

**Gleim EA Review**  
**Updates to Part 1**  
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NOTE: Sections with changes are indicated by a vertical bar in the left margin. Text that should be deleted is displayed with a line through it. New text is shown with blue underlined font.

## Study Unit 2 – Gross Income I

Page 73, Subunit 2.1: This edit corrects the maximum exclusion amount for adoption expenses.

The maximum exclusion for 2024 is ~~\$16,180~~ 16,810.

Page 79, Subunit 2.1: This edit corrects the maximum exclusion amount for foreign housing reimbursement and clarifies when it is eligible.

2. The next portion of any reimbursement up to the greater of \$37,950 or the amount listed for the city on the IRS's list of high-cost locations is excludable from income (for a maximum exclusion of ~~\$16,800~~ 17,710 in 2024 for locations that are not high-cost), and

## Study Unit 3 – Gross Income II: Interest, Securities, and Decedent

Page 102, Subunit 3.2, Example 3-4: This update corrects the type of capital gain.

### Example 3-4 Incentive Stock Option

On July 1, Year 1, Mighty, Inc., granted Henry an incentive stock option to purchase 2,000 shares of its stock for \$40 a share (its FMV) for the next 5 years. On September 18, Year 2, Henry exercised the option and paid \$80,000 when the stock's FMV was \$53 a share. On November 23, Year 3, Henry sold the stock for \$124,000. Mighty receives no deduction upon grant, exercise, or sale. Henry reports a long-term capital gain of \$44,000.

If Henry had sold the stock for \$124,000 on April 15, Year 3, the special 2-year holding period would not have been met. As a result, Henry would have had \$26,000 of ordinary income and \$18,000 of ~~long~~ short-term capital gain in Year 3, and Mighty would have had compensation expense of \$26,000.

## Study Unit 5 – Above-the-Line Deductions and Losses

Page 170, Subunit 5.8: This update adds additional exclusions from MAGI.

- The \$25,000 limit is reduced by 50% of the person's [modified adjusted gross income \(MAGI\)](#) [i.e., ~~AGI without regard to PALs, Social Security benefits, and qualified retirement contributions (e.g., IRAs)~~] over \$100,000.
- [MAGI for this limitation is equal to AGI without regard to the following:](#)
  - [Passive activity loss](#)
  - [Real estate professionals rental loss](#)
  - [Taxable Social Security benefits](#)
  - [IRA contribution deduction](#)
  - [Self-employment tax deduction](#)
  - [Student loan interest deduction](#)
  - [Foreign-derived intangible income and GILTI deduction](#)
  - [Interest from bonds used for education \(Series EE, I\) exclusion](#)
  - [Adoption assistance exclusion](#)
- Excess rental real estate PALs are suspended. They are treated as other PALs carried over.

## Study Unit 7 – Qualified Business Income Deduction, AMT, and Other Taxes

Page 221, Subunit 7.1: This update adds clarifying text to the KTO.

- <sup>2</sup> Conceptually, Congress is allowing small business owners the ability to deduct income that results from the core operations of a small business because the entrepreneurial spirit of small business can drive domestic employment. Because the overarching goal is to spur growth and, ultimately, employment, Congress hopes to incentivize small business owners to grow their core business rather than speculate on side-ventures unrelated to their main business objectives. Therefore, qualified business income is the ordinary, noninvestment income of a business. [Income from compensation and wages is not QBI because they are payments made in an employee capacity and not an owner capacity.](#)

Page 222, Subunit 7.2: This update replaces outdated information.

- The TCJA repealed the old corporate AMT for tax years beginning after December 31, 2017. A new corporate AMT will be in effect for tax year 2023; however, there is still no corporate AMT for tax year 2022. [There is a newer corporate alternative minimum tax; however, it only applies to corporations that average \\$1 billion and is not expected to be tested on the exam.](#)

## Study Unit 8 – Tax Credits and Payments

Page 256, Subunit 8.1, Example 8-9: This edit corrects a mathematical error in the AGI amount.

### Example 8-9 Elderly Credit

Virginia is 66 and unmarried, claims the standard deduction, and has not started to receive any retirement income. In 2024, Virginia's AGI is ~~\$46,875~~ **16,850** and her taxable income is \$300 (~~\$46,875~~ **16,850** AGI – \$14,600 standard deduction – \$1,950 additional standard deduction), creating a \$30 ( $300 \times 10\%$ ) tax liability. Virginia's remaining base amount for the elderly credit is \$325 ( $\$5,000 - [(\$16,850 - \$7,500) \times 50\%]$ ), creating a \$49 credit ( $\$325 \times 15\%$ ). Virginia's \$30 tax liability is less than the \$49 credit, so she can only claim \$30 of the credit.

Page 270, Subunit 8.2: This update corrects the installment dates.

- **Farmers or fishermen** who expect to receive at least two-thirds of their gross income from farming or fishing activities (or did in the prior tax year) may pay estimated tax in one installment.
  - For 2024, the installment can be made as late as January ~~46~~ **15**, 2025, without penalty. The installment must be for the entire amount of estimated tax.
  - Alternatively, the farmer or fisherman does not need to make an installment payment if (s)he files his or her tax return for 2024 and pays the entire amount due by March ~~43~~ **3**, 2025.
  - Wages received as a farm employee are not farm income.
  - S corporation distributions from farming are farm income to the shareholder.

Pages 280 and 281, Questions 16 and 18: This update corrects the installment dates.

16. For 2024, Mike and Denise, calendar-year taxpayers, had gross income comprised of the following:

Wages received as a farm employee	\$26,000
Gross income from Schedule F dairy operations	40,000
Distributable share of an S corporation's gross income from farming	12,000
Long-term capital gains from stock sales	18,000
Short-term capital losses from stock sales	(21,000)

They have made no estimated tax payments as of December 31, 2024, and the withholding from wages is not sufficient to relieve them from the estimated tax penalty. Which of the following statements is true if they make an estimated tax payment by January 4~~6~~<sup>15</sup>, 2025?

- A. They will avoid the estimated tax penalty since they are qualified farmers.
- B. They will avoid the estimated tax penalty since all of their earned income is from farming activities.
- C. They will not avoid the estimated tax penalty since their farm income does not comprise two-thirds of their gross income.
- D. They can avoid the estimated tax penalty only by filing their return by March 4<sup>3</sup>, 2025, and paying all the tax due.

✓ **Answer (C) is correct.**

**Discussion:** Section 6654(i) allows farmers or fishermen who expect to receive at least two-thirds of their gross income from farming or fishing activities, or who received at least two-thirds of their gross income for the prior tax year from farming or fishing, to pay estimated tax for the year in one installment. If Mike and Denise had received two-thirds of their gross income from farming, they could have waited until January 4~~6~~<sup>15</sup>, 2025, to make their 2024 estimated tax payment without penalty. They would have been required to pay the entire estimated tax for the year at that time. Mike and Denise's gross income for the year was \$96,000 (\$26,000 + \$40,000 + \$12,000 + \$18,000). Losses are not included in the calculation of gross income. Their gross income from farming was \$52,000 (\$40,000 Schedule F + \$12,000 S corp.). Wages received as a farm employee or capital gains are not included in farm income. Therefore, 54% of their gross income came from farming. At least 67% of their gross income must come from farming activities in order to avoid the penalty (Publication 505).

- × **Answer (A) is incorrect.** Two-thirds of their gross income must come from farming for them to qualify as farmers.
- × **Answer (B) is incorrect.** Wages, distributive share of an S corporation, and capital gains are not included as farm income.
- × **Answer (D) is incorrect.** They cannot avoid the estimated tax penalty.

18. Violet made no estimated tax payments for 2024 because she thought she had enough tax withheld from her wages. In January 2025, she realized that her withholding was \$2,000 less than the amount needed to avoid a penalty for the underpayment of estimated tax so she made an estimated tax payment of \$2,500 on January 10. Violet filed her 2024 return on March 1, 2025, showing a refund due her of \$100. Which of the following statements is NOT true regarding the estimated tax penalty?
- A. Violet will not owe a penalty for the quarter ending December 31, 2024, because she made sufficient payment before January 15, 2025.
  - B. Violet will not owe a penalty for any quarter because her total payments exceed her tax liability.
  - C. Violet could owe a penalty for one or all of the first three quarters even though she is due a refund for the year.
  - D. If Violet owes a penalty for any quarter, the underpayment will be computed from the date the amount was due to the date the payment is made.

✓ **Answer (B) is correct.**

**Discussion:** A penalty may be imposed if, by the quarterly payment date, the total of estimated tax payments and income tax withheld is less than 25% of the required minimum payment for the year. The penalty is determined each quarter. In addition, it is calculated by adding 3 percentage points to the federal short-term rate and multiplying this percent by the amount of the underpayment. Finally, the penalty is not allowed as an interest deduction. Although Violet paid her tax liability by the due date for the last quarter, she may still be assessed a penalty for not making estimated tax payments in the first three quarters of the year (Publication 505).

× **Answer (A) is incorrect.** Violet will not owe a penalty on the last quarter because she paid the balance of her estimated tax liability by the due date of the last quarter.

× **Answer (C) is incorrect.** Violet could owe a penalty on one or all of the first three quarters of the year because she did not make quarterly payments of estimated tax.

× **Answer (D) is incorrect.** The penalties on estimated tax are computed as of the due date for the quarter in which the estimated tax was due and will be assessed for the period between that due date and the date in which the payment was made.

## Study Unit 13 – Gift Tax

Page 413, Question 15: This edit corrects the taxable gift amount.

15. Donald is a tax return preparer. His client, Jody Black, told him that she had made several gifts during 2024. She asked whether she should file a gift tax return and, if so, how much tax she would owe. Jody has never given a taxable gift before. Donald reviewed Jody's gift transactions as follows:

1. Paid her parents' medical bills, \$15,000 for her father and \$10,000 for her mother
2. Bought a sports car for her son at a cost of \$41,000
3. Gave \$18,000 cash to her church
4. Prepared her will, leaving her vacation cabin, valued at \$75,000, to her sister
5. Sent a wedding gift of \$1,000 to her niece

What is Donald's best answer to Jody's questions?

- A. No return is due because gifts to family are excluded.
- B. Jody must file a gift tax return and will owe tax on \$23,000.
- C. Jody must file a gift tax return, but she will not owe tax because of the unified credit.
- D. None of the answers are correct.

✓ **Answer (C) is correct.**

**Discussion:** A tax return must be filed if there are any taxable gifts. After the \$18,000 exclusion, Jody will have a taxable gift of ~~\$24,000~~ 23,000 to her son. For gifts made in 2024, the applicable credit amount is \$5,389,800, reduced by the amount allowable as an applicable credit amount for all preceding calendar years [Sec. 2505(a)].

× **Answer (A) is incorrect.** A return must be filed if there are any taxable gifts. Only gifts to spouses are allowed with no limit. The gift to her son is taxable in excess of the annual exclusion.

× **Answer (B) is incorrect.** Due to the applicable credit, no tax will be owed.

× **Answer (D) is incorrect.** A gift tax return must be filed, but no tax will be owed because of the applicable credit amount (unified credit).

## EA 1 – Bookmark

This update changes the Adoption Phaseout amount from \$262,150 to \$292,150.