Registered Tax Return Preparer Exam Study Guide

Accompaniment to the RTRP Exam Simulator Course
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Exam Overview

On Friday, Jan. 18, 2013, the United States District Court for the District of Columbia enjoined the Internal Revenue Service from enforcing the regulatory requirements for registered tax return preparers. In accordance with this order, tax return preparers covered by this program are not required to complete competency testing. As of the date of this publication, the administering of the RTRP exam has been suspended indefinitely pending the court case. Paid preparers may still take continuing education related to the RTRP exam for CE credit, but the actual test is not available. For more details, visit www.irs.gov/for-Tax-Pros.

The Registered Tax Return Preparer (RTRP) Exam is designed to identify individuals who meet minimum competency to preparer 1040-series tax returns. The IRS has undergone significant efforts to develop questions based on general tax rules covered in the IRS publications.

This study guide, along with the exam simulator course, will help you become proficient in passing the test should it become available.

To assist in test preparation, the following is a list of recommended by the IRS as study materials. This list is not all-encompassing, but a highlight of what the test candidates will need to know.

- Form 1040
- Form 1040 Instructions
- Publication 17: Your Federal Income Tax
- Circular 230 (Rev. 8-2011): Regulations Governing Practice Before the Internal Revenue Service
- Publication 334: Tax Guide for Small Business
- Publication 970: Tax Benefits for Education
- Form 6251: Alternative Minimum Tax – Individuals
- Form 6251 Instructions
- Form 8879: IRS e-File Signature Authorization
- Publication 596: Earned Income Credit
- Form 8867: Paid Preparers Earned Income Credit Checklist
- Form 2848 (Rev. October 2011): Power of Attorney and Declaration of Representative
- Form 2848 Instructions (Rev. October 2011)
- Form 8821 (Rev. October 2011): Tax Information Authorization
- Publication 1345 (Rev. 3-2009): Handbook for Authorized IRS e-file Providers
- Publication 4600 (Rev. October 2008): Safeguarding Taxpayer Information Quick Reference
Actual Exam Day

On the exam day, you should arrive at least 30 minutes before your scheduled time. Bring an official government-issued photo ID containing your signature. Personal items are NOT allowed in the exam area and must be stored in a locker. You may want to bring a light jacket or sweater with you.

The following three reference materials will be the only items accessible electronically during the exam:

- Publication 17
- Form 1040
- Form 1040 instructions

Test Tips and Strategies

You will be successful in passing the exam if you adequately prepare and effectively execute your knowledge during the exam.

The exam covers seven major areas, which are also known as IRS domains. The exam coverage will be broken down as follows:

Domain 1: Preliminary Work and Collection of Taxpayer Data-15%
Domain 2: Treatment of Income and Assets-22%
Domain 3: Deductions and Credits-22%
Domain 4: Other Taxes-11%
Domain 5: Completion of the Filing Process-10%
Domain 6: Practices and Procedures-5%
Domain 7: Ethics-15%

Follow these tips:
1) **Become very familiar with Publication 17.** The exam **DOES** expect for you to know form numbers and threshold or qualifying amounts for certain deductions and credits. Use the Publication 17 index hyperlinks wisely. The test simulator you purchased is designed to help you become acclimated with looking up pertinent data on Publication 17. We highly suggest you utilize the test simulator’s hints to look up answers. Doing so will train you in becoming adept in navigating Publication 17 quickly.

2) Try to determine the correct answer and eliminate incorrect answers that are obviously wrong.

3) Manage the clock. Do not become ‘stuck’ on a question.

4) Guess if necessary. Do not leave any blank answers. Blank answers will be counted as wrong.

5) Practice exam questions. The best way to prepare for the actual test is to take practice tests that mimic exam conditions.

### Exam Details

#### Number of RTRP Test questions

The Registered Tax Return Preparer competency test contains 120 questions, 100 scored questions, and 20 experimental questions in multiple-choice and true or false format. You will have 2.5 hours to complete the test.

#### Exam Time Limit

The actual test will be limited to 2 ½ hours. You may take an optional pre-test computer system tutorial.

#### Experimental Questions

The RTRP test will include 20 experimental questions. These questions are the source for future test questions. These questions do not count as part of your score, but you will not be told which questions they are. Since you will not know which questions are experimental, try your best on every question.

#### RTRP Test scores

You will receive a notice at the end of your test indicating that you have completed the test. Printed test results will be provided immediately following the test. Scaled scores are determined by calculating the number of questions answered correctly from the total number of questions in the test and converting to a scale that ranges from 50 to 500. Some test questions may be weighted. The IRS has set the scaled passing score at 350, which corresponds to a minimum level of knowledge.
deemed acceptable for the tasks performed by a minimally competent Registered Tax Return Preparer.

Privacy of Test Scores

Individual test results are confidential and the IRS will not reveal your results to anyone but you. NO ONE knows your score except the IRS and the candidate.
Disclaimer

This publication is intended for educational purposes and to provide accurate and authoritative information in regard to the subject matter covered. This publication is not intended to render any legal, accounting, or professional advice. If legal advice or other expert advice or service is required, a competent professional should be sought.

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Domain
1. **Review prior year’s return for accuracy, comparison, and carryovers for current year return.**

   Preparers should exercise care and review the client’s prior-year tax return for carryovers (i.e. depreciation, NOL, and capital loss carryforwards).

   If the client is new, the preparer should request at least one prior year tax return. Carryforwards, such as prior depreciation, capital loss, and NOLs need to be accurately accounted for on the current return.

   Every return must be complete and accurate. Check the prior return to ensure the following:

   - Use of correct forms. There are many forms that may be used. Be sure that each entry has the associated corresponding schedule (when applicable). If carryforwards are present, they should be presented on the current return.
   - Each entry contains accurate and correct information.
   - Each form used must be complete. Data contained on each form should be consistent across all forms.
2. Collect taxpayer's biographical information (e.g., date of birth, age, marital status, citizenship, dependents)

The taxpayer's personal biographic information must be accurate and complete.

**Name**
If the taxpayer’s name has legally changed, the name change should be reported to the Social Security Administration before the tax return is filed. The name reported to the IRS should match the Social Security Administration’s information.

**Date of Birth**
Although the taxpayer's date of birth is not directly input on the return, it is needed to determine certain calculations such as the additional standard deduction for those who are 65 and over. For tax purposes, the taxpayer’s age is calculated using the day before his birthday.

Example: Sonny was born on January 1, 1947. He is considered to be age 65 on December 31, 2011.

**Marital Status**
The taxpayer’s marital status is determined based on the last day of the year (e.g. if a client is becomes legally married on December 31, 2012, he is considered married for tax year 2012).

**Citizenship**
In most cases, U.S. citizens or resident aliens living abroad must file a tax return. The type of tax return to file is dependent upon whether the alien taxpayer is considered to be a resident alien, nonresident alien, or dual-status taxpayer. IRS

3. Determine filing status

Filing status is based on marital status and family situation. If a person qualifies for more than one filing status, he should generally choose the most advantageous tax status.

The five filing statuses are single, head of household, qualifying widow(er) with dependent child, married filing jointly, and married filing separately.

a. Single persons are those who are unmarried, legally separated, divorced, or who do not qualify for another filing status.

The unmarried status refers to any individual who is not legally married as of the last day of the tax year.

Annulled marriages that are court decreed will result in a status of unmarried. If joint returns were filed for previous years, amended returns must be filed for the tax years affecting the annulment unless they are closed by the statute of limitations, which usually is 3 years after the tax year closes.
Divorced persons are those who were divorced as of the last day of the tax year and are, therefore, considered unmarried (divorced) for the whole year.

- Individuals who divorce and then remarry for the purpose of gaining a better tax rate must file as married individuals.

b. Head of Household

The taxpayer must be unmarried and pay more than half the cost of maintaining a home for himself and another person who lives with the taxpayer for over half the year (unless the qualifying person is a parent who does not have to live with the taxpayer). The qualifying person for whom the taxpayer maintains a home must be qualified to be claimed as a dependent. A qualifying relative may be the taxpayer’s son, daughter, grandchild, or sibling who lived with the taxpayer for more than half the year.

Note: If the taxpayer’s son or daughter is married and the taxpayer cannot claim an exemption for the child, the daughter/son is not a qualifying person.

Note: If the taxpayer cannot claim an exemption for the taxpayer’s parent, the parent is not a qualifying person.

c. Qualifying Widow(er) with Dependent Child

The taxpayer may be eligible to use qualifying widow(er) with dependent child as his filing status for two years following the year his spouse died. For example, if the spouse died in 2011 and the taxpayer has not remarried, he may be able to use the qualifying widow(er) filing status for 2012 and 2013. Note that in the year of the spouse’s death, if the taxpayer qualifies, he may file using the married filing jointly status.

The married filing jointly status entitles the taxpayer to use joint-return tax rates and the highest standard deduction amount (if he does not itemize deductions).

d. Married Filing Jointly (MFJ)

Taxpayers can choose married filing jointly as their filing status if they are married and both spouses agree to file a joint return. They should report their combined income on the tax return and deduct their combined allowable expenses. They can file a joint return even if one of the spouses has no income or deductions.
If the taxpayers decide to file a joint return, their tax may be lower than their combined tax for the other filing statuses. Also, the standard deduction (if they do not itemize deductions) may be higher, and they may qualify for tax benefits that do not apply to other filing statuses.

e. **Married Filing Separately** (MFS) Taxpayers can choose the married filing separately even if they are married. The MFS filing status generally provides fewer tax benefits than filing joint returns because MFS taxpayers are ineligible to claim the following tax benefits:
   - Tuition and fees deduction
   - Hope, Lifetime Learning Credit, or American Opportunity Credit
   - Student loan interest deduction
   - Tax-free exclusion of US bond interest
   - Tax-free exclusion of Social Security Benefits
   - Credit for the Elderly and Disabled
   - Child and Dependent Care Credit
   - Earned Income Credit

If one MFS taxpayer claims the standard deduction, the other spouse may not itemize. Both must either claim the standard deduction or both must itemize their deductions.

The MFS status tax rate will generally be higher joint tax return rate. The exemption amount for figuring the AMT will be half the amount that is allowed for a joint tax return. The following child tax credit and retirement savings contribution credits are reduced at income levels that are half of those for a joint return. In addition, the capital loss deduction limit is $1,500 (instead of $3,000 if you filed a joint return).

MFS taxpayers often choose this status to separate tax liabilities. By filing a separate tax return, the taxpayer is solely responsible for the accuracy and payment of taxes related to the separate tax return.
The complete version of the RTRP exam prep study guide may be available upon purchase. Thank you.