide for the child's needs rather than income for the recipient. The IRS regards child support as neither taxable income for the recipient nor a deductible expense for the payer. This tax treatment aligns with the underlying purpose of child support, which is to support the child, rather than to provide income to the custodial parent. In cases where child support is mistakenly classified or treated differently, such as if it were to be deducted by the payer, it would incorrectly suggest that the payment is akin to a business expense or similar financial obligation that could warrant tax benefits, which is not the case under IRS guidelines. The recipient's financial situation, including other income sources, does not affect the tax consideration of child support payments, which remain non-taxable regardless of the recipient's total income. Therefore, the stipulation of the payments being identified as child support in an agreement is simply a matter of ensuring clarity in the terms of the payment but does not independently influence tax liability.

4. Which of these statements regarding long-term capital gains rates is NOT correct?

A. Net long-term capital gains are generally subject to a maximum rate of 15% or 20%.

B. A 28% maximum capital gains rate applies to collectibles held for more than one year.

C. A 25% maximum capital gains rate applies to unrecaptured Section 1250 income.

D. The long-term capital gain holding period is one year.

The statement regarding the long-term capital gain holding period being one year is not accurate because the holding period for capital gains is indeed one year. The distinction here lies in understanding that for an asset to qualify as a long-term capital asset, it must be held for more than one year. This means if an asset is sold after being held for one year or longer, it will be considered a long-term capital gain. Each of the other statements is correct regarding capital gains rates and the specific maximum rates applicable to certain types of assets, including collectibles and unrecaptured Section 1250 income. Thus, the confusion arises from the wording of the statement about the holding period, which must exceed one year for the gains to be classified as long-term.

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5. How is interest related to a rental property treated on a tax return if the property is for personal use?

A. It is reported as rental income.

B. It may be deductible as mortgage interest.

C. It is reported as capital gains.

D. It cannot be deducted under any circumstances.

When it comes to personal use rental property, the treatment of interest on a tax return is particularly important. In cases where a property is used for personal purposes, mortgage interest typically may be deductible as mortgage interest, adhering to the guidelines set forth by the IRS. This deduction is available for qualifying mortgage interest on property used as a personal residence. Taxpayers can typically deduct mortgage interest on their primary home and possibly a second home, contributing to the overall taxable income computation. However, the deductibility of interest does depend on various factors including the classification of the property and the proportion of personal versus rental use. In contrast, the other options describe scenarios that do not accurately apply to the treatment of interest for personal use rental properties. Rental income, capital gains, and complete nondeductibility under the given circumstances do not align with the typical tax treatment of mortgage interest on personal use properties. Thus, the ability to deduct this interest provides a significant tax benefit to property owners, making it a key aspect of tax planning for rental property owners who also occupy their properties personally.

6. What is the correct tax treatment of Nate and Teddi's rental income and expenses?

A. The other allocated rental expenses are limited to the gross rental income.

B. The $7,000 portion of mortgage interest and property taxes can be deducted.

C. The full $1,600 loss should be deducted.

D. All expenses can be deducted without limitation.

The correct treatment of rental income and expenses hinges on how rental properties are classified and reported for tax purposes. In this scenario, stating that the other allocated rental expenses are limited to the gross rental income aligns with the fundamental principles of tax law regarding rental real estate. Rental property owners can deduct ordinary and necessary expenses related to the rental activity, but the total deductions cannot exceed the rental income generated. In other words, if rental expenses surpass the income generated, the excess can generally not be deducted against other income, limiting deductions strictly to the amount of rental income earned. This principle ensures that taxpayers cannot claim losses beyond what they actually earned from rental activities on their tax returns. Hence, if Nate and Teddi had limited rental income, any additional expenses would be confined to that income level. While mortgage interest and property taxes can certainly provide deductions, stating that these can be fully deducted without considering income limits would contradict regulations that govern carrying losses from rental activities. Therefore, recognizing the limitation on allocated expenses to the gross rental income is crucial for accurate tax reporting.

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7. How do tax implications influence investment choices?

A. Tax benefits deter investors from less profitable assets

B. Tax rates have no influence on long-term investments

C. Investors typically seek vehicles with favorable tax treatment

D. Investors are unaffected by tax consequences in asset allocation

Investors often seek out investment vehicles that offer favorable tax treatment because these advantages can significantly enhance net returns. For example, accounts such as Roth IRAs or 401(k)s allow for tax-free growth or tax-deferred growth, making them attractive choices for long-term investment strategies. Moreover, understanding how capital gains taxes apply to specific investments can influence decisions on whether to hold or sell assets. By choosing investments that align with their tax strategies, such as tax-efficient funds or municipal bonds, investors can optimize their overall financial outcomes and effectively manage their tax liabilities. Tax considerations are a critical factor in investment selection as they affect the ultimate return on investment and wealth accumulation over time. Therefore, it is rational for investors to prioritize tax-favorable options to maximize their after-tax returns.

8. Which of the following tax benefits is available for education-related expenses?

A. Child Tax Credit and Business Expense Deduction

B. Retirement Savings Credit and American Opportunity Tax Credit

C. American Opportunity Tax Credit and Lifetime Learning Credit

D. Standard Deduction and Itemized Deductions for Education

The American Opportunity Tax Credit and the Lifetime Learning Credit are both designed specifically to provide tax benefits for education-related expenses. The American Opportunity Tax Credit allows eligible students to claim a credit for qualified education expenses incurred during their first four years of higher education. It can cover costs such as tuition, fees, and certain course materials, making it a valuable incentive for students and their families to invest in education. On the other hand, the Lifetime Learning Credit is available for qualified tuition and related expenses incurred for higher education, albeit with a broader scope. This credit can be claimed for an unlimited number of years and is applicable not just for undergraduate courses, but also for graduate courses and courses taken to acquire or improve job skills. Both credits serve to alleviate the financial burden of educational expenses, providing significant tax savings to those who qualify. This is why the combination of these two credits is recognized as the most direct approach to tax benefits related to education costs.

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9. Which rule may limit the availability of income tax benefits from a particular investment?

A. Tax conduit

B. The substantial economic effect doctrine

C. The at-risk rule

D. The passive activity loss rule

The passive activity loss rule significantly restricts the ability to claim tax benefits from investments that fall under the category of passive activities. Passive activities typically include rental properties and businesses in which the investor does not materially participate. According to the IRS guidelines, losses from these activities can only offset income from passive sources, which means that if an investor has passive losses from an investment but does not have other passive income to offset those losses, they cannot utilize those losses to reduce their taxable income for the year. This restriction is essential for tax planning as it prevents taxpayers from fully utilizing their investment losses to offset non-passive income, such as wages or active business income. The rule exists to curtail scenarios where investors might claim significant losses from passive activities without any real economic risk associated with those investments. In contrast, the other options focus on different aspects of taxation and compliance. The tax conduit option deals with how certain entities, like partnerships, pass income and losses through to the owners. The substantial economic effect doctrine relates more to the tax implications of transactions that lack meaningful economic substance. The at-risk rule, while also limiting deductions based on an investor's actual economic risk, does so in a different context and does not specifically target the same passive activity situations that the passive

10. What are investments intended to defer or eliminate taxes for the investor called?

A. Passive activity investments

B. At-risk investments

C. Tax shelter investments

D. Deductible investments

Investments intended to defer or eliminate taxes for the investor are referred to as tax shelter investments. These types of investments typically provide certain tax advantages, such as deductions or credits, that can reduce the investor's taxable income or defer tax liability to a later date. Tax shelter investments may include options like real estate investments, limited partnerships, or specific municipal bonds that generate tax-exempt income. The core idea is to leverage the tax code to minimize tax exposure, thus enhancing the overall return on investment. Understanding the unique characteristics of tax shelter investments is crucial for financial planning, especially because they can significantly impact an individual's tax strategy and net income. In contrast, other investment types, such as passive activity investments or at-risk investments, do not directly focus on providing tax advantages in the same way that tax shelters do.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cfptaxplanning.examzify.com

We wish you the very best on your exam journey. You've got this!

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