EA COURSE DEMO VIDEO LINKS

1	EA Part 1	https://youtu.be/fRiQWE3P8B0
		https://youtu.be/w8SteRlJp4Q
2	EA Part 2	https://youtu.be/h4FswQTV6jA
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3	EA Part 3	https://youtu.be/jNnQ7Pul1hw
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EA MCQ's

EA Part1 MCQ's

1. Many individual tax credits are nonrefundable. That term means that the credit cannot be larger than the amount of income tax. If a taxpayer has income taxes of $200 but a Lifetime Learning Credit of $290, the extra $90 does not generate a refund to the taxpayer. Which of the following income tax credits is refundable? In other words, it can generate a refund even if no tax payments have been made by the taxpayer.

1.Foreign tax credit

2.Credit for adoption expenses

3.Earned income credit

4.Credit for other dependents

Answer 3 is Correct

EXPLANATION

Generally, most individual tax credits are nonrefundable; a taxpayer can use them to reduce income taxes to zero but cannot use them to create a refund. One major exception to that general rule does exist—the earned income credit is refundable. The earned income credit is designed to provide a benefit to low-income workers who have wages or salaries (and, in most cases, a qualifying child). Because the purpose is to benefit workers with low income, the earned income credit was designed to be refundable; the benefit is available regardless of the amount of income tax.

A few more exceptions to that general rule is the additional child tax credit is refundable and the American opportunity credit is 40% refundable.

2. Are there exceptions to the 10% penalty on early distributions from a traditional IRA?

1.No

2.Yes, if the taxpayer uses the distribution to pay for his college tuition

3.Yes, if an unemployed taxpayer uses the distribution to pay for his health insurance premiums

4.B and C

Answer 4 is Correct

EXPLANATION

A taxpayer must include early distributions of taxable amounts from his traditional IRA in his gross income. And early distributions, which are amounts distributed from a taxpayer's traditional IRA account or annuity before he is age 59 1/2, are subject to an additional 10% tax. The 10% additional tax applies to the part of the distribution that the taxpayer has to include in gross income. It is in addition to any regular income tax on that amount. Among the several exceptions to the age 59 1/2 rule, which permit a taxpayer who receives an early distribution from the 10% additional tax, are provisions for exception if the distributions are not more than the cost of his medical insurance (if unemployed and collecting benefits for more than 12 consecutive weeks) or his qualified higher education expenses. There are other exceptions to the age 59 1/2 rule.

3. John died on June 1, 20X1. After determining that an estate tax return will be required, his executor decided to use the alternate valuation date for valuing the gross estate. Which of the following dates will be the alternate valuation date?

1.April 15, 20X2

2.December 31, 20X1

3.December 1, 20X1

4.On or before the due date of the Federal Estate Tax Return

Answer 3 is Correct

EXPLANATION

The alternate valuation date (if assets not sold) is 6 months from the date of death, which is December 1, 20X1.

4. Jay and Vonda have been married for a number of years and file a joint tax return for 2021. They provide over half of the support for several children who are single. Their daughter Jane is 17 and made $9,000 during the current tax year but is not in school. Their son Theodore is 20 and made $9,000 and is not in school. Their daughter Nanci is 23 and made $9,000 and is in school full-time. Their son Franklin is 25 and made $9,000 and is in school full-time. How many of these four children qualify as dependents for income tax purposes?

1.One

2.Two

3.Three

4.Four

Answer 2 is Correct

EXPLANATION

Normally, as long as a couple provides over half of the support for their children and the children do not file a joint return, the children qualify as dependents. However, dependents cannot make too much income (this limit changes each year and is $4,300 for 2021). The income requirement does not apply to children if they are under 19 or if they are under 24 and in school full-time for at least five months of the year. The first child is under 19 so the income is not an issue. The second child is not under 19 and not in school so the income prohibits them from taking him as a dependent. The third child is under 24 and in school full-time so the income is not a problem. The fourth child is 24 or older and the level of income keeps them from taking him as a dependent. Only the first and third children qualify.

5. Susan McKenzie inherited 500 shares of a stock with a market value of $40 per share from her aunt. The aunt's tax basis in the stock was $22 per share. What amount of income should McKenzie report on her tax return as a result of this conveyance?

1.$20,000

2.$11,000

3.$9,000

4.Zero

Answer 4 is Correct

EXPLANATION

The value of assets received through inheritance is not reportable on an income tax return as income for the simple reason that inheriting assets is not the same as earning income. The property will have a tax basis equal to the fair value of the assets on the date of death. However, the executor of the estate may choose an alternate valuation date which is 6 months from the date of death (or the date of conveyance, if earlier).

EA Part2 MCQ's

1.Roger has a partnership interest with a $5,000 basis. The partnership has inventory valued at $250,000. Roger's share of the ordinary income to be received from the sale of the inventory would be $10,000. In the current year, Roger sells his partnership interest for $30,000. Roger will report the following gain:

1.$25,000 capital gain

2.$15,000 ordinary gain and $10,000 capital gain

3.$10,000 ordinary gain and $15,000 capital gain

4.No gain or loss

Answer 3 is correct

EXPLANATION

Roger has a $5,000 basis in the partnership, and he sold his interest for $30,000 so he will have a taxable gain. Any money a partner receives for their share of unrealized receivables or inventory is treated as ordinary income. The remainder is a capital gain. Roger's total gain on the sale was $25,000 ($30,000 sold for – $5,000 basis). Roger has an ordinary gain of $10,000 for the unrealized inventory and the remainder of the gain of $15,000 is a capital gain.

2.Which of the following will decrease the basis of property:

1.Depreciation

2.Return of Capital

3.Recognized losses on involuntary conversions

4.All of the above

Answer 4 is correct

EXPLANATION

Some of the items that decrease basis of property are deductions for amortization, depreciation, and depletion, and nontaxable corporate distributions. If property is received because of an involuntary conversion, such as a casualty, theft, or condemnation, the replacement property's basis is the old property's basis on the date of the conversion decreased by any loss recognized.

3.Doc and Sleepy form a partnership. A number of years later, the partnership is dissolved. At that time, Doc has a tax basis in the partnership of $30,000. He receives a final liquidating dividend that is cash of $1,000 and a piece of land with a tax basis of $20,000 and a fair value of $34,000. The partnership did not have any unrealized receivables or appreciated inventory. None of the properties had been contributed by either partner. What is Doc's basis in the newly received land?

1.Zero

2.$20,000

3.$29,000

4.$34,000

Answer 3 is correct

EXPLANATION

Normally, partners do not have taxable gains and losses on liquidating dividends of a partnership. Therefore, the tax basis of the property received (cash and land) must stay the same as the tax basis of the property surrendered (the old partnership). Setting these amounts equal means that no gain or loss will be recorded for tax purposes. The old partnership has a tax basis of $30,000 and the cash has a tax basis of $1,000. Therefore, the tax basis of the land must be set at $29,000 so that $30,000 = $1,000 + $29,000.

4.Lucy, age 24, is a public school teacher. She wants to take advantage of elective deferrals into her 403(b) retirement plan. What is the maximum amount she can contribute for 2021?

1.$6,500

2.$11,000

3.$19,500

4.$21,000

Answer 3 is correct

EXPLANATION

Lucy may not contribute more than $19,500 for 2021. There is a special rule for those with at least 15 years of service giving them the potential to contribute up to $3,000 more. You can safely assume that Lucy, being 24, is too young to have 15 years experience.

5.A partnership has $1,000 of nonrecourse liabilities and $500 of recourse liabilities. The recourse liabilities are attributable to Karen who is a 50% partner. Karen contributed property with a fair market value of $400 and an adjusted basis of $250 for her interest in the partnership. The first year of business the partnership incurred a $4,000 loss. How much of this loss, if any, may Karen deduct on her tax return?

1.$250

2.$750

3.$2,000

4.$0

Answer 2 is correct

EXPLANATION

Karen's share of Partnership loss is $2,000. The amount she has at risk in the partnership limits her deduction to $750. Her at-risk amount includes her basis of $250 plus $500 in recourse liabilities for a total at risk amount of $750.

A partner's share of a recourse liability equals his or her economic risk of loss for that liability. A partner has an economic risk of loss if that partner or a related person would be obligated (whether by agreement or law) to make a net payment to the creditor or a contribution to the partnership with respect to the liability if the partnership were constructively liquidated.

EA Part3 MCQ's

1.What is the relationship between penalties for filing returns with unreasonable positions and penalties for willful or reckless misconduct?

1.Each penalty is assessed independently and in its entirety - without exception.

2.A penalty for an unreasonable position is added to a penalty for misconduct.

3.A penalty for an unreasonable position reduces a penalty for misconduct.

4.None of the above.

Answer 3 is correct

EXPLANATION

The amount of any penalty payable for willful misconduct is reduced by any penalty for an unreasonable position.

2.At what point in the tax preparation process must a tax preparer furnish the taxpayer with a copy of his completed return?

1.After the client has paid the preparer.

2.After the return has been e-filed.

3.After the client signs the return.

4.When the client signs the return.

Answer 4 is correct

EXPLANATION

A tax preparer must furnish the taxpayer with a completed copy of his return when the return is presented for such taxpayer's signature.

3.Unenrolled tax return preparers have the same authority in practice as attorneys or Certified Public Accountants (CPAs).

1.True

2.False

Answer 2 is correct

EXPLANATION

Unenrolled tax return preparers are limited to preparing and signing tax returns, claims for refund, and other documents for submission to the IRS.

4.The IRS filed a Notice of Federal Tax Lien and thereby encumbered Tom Robinson's residence. Can he appeal the lien?

1.No.

2.Yes, by filing a petition in Tax Court.

3.Yes, by requesting a hearing with an IRS Revenue Agent.

4.Yes, by requesting a hearing with the Office of Appeals.

Answer 4 is correct

EXPLANATION

Whenever the IRS records a Notice of Federal Tax Lien, they will provide the taxpayer with notification by certified mail. When the taxpayer receives the notification, he may request a Collections Due Process (CDP) hearing with the IRS Office of Appeals by sending a request for a hearing to the address shown on the notice. The taxpayer must file his request by the date shown on the notice.

5.The phrase "records of the client" means _________?

1.Electronic financial material created by the client before the engagement

2.The practitioner's workpapers

3.A document prepared and retained by the client after being contacted by the IRS

4.An appraisal prepared by the practitioner

Answer 1 is correct

EXPLANATION

Records of the client include all documents or written or electronic materials provided to the practitioner or obtained by him in the course of representation, that preexisted the retention of the practitioner by the client.

It also includes materials prepared by the client or by a third party at any time and provided to the practitioner with respect to the subject matter of the representation. It includes any return, claim for refund, schedule, affidavit, appraisal, or any other document prepared by the practitioner, or his or her employee or agent, that was presented to the client with respect to a prior representation if such document is necessary for the taxpayer to comply with his or her current federal tax obligations. However, it does not include any item prepared by the practitioner or the practitioner's firm.

Treasury Circular 230.