

REG Practice Questions

Olivia Anderson · True North Accounting & Business Solutions · Study notes for educational use. Always confirm details against the current AICPA Blueprints and authoritative standards.

Twenty-five exam-style multiple-choice questions covering all five REG content areas, with worked explanations. Give yourself about 1.5 minutes per question. Where a dollar amount depends on the tax year, the question gives it to you.

Area I: Ethics, Professional Responsibilities and Federal Tax Procedures

Question 1 · Medium

Under Circular 230, a practitioner may charge a contingent fee for which service?

- A. Preparing a client's original income tax return
- B. Preparing an amended return before the IRS has contacted the client
- C. Representing a client in an IRS examination of an original return
- D. Preparing a claim for refund unrelated to any IRS notice or examination

Answer: C. Contingent fees are permitted for services connected with an IRS examination of, or challenge to, an original return. They're also allowed for amended returns or refund claims filed within 120 days of a written notice of examination, claims solely for statutory interest or penalties, and judicial proceedings.

Question 2 · Easy

What is the general statute of limitations for the IRS to assess additional tax?

- A. 2 years from the filing date
- B. 3 years from the later of the due date or the filing date
- C. 4 years from the due date
- D. 10 years from the filing date

Answer: B. The period extends to 6 years if gross income is understated by more than 25%, and there's no limit for fraud or failure to file.

Question 3 · Hard

A taxpayer filed a Year 1 return and paid the tax on April 15, Year 2. On May 1, Year 5, the taxpayer files an amended return claiming a \$5,000 refund. Is the claim timely?

- A. Yes, because it's within 3 years of filing
- B. Yes, because it's within 3 years of payment
- C. No, because refund claims must be filed within 1 year
- D. No, because both the 3-year and 2-year periods have expired

Answer: D. A refund claim must be filed by the later of 3 years after the return was filed (April 15, Year 5) or 2 years after the tax was paid (April 15, Year 4). May 1, Year 5 is too late.

Question 4 · Medium

Circular 230 requires a practitioner to do all of the following **except**:

- A. Return a client's records needed to comply with federal tax obligations, even during a fee dispute
- B. Exercise due diligence in preparing returns and documents
- C. Advise a client promptly of any noncompliance, error or omission the practitioner discovers
- D. Refuse every contingent fee arrangement

Answer: D. Contingent fees are generally prohibited, but Circular 230 allows them in specific situations, such as IRS examinations. A, B and C are all required duties.

Question 5 · Easy

Which is the highest source of federal tax authority?

- A. Treasury Regulations
- B. Revenue Rulings
- C. The Internal Revenue Code
- D. Private letter rulings

Answer: C. The Code is the law enacted by Congress. Regulations interpret it, revenue rulings apply it to facts, and private letter rulings bind the IRS only for the taxpayer who requested them.

Area II: Business Law

Question 6 · Medium

Which is required for a valid contract under common law?

- A. A written agreement
- B. Consideration
- C. Notarization
- D. Witnesses

Answer: B. A valid contract needs mutual assent, consideration, capacity and a legal purpose. A writing is required only for contracts within the Statute of Frauds.

Question 7 · Hard

Two merchants form a contract for goods. The seller's acceptance form includes an additional term that materially alters the deal, and the buyer's offer didn't limit acceptance to its own terms. Under the UCC, what is the status of the additional term?

- A. It becomes part of the contract.
- B. It doesn't become part of the contract unless the buyer agrees to it.
- C. It voids the contract.
- D. It turns the acceptance into a counteroffer.

Answer: B. Between merchants, additional terms become part of the contract unless the offer limits acceptance to its terms, the terms materially alter the contract, or the offeror objects. A material alteration is just a proposal.

Question 8 · Medium

Under the current Uniform Limited Partnership Act, which statement about a limited partner is correct?

- A. A limited partner is personally liable for all partnership debts.
- B. A limited partner loses limited liability by participating in management.
- C. A limited partner's liability is generally limited to their investment, even if they participate in management.
- D. A limited partner must contribute services rather than capital.

Answer: C. Under the 2001 uniform act, limited partners keep their liability shield even if they participate in management or control. Older law had a "control rule" that could remove the shield. General partners have unlimited liability.

Question 9 · Easy

Under the Statute of Frauds, which contract must be in writing?

- A. A contract for services to be completed in six months
- B. A contract to sell land
- C. A contract for the sale of goods priced at \$400
- D. A contract to paint a house next week

Answer: B. Remember "MY LEGS": marriage, contracts that can't be performed within a year, land, executor promises, goods of \$500 or more and suretyship.

Question 10 · Hard

In a Chapter 7 bankruptcy, which unsecured claim has the **highest** priority?

- A. Employee wages earned within 180 days before filing, up to the cap
- B. Administrative expenses of the bankruptcy
- C. Domestic support obligations, such as child support and alimony
- D. Certain federal taxes

Answer: C. Since 2005, domestic support obligations come first among priority claims, followed by administrative expenses, involuntary "gap" claims, capped wages, employee benefit contributions and certain taxes. Secured creditors are paid from their collateral before any of these.

Area III: Federal Taxation of Property Transactions

Question 11 · Medium

Equipment costing \$100,000 had \$60,000 of depreciation and was sold for \$90,000. What is the character of the gain?

- A. \$50,000 ordinary income from Section 1245 recapture
- B. \$50,000 capital gain
- C. \$50,000 Section 1231 gain
- D. \$60,000 ordinary income

Answer: A. Adjusted basis is \$40,000, so the gain is \$50,000. Section 1245 recaptures depreciation as ordinary income up to the lesser of the gain (\$50,000) or depreciation taken (\$60,000).

Question 12 · Easy

Property received as a gift generally takes what basis for computing **gain**?

- A. The donor's adjusted basis
- B. Fair market value at the date of the gift
- C. The lower of the donor's basis or fair value
- D. Zero

Answer: A. For gains, the donee uses the donor's basis. If fair value at the gift date was below the donor's basis, losses are computed using that lower fair value, and sales between the two amounts produce no gain or loss.

Question 13 · Hard

In a like-kind exchange, a taxpayer gives up land with a \$50,000 basis and \$80,000 value and receives land worth \$70,000 plus \$10,000 in cash. What gain is recognized, and what is the basis of the new land?

- A. \$0 recognized, \$50,000 basis
- B. \$10,000 recognized, \$50,000 basis
- C. \$20,000 recognized, \$60,000 basis
- D. \$30,000 recognized, \$70,000 basis

Answer: B. The realized gain is $\$80,000 - \$50,000 = \$30,000$. The recognized gain is the lesser of realized gain or boot, so \$10,000. The new basis is $\$50,000 + \$10,000 - \$10,000 = \textbf{\$50,000}$, which equals the \$70,000 value less the \$20,000 deferred gain.

Question 14 · Medium

Which of the following is **not** a capital asset?

- A. A personal residence
- B. Land held for investment
- C. Inventory held for sale to customers
- D. Stock held for investment

Answer: C. Inventory and property held for sale to customers are excluded from capital assets, along with business receivables, depreciable and real property used in a business, and creator-held copyrights.

Question 15 · Medium

An individual has an \$8,000 short-term capital loss and a \$5,000 long-term capital gain, and no other capital transactions. What is the result?

- A. A \$3,000 net capital loss, all deductible against ordinary income this year
- B. A \$3,000 net capital gain
- C. An \$8,000 loss, with \$3,000 deductible
- D. A \$3,000 loss that can only be carried forward

Answer: A. Netting gives a \$3,000 net short-term capital loss. Individuals may deduct up to \$3,000 of net capital loss against ordinary income each year and carry any excess forward indefinitely.

Area IV: Federal Taxation of Individuals

Question 16 · Hard

A single taxpayer, age 67, has \$80,000 of wages and \$5,000 of qualified dividends and takes the standard deduction. Assume a basic standard deduction of \$16,100 and an additional \$2,050 for age, and ignore the separate senior deduction. What is taxable income?

- A. \$63,900
- B. \$66,850
- C. \$68,900
- D. \$85,000

Answer: B. Gross income is \$85,000. Qualified dividends are included even though they're taxed at preferential rates. The total standard deduction is \$18,150, so taxable income is **\$66,850**.

Question 17 · Medium

A taxpayer with \$200,000 of AGI paid \$25,000 of qualifying medical expenses. How much is deductible as an itemized deduction?

- A. \$0
- B. \$10,000
- C. \$15,000
- D. \$25,000

Answer: B. Medical expenses are deductible only above 7.5% of AGI: $\$25,000 - \$15,000 = \$10,000$.

Question 18 · Easy

Which of the following is **not** deductible as an itemized deduction for 2026?

- A. State income taxes, within the SALT cap
- B. Mortgage interest on acquisition debt up to \$750,000
- C. Cash contributions to a public charity, above the 0.5% of AGI floor
- D. Unreimbursed employee business expenses

Answer: D. Miscellaneous itemized deductions subject to the 2% floor, including unreimbursed employee expenses, were suspended by the TCJA and permanently eliminated by OBBBA.

Question 19 · Medium

A traditional IRA contribution is fully deductible for a taxpayer who:

- A. Is covered by a retirement plan at work, regardless of income
- B. Isn't covered by a retirement plan at work, and neither is their spouse
- C. Is covered by a workplace plan and has modified AGI below the phaseout range
- D. Both B and C

Answer: D. Without workplace plan coverage, the contribution is fully deductible. With coverage, it's fully deductible only below the phaseout range, which for 2026 is \$81,000 to \$91,000 for single filers and \$129,000 to \$149,000 for joint filers.

Question 20 · Hard

Which itemized deduction must be added back when computing alternative minimum taxable income?

- A. Charitable contributions
- B. Mortgage interest on acquisition debt
- C. State and local taxes
- D. Medical expenses above 7.5% of AGI

Answer: C. State and local taxes aren't deductible for AMT. Other common adjustments and preferences include private activity bond interest, the bargain element of incentive stock options and depreciation differences.

Area V: Federal Taxation of Entities

Question 21 · Hard

An S corporation has \$100,000 of ordinary income, \$10,000 of tax-exempt interest and \$5,000 of charitable contributions. A 50% shareholder starts with \$40,000 of stock basis and receives a \$15,000 distribution. What is the shareholder's ending stock basis?

- A. \$72,500
- B. \$75,000
- C. \$77,500
- D. \$80,000

Answer: C. $\$40,000 + \$50,000 \text{ ordinary income} + \$5,000 \text{ tax-exempt interest} - \$15,000 \text{ distribution} - \$2,500 \text{ charitable contribution} = \$77,500$. Tax-exempt income increases basis, and separately stated deductions reduce it.

Question 22 · Medium

Which of the following is required for S corporation status?

- A. No more than 100 shareholders
- B. Only one class of stock
- C. Only eligible shareholders, such as U.S. individuals, estates and certain trusts
- D. All of the above

Answer: D. An S corporation must also be a domestic corporation and not an ineligible corporation. Differences in voting rights alone don't create a second class of stock.

Question 23 · Easy

A C corporation receives \$100,000 of dividends from a domestic corporation it owns 40% of. Assuming the taxable income limit doesn't apply, what is the dividends-received deduction?

- A. \$50,000
- B. \$65,000
- C. \$70,000
- D. \$100,000

Answer: B. Ownership of 20% to under 80% gives a 65% deduction: $\$100,000 \times 65\% = \$65,000$.

Question 24 · Medium

Which item is **not** separately stated on a partner's Schedule K-1?

- A. Charitable contributions
- B. Tax-exempt interest
- C. Net long-term capital gain
- D. Wages paid to employees who aren't partners

Answer: D. Wages paid to nonpartner employees are ordinary deductions that reduce ordinary business income. Items that may be treated differently on partners' returns, like A, B and C, are separately stated.

Question 25 · Hard

A partner contributes property with a \$40,000 basis and \$60,000 fair value for a 30% interest. The partnership assumes the partner's \$15,000 mortgage on the property. What is the partner's initial basis in the partnership interest?

- A. \$25,000
- B. \$29,500
- C. \$40,000

D. \$50,500

Answer: B. $\$40,000 - \$15,000 \text{ liability relieved} + 30\% \times \$15,000 \text{ share of partnership liabilities} = \text{\$29,500}$. The net liability relief of \$10,500 is less than the partner's basis, so no gain is recognized.

Answer Key

1. C	2. B	3. D	4. D	5. C
6. B	7. B	8. C	9. B	10. C
11. A	12. A	13. B	14. C	15. A
16. B	17. B	18. D	19. D	20. C
21. C	22. D	23. B	24. D	25. B

Scoring: 23–25 correct, you're ready. 20–22, review the ones you missed. 17–19, more study on weak areas. Below 17, work back through the REG study guides first.