



SELF-STUDY COURSES

Background: The California Business & Professions Code Section 22255 requires that individuals successfully complete both a 60-hour qualifying education (QE) course to become a CTEC Registered Tax Preparer (CRTP) and 20 hours annually of continuing education (CE) to renew a CRTP registration.

(a) The 60-hour QE requirement includes:

- (1) 43 hours of QE in Federal tax subjects.
- (2) 2 hours of QE in ethics
- (3) 15-hours of QE in California tax topics.

(b) The 20-hour CE requirement includes;

- (1) 10-hours of CE in Federal tax subjects,
- (2) 3-hours of CE in Federal tax updates, (note excess credits in this category will count towards Federal tax subjects)
- (3) 2-hours of CE in ethics, and
- (4) 5-hours of CE in California tax topics.

Commentary - QE and CE courses must be taken from a CTEC approved curriculum provider and can be either face-to-face courses or self-study courses. CE courses qualifying for both IRS and CTEC credit must be taken from a CTEC approved curriculum provider that is both CTEC and IRS-approved and can be either face-to-face courses or self-study courses.

(c) Applies to Both QE and CE Courses: This policy applies to both self-study QE courses and self-study CE courses.

(d) Self-study course: A self-study course is an educational process designed to permit a student to learn a given subject without the face-to-face involvement of an instructor. Course materials are generally provided by mail, downloaded from the Internet, or provided online. Self-study courses (including recorded courses) qualify as continuing education courses only if all the following requirements are met:

- (1)** Registration is required of the students by the education provider.
- (2)** A final exam is required, described in greater detail below, as a means of evaluating the successful completion of the course by the student, and a Provider Course Completion Certificate (see CP11) must be issued by the provider to the student confirming successful completion of the course.
- (3)** A written outline, textbook, or suitable electronic educational materials are required (see CP24 for additional requirements).
- (4)** The requirements established for a qualified CE course pursuant to § 10.6(f) are met and the course is offered by a curriculum provider that meets the requirements of § 10.9 of Circular 230 for federal credit.

(e) Credit hour measurement for self-study courses: Credit hour measurement for self-study courses must be based on either of the following methods: (1) pilot testing method (See subsection (g)), or (2) word count formula method (See subsection (h)).

(g) Pilot Testing:

(1) Sample pilot testers must be selected. To use the pilot testing method of measuring course credit the provider must chose a sample group of pilot testers from the professional group of intended students to test the time required to complete the course. The course must be taken in an environment and manner similar to that in which the course is to be presented. The sample pilot tester group must consist of at least three individuals, all of whom are independent of the course development group. The course development group includes any individual who is directly or indirectly related to the curriculum provider, the author of the material, or any individual who will benefit directly or indirectly from the sales of the course. Pilot testers must be one of the following: a CPA, EA, tax attorney, or CRTP.

(2) Credit hours will be based on representative completion time. The results of pilot testing must be based on the representative completion time for the sample. Completion time includes the time spent taking the final examination but does not include the time spent completing the course evaluation.

If the results of pilot testing are inconsistent, then the sample must be expanded, or any inconsistent results must be explained, properly mitigated, or eliminated. **Pilot testers must not be informed of the length of time that the course is expected to take to complete.**

(3) Substantive changes. If substantive changes are subsequently made to course materials, further pilot tests of the revised course materials must be conducted to affirm or amend, as appropriate, the representative completion time.

(4) Requirement for re-pilot testing. If, subsequent to course release, actual participant completion time warrants a change in credit hours, re-pilot testing is required to substantiate a change in credit prospectively.

(5) Pilot testing when course is purchased from vendor or other developer. CTEC curriculum providers may purchase courses from other curriculum providers or course developers. For purchased courses for which pilot tests were conducted and provided, CTEC curriculum providers must review the course developer's pilot test results to ensure that the credit hour measurements are appropriate. **For purchased courses for which no pilot tests were conducted or provided, CTEC curriculum providers must conduct pilot testing or apply the word count formula.**

(6) Pilot testing verification. Pilot testing verification must include all of the following:

(A) The number of minutes it took for the pilot tester to complete the course.

(B) The pilot tester's name.

(C) Whether the pilot tester is a CPA, EA, tax attorney, or CRTP, including the pilot tester's credential number.

(D) The current contact address, phone, and e-mail address for the pilot tester.

(7) Record Keeping. The pilot test results shall be maintained for a period of three years after the last date upon which credit was awarded for taking the course. The pilot test results shall be provided to CTEC upon request.

(h) Word Count Formula - The word count formula is based on the number of words contained in the text of the required reading of the self-study course. Words that may not be included in the word count are:

(1) Non-critical Material - Any and all material not critical to the achievement of the stated learning objectives of the course. Examples of materials that are not critical and are, therefore, excluded are the words included in the:

(A) Course introductions.

(B) Instructions to the learner.

(C) Author/course developer biographies.

(D) Table of contents.

(E) Glossaries.

(F) Appendices containing supplementary reference materials.

(G) Example: If an author/course developer determines that including an entire tax regulation is beneficial to the learner, the tax regulation should be included as a footnote, an appendix to the course as supplementary reference material and excluded from the word count formula (see CP24).

(2) Questions - Review questions, exercises, and final examination questions are accounted for separately.

(3) Audio Visual Segments - If audio and video segments of a self-study course constitute additional learning for the participant (i.e., are not a part of the text), then the actual audio/video duration time may be added to the time calculation as provided in the prescribed word count formula.

(4) Word Count Formula Calculation - The word count for the text of the required reading of the course is divided by 180, which is the average words per minute reading speed of adults. The total number of review questions, exercises, and final examination questions is multiplied by 1.85, which is the estimated average completion time per question. These two numbers plus actual audio/video duration time, if any, are then added together, and the result is divided by 50 in order to calculate the credit hours for the self-study course. When the total minutes of a self-study course are not equally divisible by 50, the credits granted must be rounded down to the nearest whole credit.

$[(\# \text{ of words contained in the text}/180) + \text{actual audio/video duration time} + (\# \text{ of questions} * 1.85)]/50 = \text{credit}$

(5) Purchased Courses - CTEC providers may purchase courses from other vendors or course developers. For purchased courses for which the word count formula was calculated, CTEC course sponsors must review the results of the course developer's word count formula calculation to ensure that results are appropriate. For purchased courses for which the word count formula calculation was not performed or provided, CTEC curriculum providers must perform the word count formula calculation or conduct pilot testing.

(6) Word count verification - Providers must maintain documentation showing how they computed the credits using the word count formula. The documentation shall be maintained for a period of three years after the last date upon which credit was awarded for taking the course. The documentation shall promptly be provided to CTEC upon request.

- (i) Interactive Requirement:** CTEC self-study courses must be interactive. To qualify as an interactive self-study course, the course materials must guide the student through the learning process by eliciting responses that test for understanding of the material by providing feedback to incorrect responses to review questions, and by providing reinforcement feedback to correct responses to review questions. Review questions must be placed at the end of each learning activity¹ throughout the course, at appropriate intervals to allow the learner to evaluate the material that needs to be re-studied. At least three multiple-choice review questions per credit hour are required. Each question must have a minimum of 4 possible answer responses. There is no minimum passing rate required for review questions.

Example of Interactive Review Question and Feedback

Example Review Question: *With respect to the Sec 121 home sale exclusion, the excludable gain does not apply to so much of the gain from the sale or exchange of home as is allocated to "periods of nonqualified use." Which of the following is considered as a period of non-qualified use?*

- A. A period before January 1, 2009.
- B. A period during which the property was used as a vacation residence.
- C. A period not to exceed an aggregate of two years during which the taxpayer is temporarily absent by reason of a change in place of employment.
- D. A period not to exceed an aggregate of two years during which the taxpayer is temporarily absent by reason of health.

Example of Feedback:

Answer A - is an incorrect answer because per IRC 121(b)(C)(ii)(III), periods of nonqualified use **do not include** any period: before January 1, 2009.

Answer B - is a correct answer because periods of non-qualified use include using the home as a vacation residence, renting it out, allowing a relative to live in it, or simply leaving it vacant.

Answer C - is incorrect because the period of absence did not exceed two years and the law defines a non-qualified use for reasons of change of employment as exceeding two years.

Answer D - is incorrect because the period of absence did not exceed two years and the law defines a non-qualified use for reasons of change of health as exceeding two years.

- (j) Final Examination Requirement:** Final examinations for self-study courses shall include a minimum of five multiple-choice questions per credit hour. Each question must have a minimum of 4 possible answer responses. The questions must be relevant to the material and to meeting the learning objectives in the course. Successful completion of an interactive self-study course shall be demonstrated by completing 70% or more of the examination questions correctly.
- (k) Examination Answers:** The answers to the questions must be relevant to the question and cannot be such that a student can determine it is a wrong answer. The following is an actual question from a provider's course which must have 4 possible answers with only one being correct. In this example the provider uses frivolous responses which are obviously wrong, thus reducing the possible correct answers.

Example: A bank product whereby a third-party bank takes receipt of a taxpayer's refund and then pays the tax preparation fee to the tax preparer, if not done properly, can violate IRS rules against:

1. Treason
2. Negotiating a taxpayer's check

¹ A "learning activity" is a readily identifiable portion of material dealing with a subject matter or topic, such as prizes and awards as exclusions from income, medical expense deduction, or filing status.



3. Nuclear proliferation
4. Overcharging a tax client

- (l) **Bundled CE Courses** – Where a curriculum provider sells a bundled course, as defined in the “*Commentary*” below, the following must be met:
- (1) The measure of credit hours, as determined under CP13(g) or CP13(h), will be applied to each part of the bundled package as if it were a separate course.
 - (2) The number of interactive review questions required for each category will be determined separately for each part of the bundled course as per CP13(i)
 - (3) A separate final exam, as per CP13(j), shall be administered separately for each for each part of the bundled course.
 - (4) Where a curriculum provider has obtained a single CTEC number for the bundled course, the student is required to pass each part of the bundled course. Separate examinations for each part must be passed with a score of 70% or better.

Commentary - The term “Bundled” means more than one course offered under one CTEC course number. **If any one of the parts of the bundle fails to meet CTEC educational standards then the entire bundled course package is disqualified.**

- (m) **QE Courses** – QE courses include three elements of study: Federal Taxation, California Taxation and ethics. For purposes of successfully completing a self-study QE course, the student must be tested for comprehension as if those elements were separate courses. Thus:
- (1) The measure of credit hours, as determined under CP13(g) or CP13(h) will be applied separately to the Federal, California and ethic elements as if each were a separate course.
 - (2) The number of interactive review questions required for the Federal, California and ethic elements will be determined separately as per CP13(i).
 - (3) A separate final exam, per CP13(j), shall be administered separately for each Federal, California and ethic element of the course.
 - (4) Even though a curriculum provider has obtained a single CTEC number for the QE course, the student is required to pass a **separate** final examination for each of the Federal, California and ethic elements to successfully complete the course.
- (n) **Special QE Examination Requirements:** For the final examination, each QE hour must have five questions of which includes one question for each “required” subject and the balance made up questions related to “required” or “awareness” subjects listed in the Qualifying Education Guidelines (see CP23A-Attachment). (See CP13A(c))
- (o) **Providing Student with Answers to Exam Questions:** Curriculum providers are never permitted to provide students with answers to exam questions prior to the student successfully passing the examination. To students who successfully passed the examination, providers may only provide answers to **specific** missed exam questions. However, a complete answer key containing all of the exam questions for the course shall never be provided to a student.
- (o) **Initial Provider Approval:** Providers that offer both face-to-face and self-study courses must submit a self-study course for approval.
- (p) **Curriculum Provider Responsibility:** It is CTEC’s mandate to ensure that all non-exempt tax preparers in California satisfy certain education requirements. Determining credit hours for self-study courses is subjective and difficult and provides opportunities for abuse. Curriculum providers must be diligent to ensure that they are awarding the proper credit for their courses. The pilot test and word count formula methods of determining education credit awards were instituted to safeguard against awarding inflated credits. CTEC reserves the right to reduce credits (see CP18)(b)(1) & (2)), or deny course approval to courses that the CTEC review staff determines are so simplistic that the student does not need to read the course material in order to pass the final exam. CTEC requires approved providers to exercise due diligence and ethical behavior in determining self-study credits.

- (q) **English Requirement** - Courses submitted for review to CTEC must be in English.

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Responsibility: Curriculum Provider Standards Committee

California Tax Education Council

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