

TCP 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 weighted like the TCP blueprint: individuals and personal financial planning, entity compliance, entity planning and property transactions. Give yourself about 1.5 minutes per question. Like the real exam, these give you any inflation-indexed amounts you need.

Area I: Individuals and Personal Financial Planning

Question 1 · Medium

A taxpayer in the 37% bracket can buy municipal bonds yielding 3% or corporate bonds yielding 5%. Ignoring state taxes, what is the corporate bonds' after-tax yield, and which is better?

- A. 3.15%, municipal bonds are better
- B. 3.15%, corporate bonds are better
- C. 4.76%, the returns are equal
- D. 5.00%, corporate bonds are better

Answer: B. After-tax yield = $5\% \times (1 - 0.37) = 3.15\%$, which beats the 3% tax-free yield. Put another way, the municipal bond's tax-equivalent yield is $3\% \div 0.63 = 4.76\%$, below the 5% corporate yield.

Question 2 · Easy

A taxpayer has \$40,000 of short-term capital losses and \$30,000 of long-term capital gains and no other capital transactions. How much of the loss is deductible against ordinary income this year?

- A. \$0
- B. \$3,000
- C. \$40,000
- D. \$10,000

Answer: B. The net capital loss is \$10,000. Individuals deduct up to **\$3,000** against ordinary income, and the other \$7,000 carries forward indefinitely as a short-term loss.

Question 3 · Hard

A taxpayer with modified AGI of \$120,000 actively participates in a rental property that produces a \$30,000 loss. She has no passive income. How much of the loss can she deduct this year?

- A. \$25,000
- B. \$0
- C. \$15,000
- D. \$30,000

Answer: C. The \$25,000 allowance for active participants is reduced by 50% of modified AGI above \$100,000: $\$25,000 - \$10,000 = \mathbf{\$15,000}$. The other \$15,000 is suspended and carries forward.

Question 4 · Medium

A 16-year-old whose parents are living has \$8,000 of wages from a summer job and \$5,000 of interest income. The unearned income threshold for the kiddie tax is \$2,700. Which income may be taxed at the parents' rate?

- A. All \$13,000
- B. The \$8,000 of wages
- C. The \$2,300 of interest income above the threshold
- D. None, because the child has earned income

Answer: C. The kiddie tax applies only to **unearned income** above the threshold. Wages are always taxed at the child's own rates.

Question 5 · Hard

An employee exercises incentive stock options for 1,000 shares at a \$10 strike price when the stock is worth \$30. Six months later, and less than two years after the grant, she sells the shares for \$35. How is the \$25,000 gain taxed?

- A. \$25,000 long-term capital gain
- B. \$20,000 ordinary income and \$5,000 short-term capital gain
- C. \$25,000 ordinary income
- D. \$20,000 long-term capital gain and \$5,000 ordinary income

Answer: B. Selling within two years of grant or one year of exercise is a **disqualifying disposition**. The \$20,000 spread at exercise is ordinary income, and the \$5,000 of later appreciation is short-term capital gain because she held the shares six months.

Question 6 · Medium

A donor gives stock with a basis of \$20,000 and a fair value of \$15,000. No gift tax is paid. The donee later sells it for \$17,000. What does the donee report?

- A. A \$3,000 loss
- B. A \$2,000 gain
- C. No gain or loss
- D. A \$5,000 loss

Answer: C. For gains, the donee uses the donor's \$20,000 basis, so there's no gain at \$17,000. For losses, the donee uses the \$15,000 fair value, so there's no loss. A sale between the two values produces **neither**.

Question 7 · Easy

Assume an annual gift tax exclusion of \$19,000. Which of these gifts, each made by an unmarried individual, requires a gift tax return?

- A. \$60,000 of tuition paid directly to a nephew's university
- B. \$15,000 of cash to a friend
- C. \$25,000 of cash to a niece
- D. \$40,000 of medical bills paid directly to a hospital for a cousin

Answer: C. The \$25,000 gift exceeds the \$19,000 annual exclusion, so Form 709 is required, although no tax is due until the lifetime exclusion is used up. Tuition and medical expenses paid directly to the provider are excluded without limit.

Question 8 · Hard

A 45-year-old opened a Roth IRA ten years ago and contributed \$30,000 over the years. Three years ago she converted \$20,000 from a traditional IRA, all of which was taxed at conversion. The account is now worth \$60,000. She withdraws \$35,000. What are the tax consequences?

- A. No income tax and no additional tax
- B. \$5,000 of taxable income
- C. No income tax, but a \$500 additional tax
- D. \$35,000 of taxable income

Answer: C. Contributions come out first, tax-free: \$30,000. The next \$5,000 comes from the conversion, which isn't taxed again, but it's subject to the **10% additional tax** because it's withdrawn within five years of the conversion before age 59½: **\$500**.

Question 9 · Medium

Last year a taxpayer had AGI of \$200,000 and a tax liability of \$40,000. This year's tax is expected to be \$60,000. What is the minimum amount of withholding and timely estimated payments that avoids the underpayment penalty?

- A. \$40,000

- B. \$54,000
- C. \$60,000
- D. \$44,000

Answer: D. The safe harbor is the lesser of 90% of the current year's tax (\$54,000) or 110% of the prior year's tax because prior AGI exceeded \$150,000 (\$44,000). **\$44,000** is enough.

Area II: Entity Tax Compliance

Question 10 · Medium

In 2026 a C corporation has taxable income of \$500,000 before its NOL deduction and an NOL carryforward of \$600,000 from 2022. What is its NOL deduction for 2026?

- A. \$0
- B. \$400,000
- C. \$500,000
- D. \$600,000

Answer: B. NOLs arising after 2017 can offset only **80%** of taxable income: $80\% \times \$500,000 = \$400,000$. The remaining \$200,000 carries forward indefinitely.

Question 11 · Easy

To be included in a consolidated return, a subsidiary must be owned by the group at what level?

- A. More than 50% of voting power
- B. At least 80% of voting power and 80% of value
- C. At least 80% of voting power only
- D. 100% of all stock

Answer: B. An affiliated group requires the common parent and other members to own at least **80% of the total voting power and 80% of the total value** of each member's stock.

Question 12 · Medium

A U.S. corporation's engineers perform consulting services in Germany for a U.S. customer and are paid from the customer's U.S. bank account. What is the source of the income?

- A. U.S. source, because the customer is a U.S. company
- B. U.S. source, because payment came from a U.S. account

- C. Foreign source, because the services were performed in Germany
- D. Split equally between U.S. and foreign source

Answer: C. Compensation for services is sourced **where the services are performed**, regardless of where the payer is located or where payment is made.

Question 13 · Hard

An S corporation shareholder has a \$10,000 beginning stock basis and no debt basis. Her share of the year's items is a \$12,000 ordinary loss and \$3,000 of tax-exempt income, and she receives a \$4,000 cash distribution. How much of the loss can she deduct?

- A. \$6,000
- B. \$12,000
- C. \$13,000
- D. \$9,000

Answer: D. Basis is increased for income first ($\$10,000 + \$3,000 = \$13,000$), then reduced by the distribution (\$9,000), then by the loss. Only **\$9,000** of the loss is deductible, and \$3,000 is suspended.

Question 14 · Hard

A partner contributes land with a basis of \$40,000 and a fair value of \$60,000, subject to a \$30,000 mortgage the partnership assumes, for a 25% interest. The partnership has no other liabilities. What is the partner's basis?

- A. \$17,500
- B. \$10,000
- C. \$40,000
- D. \$47,500

Answer: A. Basis = $\$40,000 - \$30,000$ of liability relief + $25\% \times \$30,000$ share of the partnership's liability = **\$17,500**. No gain is recognized because the \$22,500 net liability relief is less than the partner's \$40,000 basis.

Question 15 · Medium

What is the main purpose of a §754 election?

- A. To change the partnership's tax year
- B. To elect out of the centralized partnership audit regime
- C. To treat the partnership as a corporation
- D. To adjust the basis of partnership assets after a transfer of an interest or a distribution

Answer: D. The election lets a buyer's share of inside basis match what was paid for the interest, and adjusts basis after certain distributions. It stays in effect for later years unless revoked with IRS consent.

Question 16 · Medium

A partnership earns \$120,000 evenly over a calendar year. A 40% partner sells her entire interest on March 31, and the partnership prorates by month. How much of the year's income is allocated to the seller?

- A. \$0
- B. \$36,000
- C. \$12,000
- D. \$48,000

Answer: C. $40\% \times \$120,000 \times 3/12 = \$12,000$. The buyer is allocated the remaining \$36,000 of the 40% share.

Question 17 · Medium

Under typical trust accounting rules, which item is allocated to corpus (principal)?

- A. Interest on corporate bonds
- B. Cash dividends on stock
- C. Gain on the sale of stock held by the trust
- D. Rent from trust real estate

Answer: C. Gains on selling trust assets are generally corpus, which is why capital gains are usually excluded from DNI and taxed to the trust. Interest, cash dividends and rents are income.

Question 18 · Medium

A 501(c)(3) museum has the following income. Which is unrelated business income?

- A. Gift shop sales of donated items
- B. Dividends on its investment portfolio
- C. Advertising income from its monthly magazine
- D. A cafeteria operated mainly for staff and visitors

Answer: C. Advertising sold regularly is a trade or business unrelated to the exempt purpose. Donated goods, investment dividends and activities for the convenience of members, staff or visitors are excluded.

Area III: Entity Tax Planning

Question 19 · Hard

A transfers property with a basis of \$50,000 and a value of \$100,000 for 70% of a new corporation's stock. B receives the other 30% for services. What does A recognize?

- A. No gain, because §351 applies
- B. A \$50,000 gain
- C. A \$30,000 gain
- D. A \$100,000 gain

Answer: B. Stock received for services doesn't count toward the 80% control test, so the transferors of property own only 70% and §351 doesn't apply. A recognizes the full **\$50,000** gain, and B has \$42,857 of ordinary income.

Question 20 · Medium

An individual transfers property with a basis of \$30,000 and a value of \$80,000 to a corporation she will wholly own, receiving stock worth \$70,000 and \$10,000 of cash. What are her recognized gain and stock basis?

- A. \$0 gain, \$30,000 basis
- B. \$10,000 gain, \$40,000 basis
- C. \$50,000 gain, \$70,000 basis
- D. \$10,000 gain, \$30,000 basis

Answer: D. Gain is recognized up to the boot: **\$10,000** of the \$50,000 realized. Stock basis = \$30,000 + \$10,000 gain – \$10,000 cash = **\$30,000**.

Question 21 · Medium

A parent corporation owns 100% of a subsidiary and liquidates it. Which statement is true?

- A. The parent recognizes capital gain on its stock
- B. The subsidiary recognizes gain on all appreciated property distributed to the parent
- C. Neither recognizes gain or loss, and the parent takes carryover basis in the assets
- D. The parent takes fair value basis in the assets

Answer: C. Under §332 and §337, liquidating an 80%-or-more-owned subsidiary into its parent is tax-free. The parent takes carryover basis and inherits attributes such as NOLs.

Area IV: Property Transactions

Question 22 · Hard

An investor exchanges land with a basis of \$150,000 and a value of \$300,000 for other investment land worth \$260,000 plus \$40,000 of cash. What are the recognized gain and the basis of the new land?

- A. \$0 gain, \$150,000 basis

- B. \$40,000 gain, \$150,000 basis
- C. \$150,000 gain, \$260,000 basis
- D. \$40,000 gain, \$190,000 basis

Answer: B. The realized gain is \$150,000, and gain is recognized up to the **\$40,000** of boot. The new basis is $\$150,000 - \$40,000 + \$40,000 = \textbf{\$150,000}$, which is \$260,000 minus the \$110,000 deferred gain.

Question 23 · Medium

Equipment cost \$80,000, has \$50,000 of accumulated depreciation and sells for \$90,000. How is the gain characterized?

- A. \$60,000 of §1231 gain
- B. \$50,000 of ordinary income and \$10,000 of §1231 gain
- C. \$60,000 of ordinary income
- D. \$10,000 of ordinary income and \$50,000 of §1231 gain

Answer: B. The gain is $\$90,000 - \$30,000 = \$60,000$. §1245 recaptures all depreciation as ordinary income, **\$50,000**, and the remaining **\$10,000** is §1231 gain.

Question 24 · Medium

A mother sells stock with a \$10,000 basis to her son for \$7,000. Two years later he sells it to an unrelated party for \$12,000. What gain does the son report?

- A. \$5,000
- B. \$3,000
- C. \$2,000
- D. \$0

Answer: C. The mother's \$3,000 loss is disallowed under §267. The son's \$5,000 gain is reduced by the disallowed loss to **\$2,000**.

Question 25 · Medium

A taxpayer sells land with a \$40,000 basis for \$100,000: \$20,000 down, with the rest in four equal annual payments plus interest. How much gain is recognized in the year of sale?

- A. \$12,000
- B. \$20,000
- C. \$48,000
- D. \$60,000

Answer: A. The gross profit percentage is $\$60,000 \div \$100,000 = 60\%$. Gain in the year of sale = $60\% \times \$20,000 = \$12,000$.

Answer Key

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

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 TCP study guide first.

If you're struggling, focus on: loss limitation ordering, S corporation and partnership basis, §351, like-kind exchanges, depreciation recapture, related-party rules and gift basis.