ENROLLED AGENT 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. **Individuals who own what percentage or more of stock in a foreign corporation are subject to the Transition Tax?**

   A. 5%

   B. 10%

   C. 20%

   D. 50%

2. **Which of the following tax deductions applies specifically to married couples filing jointly?**

   A. Individual standard deduction

   B. Standard deduction for married taxpayers

   C. Child tax credit

   D. Health insurance premiums

3. **What is the total net capital gain for an individual who carried over a long-term capital loss while selling current stocks at gains?**

   A. $2,000 Short-term gain

   B. $3,000 Short-term gain

   C. $1,500 Long-term gain

   D. $2,000 Long-term gain

4. **Which type of loan will incur taxable income if forgiven, being defined as a recourse loan?**

   A. Mortgage

   B. Business loan

   C. Personal loan

   D. Student loan

5. **A self-employed individual with a previous tax liability of $3,900 must pay what minimum amount of prepaid taxes to avoid a penalty?**

   A. $2,500

   B. $3,900

   C. $4,050

   D. $4,500

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6. A single taxpayer must file for which tax category if they report income above $200,000?

A. Net Investment Income Tax

B. Self-Employment Tax

C. Additional Medicare Tax

D. Alternative Minimum Tax

7. What is included in the gross estate for tax purposes?

A. Only liquid assets

B. Real estate and tangible assets only

C. All assets including life insurance policies

D. Only gifts made within the last three years

8. What happens when an individual contributes to a dependent care flexible spending arrangement over the limit?

A. The individual is not subject to any income tax or penalty

B. The individual must pay income taxes on the amount in excess of the limit

C. The individual must pay a 6% excise tax on the amount in excess of the limit

D. The individual must pay both income taxes and a 6% excise tax on the amount in excess of the limit

9. If an estate is valued at $4.5 million, which form does not need to be filed?

A. Form 1040

B. Form 1041

C. Form 706

D. None of the above

10. What is the minimum amount of tips that must be reported to an employer in a month?

A. $0

B. $20

C. $100

D. $200

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Answers

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

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Explanations

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1. Individuals who own what percentage or more of stock in a foreign corporation are subject to the Transition Tax?

A. 5%

B. 10%

C. 20%

D. 50%

The Transition Tax applies to U.S. shareholders who own 10% or more of the stock in a foreign corporation. This tax is part of the Tax Cuts and Jobs Act, which aimed to transition the U.S. tax system towards a territorial system conducive to global business operations. The key concept here is the definition of a "U.S. shareholder." A U.S. shareholder is any person who owns 10% or more of the total combined voting power of a foreign corporation. This threshold is significant because it establishes which individuals are liable for including their share of the foreign corporation's income in their own tax calculations, thereby affecting their overall tax liability in the U.S. Determining whether an individual qualifies as a U.S. shareholder under this provision is crucial for compliance with the Transition Tax regulations.

2. Which of the following tax deductions applies specifically to married couples filing jointly?

A. Individual standard deduction

B. Standard deduction for married taxpayers

C. Child tax credit

D. Health insurance premiums

The standard deduction for married taxpayers is specifically designed for couples who file jointly, allowing them a higher deduction than what is available for single filers. For the tax year, this deduction amount varies, and it reflects the recognition of both incomes within the household, allowing for tax relief that acknowledges the combined financial responsibilities of married couples. In contrast, the individual standard deduction applies to all individual taxpayers regardless of their filing status, meaning that it is not exclusive to married couples filing jointly. Similarly, while the child tax credit can benefit families with children, it is not specifically a deduction for married couples but rather a credit that eligible taxpayers can claim based on their dependents. Health insurance premiums are a deductible expense that can apply to any taxpayer, regardless of marital status, and are not limited to those filing jointly. All of these factors emphasize why the standard deduction for married taxpayers is tailored specifically to married couples filing jointly, providing them with a beneficial tax treatment.

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3. What is the total net capital gain for an individual who carried over a long-term capital loss while selling current stocks at gains?

A. $2,000 Short-term gain

B. $3,000 Short-term gain

C. $1,500 Long-term gain

D. $2,000 Long-term gain

To determine the total net capital gain for an individual who has carried over a long-term capital loss while selling current stocks at gains, it's essential to understand how capital gains and losses are calculated and netted against each other. When an individual has a long-term capital loss, they can carry that loss forward to offset any capital gains they realize in the current year, whether those gains are short-term or long-term. If the individual sold stocks at a gain, let's say they realized some capital gains on current stock transactions but also had a long-term capital loss carryover, it would affect the calculation of the net capital gain. If the question indicates a total net capital gain of $2,000 and categorizes it as a short-term gain, it suggests that the gains realized from the current stock transactions were short-term in nature. Thus, the individual could have a situation where they offset some of the current short-term gains with the long-term loss carryover, leading to a net amount that is still treated as short-term. The correct answer reflects the notion that after accounting for the losses, the taxpayer has $2,000 in short-term capital gains left. The classification as short-term means it corresponds with the nature of the current stock sales and their respective

4. Which type of loan will incur taxable income if forgiven, being defined as a recourse loan?

A. Mortgage

B. Business loan

C. Personal loan

D. Student loan

A recourse loan is a type of loan in which the lender can pursue the borrower's personal assets if the borrower defaults. If the loan is forgiven, the borrower may incur taxable income, as the forgiven amount is treated as income since the borrower is no longer liable for repayment. Personal loans are typically unsecured loans that individuals take for various purposes, such as consolidating debt or making large purchases. If a personal loan is considered a recourse loan and is ultimately forgiven, the borrower must report the forgiven amount as taxable income on their tax return, as it is viewed by the IRS as having received a financial benefit that must be accounted for different from secured loans such as mortgages, business loans, or student loans, which may have specific provisions or exceptions under the tax code regarding forgiveness. In contrast, while mortgages, business loans, and student loans can also be recourse loans, they often have specific treatments under the law regarding forgiveness, such as the possibility of exclusions or deductions, which may not apply as straightforwardly with personal loans. Therefore, the forgiveness of a recourse personal loan leads directly to taxable income for the borrower.

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5. A self-employed individual with a previous tax liability of $3,900 must pay what minimum amount of prepaid taxes to avoid a penalty?

A. $2,500

B. $3,900

C. $4,050

D. $4,500

To determine the minimum amount of prepaid taxes a self-employed individual must pay to avoid a penalty, it's important to understand the safe harbor rules that apply to estimated tax payments. For individuals with a prior tax liability, the IRS typically looks at the previous year's tax obligation. In this case, the individual has a previous tax liability of $3,900. To avoid an underpayment penalty for the current tax year, the individual must pay at least the amount of their previous year's tax liability. This means that making estimated tax payments of at least $3,900 in the current year fulfills the requirement to avoid penalties for underpayment. It's essential to keep in mind that the other amounts presented are either higher than necessary or do not relate to the previous year's liability. For example, paying more than the previous year's liability, such as $4,050 or $4,500, exceeds the minimum requirement, while a lower amount would not satisfy the safe harbor option. Therefore, the correct minimum prepaid tax amount to avoid a penalty is indeed the figure matching the previous liability.

6. A single taxpayer must file for which tax category if they report income above $200,000?

A. Net Investment Income Tax

B. Self-Employment Tax

C. Additional Medicare Tax

D. Alternative Minimum Tax

A single taxpayer who reports income above $200,000 is subject to the Additional Medicare Tax. This tax applies specifically to high-income earners and is an additional 0.9% tax on wages and self-employment income that exceeds the threshold amount. The purpose of this tax is to help fund Medicare, particularly as healthcare costs and demographic shifts increase demand for its services. When a taxpayer earns over the specified income limit, they must pay this additional tax to ensure that the system can accommodate rising healthcare costs. This obligation is distinct from other tax categories, each serving different purposes. The Net Investment Income Tax, for instance, is focused on investment income, while the Self-Employment Tax pertains to income earned by self-employed individuals. The Alternative Minimum Tax, on the other hand, targets taxpayers who might benefit from certain deductions that lower their regular tax liability below a certain level. Thus, when a single taxpayer exceeds the $200,000 income threshold, they are specifically required to account for the Additional Medicare Tax, reinforcing the intent to fund Medicare through contributions from higher earners.

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7. What is included in the gross estate for tax purposes?

A. Only liquid assets

B. Real estate and tangible assets only

C. All assets including life insurance policies

D. Only gifts made within the last three years

The correct answer encompasses the totality of a person's assets at the time of their death, which is critical for determining the gross estate for tax purposes. The gross estate includes all property owned by the decedent, which consists of both tangible and intangible assets. This includes real estate, cash, stocks, and personal property, among other items. Moreover, life insurance policies are specifically included in the gross estate if the decedent had incidents of ownership over the policy or if the policy proceeds are payable to the estate. This is significant because life insurance can be a substantial asset and its inclusion affects the overall estate value and, consequently, the tax liability. Other options are limited in scope. For instance, liquid assets alone or real estate with tangible assets do not capture the full array of items that must be reported in the gross estate. Focusing solely on gifts made within the last three years is also incomplete, as it neglects many other assets and rights that contribute to the gross estate calculation, further emphasizing the comprehensive nature of the correct choice.

8. What happens when an individual contributes to a dependent care flexible spending arrangement over the limit?

A. The individual is not subject to any income tax or penalty

B. The individual must pay income taxes on the amount in excess of the limit

C. The individual must pay a 6% excise tax on the amount in excess of the limit

D. The individual must pay both income taxes and a 6% excise tax on the amount in excess of the limit

When an individual contributes to a dependent care flexible spending arrangement (FSA) over the established limit, the excess amount is subject to income tax. The dependent care FSA has specific annual contribution limits set by the IRS, which, if exceeded, causes the excess contribution to be treated differently for tax purposes. In particular, any amount contributed beyond the allowed limit is not eligible for the tax-free treatment normally afforded to the contributions within limits. This means that the excess amount must be included as taxable income for the year, leading to an income tax liability on that portion. While there may be penalties or additional taxes associated with other accounts or excess contributions in some scenarios, the specific consequence here for exceeding the contribution limit in a dependent care FSA is the income tax on the excess amount. Thus, the correct interpretation for this situation focuses on the income tax obligation related to the excess contribution.

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9. If an estate is valued at $4.5 million, which form does not need to be filed?

A. Form 1040

B. Form 1041

C. Form 706

D. None of the above

In the context of estates and taxes, Form 706 is the United States Estate (and Generation-Skipping Transfer) Tax Return, which is required when the gross estate exceeds the federal estate tax exemption limit. As of 2023, this exemption is set at $12.92 million. Since the estate in the question is valued at $4.5 million, it is below the exemption threshold, meaning that the estate is not subject to federal estate taxes and therefore does not require Form 706 to be filed. Form 1040, the individual income tax return, may still need to be filed depending on the income of the deceased's estate during the year of death. Similarly, Form 1041, the U.S. Income Tax Return for Estates and Trusts, would be required for reporting the estate's income if the estate generates taxable income. However, since the estate's value does not trigger the need for the estate tax return, this makes Form 706 the correct response as the form that does not need to be filed in this specific scenario.

10. What is the minimum amount of tips that must be reported to an employer in a month?

A. $0

B. $20

C. $100

D. $200

In the context of reporting tips to an employer, the minimum amount that an employee must report is $20 in a month. This threshold is established by the Internal Revenue Service (IRS) and is designed to ensure that employees report their tips systematically and accurately. When an employee receives tips, they are considered taxable income and must be reported to the employer to ensure proper withholding of taxes. If an employee earns less than $20 in tips during the month, they are not required to report those tips to their employer, which means that the employer is not obligated to account for them for withholding purposes. This minimum reporting requirement helps in maintaining uniformity in the taxation of tipped income, making it easier for both employees and employers to comply with tax regulations. Thus, knowing and adhering to this reporting requirement is crucial for both accurate tax reporting and compliance with IRS regulations.

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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://enrolledagent.examzify.com

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

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