

ENROLLED AGENT PRACTICE EXAMS

Part 2 - Businesses



ERRATA SHEET

2025/26
Testing Cycle



SKILLPREP BOOKS

Enrolled Agent Practice Exams PART 2 ERRATA SHEET

This document contains corrections and clarifications for *Enrolled Agent Practice Exams PART 2 2025-2026* by *SkillPrep Books* for editions published **before Nov 10, 2025**.

Some questions have been corrected, while others have been revised to enhance clarity. Please use this information to update the content and ensure you have the most accurate version possible.

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PART 2 - PRACTICE EXAM #1

QUESTION 19

Eleanor swaps investment property with a basis of \$30,000 for other investment real property. What is the basis of Eleanor's new property following this like-kind exchange?

- A. \$0
- B. \$15,000
- C. \$20,000
- D. \$30,000

Answer: D. \$30,000

- Under Section 1031, if qualifying property held for investment or business use (currently only real property) is exchanged solely for like-kind property also held for investment or business use, no gain or loss is recognized (tax-deferred exchange). When no "boot" (cash or non-like-kind property) is involved, the basis of the property received is the same as the adjusted basis of the property given up. Eleanor exchanged investment property (basis \$30,000) for like-kind investment property with no boot mentioned. Therefore, her basis in the new property is \$30,000.
- *Topic: Like-Kind Exchanges (§1031 - Basis Calculation)*

QUESTION 20

In 2024, Chris trades an old delivery truck (adjusted basis \$8,000) used for his business for a new one. The new truck costs \$35,000. He receives a \$10,000 trade-in value for the old truck and pays \$25,000 in cash. What is the recognized gain or loss Chris must report on this transaction?

- A. \$0
- B. \$2,000 gain
- C. \$8,000 gain
- D. \$10,000 gain

Answer: B. \$2,000 gain

- Following the Tax Cuts and Jobs Act (TCJA), like-kind exchange treatment (Section 1031) no longer applies to personal property, such as vehicles. The transaction must be treated as two separate events: a taxable sale of the old truck and a separate purchase of the new truck.

The recognized gain or loss is calculated on the "sale" of the old truck:

- Amount Realized (Trade-in value received): \$10,000

- Adjusted Basis (of the old truck): \$8,000

- Recognized Gain: \$10,000 - \$8,000 = \$2,000

(The basis of the new truck is its full purchase price, \$35,000).

- *Topic: Sale of Business Property (Post-TCJA)*

PART 2 - PRACTICE EXAM #2

QUESTION 10

Eva, a freelance writer, declared a net income of \$300 from her freelance activities in 2024. What is her obligation regarding self-employment tax?

- A. She owes self-employment tax; net income was earned.
- B. She owes no self-employment tax; net income was below \$400.
- C. She owes no self-employment tax; net income was below \$1,000.
- D. She owes no self-employment tax; net income was below \$2,000.

Answer: B. She owes no self-employment tax; net income was below \$400.

- Self-employment tax is generally required if net earnings from self-employment are \$400 or more. Since Eva's net income was \$300, she does not owe self-employment tax.
 - *Topic: Self-Employment Tax Threshold*
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QUESTION 14

James operates a farm and also earns \$8,500 annually from non-farm activities. Which method or methods can James use to report the income from his non-farm activities?

- A. James can use both farm and nonfarm methods, choosing the most beneficial.
- B. James must use the farm-only method for all income earned.
- C. James must use the nonfarm method for all income earned.
- D. James must use the regular calculation method for his nonfarm earnings, as his income exceeds the threshold for the nonfarm optional method.

Answer: D. James must use the regular calculation method for his nonfarm earnings, as his income exceeds the threshold for the nonfarm optional method.

- Farmers may sometimes use optional methods (farm or nonfarm) to calculate earnings for self-employment tax, primarily to gain Social Security credits. The nonfarm optional method has specific eligibility requirements, including limits on nonfarm net earnings (must be less than \$7,493 for 2024 and less than 72.189% of gross nonfarm income) and a lifetime use limit (5 times). James's nonfarm earnings of \$8,500 exceed the \$7,493 threshold, making him ineligible to use the nonfarm optional method. Therefore, he must use the regular calculation method for his \$8,500 nonfarm income for self-employment tax purposes. Option D correctly reflects this requirement.
- *Topic: Optional Methods for Self-Employment Tax (Farmers)*

QUESTION 20

Roger acquired a 35% interest in a partnership by contributing property with an adjusted basis of \$10,000, which was subject to a \$5,000 mortgage that the partnership assumed. What is the basis of Roger's partnership interest initially?

- A. \$3,250
- B. \$5,000
- C. \$6,750
- D. \$10,000

Answer: C. \$6,750

- When a partner contributes property subject to a liability, the partner's basis is the adjusted basis of the contributed property *decreased* by the portion of the liability assumed by the *other* partners. Roger contributes property with a \$10,000 basis, subject to a \$5,000 mortgage. Since he's a 35% partner, the *other* partners are assuming 65% of the liability ($100\% - 35\% = 65\%$). Therefore, his basis is $\$10,000 - (0.65 * \$5,000) = \$10,000 - \$3,250 = \$6,750$.
- *Topic: Partnership Basis - Contribution with Liability*

QUESTION 45

Alice, a cash basis taxpayer, owned 30% of Thompson, Ltd. stock. Thompson, Ltd. files a calendar year Form 1120 - U.S. Corporate Income Tax Return using the accrual method of accounting. Alice loaned Thompson, Ltd. \$120,000 at the beginning of 2023. The accrued interest on this loan was \$6,000 as of December 31, 2023. Thompson, Ltd. paid Alice the \$6,000 in January of 2024. How should Alice report the interest income and Thompson, Ltd. report the interest expense from this transaction?

- A. Thompson, Ltd. reports the expense in 2023 and Alice reports the income in 2023
- B. Thompson, Ltd. reports the expense in 2023 and Alice reports the income in 2024
- C. Thompson, Ltd. reports the expense in 2024 and Alice reports the income in 2023
- D. None of the above

Answer: B. Thompson, Ltd. reports the expense in 2023 and Alice reports the income in 2024

- The related-party rules of §267 do not apply because Alice (30% owner) does not own more than 50% of the corporation. Therefore, the standard accounting rules apply: Thompson (accrual) deducts the expense in 2023 when incurred, and Alice (cash) reports the income in 2024 when received.
- *Topic: Accrued Interest - Related Parties*

QUESTION 74

Daniel is a calendar year, eligible small business owner and wishes to take advantage of the Retirement Plans Startup Costs Tax Credit. He employs nine Non-Highly Compensated Employees (NHCE) and has 11 total employees at his firm. He incurred \$3,500 for the ordinary and necessary expenses of starting a SIMPLE IRA. For 2024, Daniel is eligible for the Retirement Plans Startup Costs Tax Credit for what amount?

- A. \$0
- B. \$1,750
- C. \$2,250
- D. \$3,500

Answer: C. \$2,250

- Under the SECURE 2.0 Act, effective for tax years beginning after 2022, the startup costs tax credit is increased from 50% to 100% of qualified startup costs for employers with 50 or fewer employees. Since Daniel has 11 employees, he qualifies for the 100% rate. However, the credit is subject to a specific dollar limit. The limit is the greater of \$500 OR the lesser of:

1) \$250 multiplied by the number of non-highly compensated employees (NHCEs) eligible to participate, or 2) \$5,000.

Calculation:

- Credit based on costs: $\$3,500 \times 100\% = \$3,500$.

Determine the limit:

- Calculate NHCE limit: $\$250 \times 9 \text{ NHCEs} = \$2,250$.

- Compare to statutory max: The lesser of \$2,250 and \$5,000 is \$2,250.

- Compare to minimum: The greater of \$500 and \$2,250 is \$2,250.

Final Allowable Credit: The credit is the lesser of the cost-based credit (\$3,500) or the calculated limit (\$2,250). Therefore, the credit is \$2,250.

Topic: Retirement Plans Startup Costs Tax Credit (SECURE 2.0 Updates)

QUESTION 83

In 2022, Mark purchased a new hybrid vehicle on June 1st for \$20,000 and claimed a \$2,500 deduction related to the vehicle on his 2022 tax return. He used the vehicle only for personal purposes in 2022. Starting January 1, 2024, he began using it solely for business. The fair market value on that date was \$19,000. What is the depreciable basis of the vehicle as of January 1, 2024?

- A. \$16,500
- B. \$17,500
- C. \$19,000
- D. \$20,000

Answer: B. \$17,500

- When property is converted from personal use to business use, the depreciable basis is the lesser of the fair market value at the time of conversion or the adjusted basis. The adjusted basis is the original cost *minus* any deductions taken related to the property (like the clean fuel vehicle deduction).
 - Original Cost: \$20,000
 - Less: Deduction Claimed: \$2,500
 - Adjusted Basis: $\$20,000 - \$2,500 = \$17,500$
 - Fair Market Value (FMV): \$19,000The depreciable basis is the lesser of the adjusted basis (\$17,500) and the FMV (\$19,000). Therefore, the depreciable basis is \$17,500.
- *Topic: Basis - Conversion from Personal to Business Use*

QUESTION 99

Elaine, who is unmarried and not subject to the passive loss income phase-out rule for rental real estate, has \$80,000 in salary (non-passive income) and \$20,000 in income from a partnership where she does not materially participate (passive income). She also incurred a \$30,000 loss from a rental real estate activity in which she actively participates. What is the total amount of her \$30,000 rental real estate loss that she can deduct against her non-passive income (salary) in 2024?

- A. \$0
- B. \$5,000
- C. \$10,000
- D. \$20,000

Answer: C. \$10,000

- When a taxpayer or their spouse is actively involved in a passive rental real estate activity, the restriction on passive activity losses is lessened, allowing them to deduct up to \$25,000 of those losses against their non-passive income. This special allowance serves as an exception to the usual rules that prohibit passive activity loss deductions. Furthermore, the taxpayer may also apply credits from the activity against their tax liability on up to \$25,000 of non-passive income, considering any losses already permitted under this exception.

Elaine has a \$30,000 passive loss. She first offsets her \$20,000 of passive income, leaving a \$10,000 net passive loss. Because she actively participates and her income is below the \$100,000 phase-out, she can use the \$25,000 special allowance to deduct the remaining \$10,000 loss against her non-passive (salary) income.

- *Topic: Rental Real Estate Tax Deductions*