

Full-Length Practice Test 10

Instructions: This practice test contains 300 multiple-choice questions divided into three parts. Select the best answer for each question

Part 1: Individuals

1. Qualifying widow(er) filing status requires the taxpayer's spouse to have died in:
 - A. Any prior year
 - B. Current year
 - C. One of the two prior years
 - D. Past 5 years

2. The additional standard deduction for blindness is available when the taxpayer is:
 - A. Partially blind
 - B. Legally blind in one eye
 - C. Has vision impairment
 - D. Totally or partially blind

3. A child born on December 31 is considered to be:
 - A. One year old for entire year
 - B. Zero years old
 - C. Age for next year
 - D. Not a dependent

4. Multiple support agreements require participants to provide more than:
 - A. 25% of support
 - B. One-third of support
 - C. Half of support
 - D. 10% of support

5. The tiebreaker rule for qualifying child applies when:
 - A. Parents are married
 - B. More than one person can claim
 - C. Child lives with grandparent
 - D. Child has income

6. Alimony recapture rules apply to payments that decrease by more than \$15,000 in:
 - A. Year 1 to Year 2

- B. Any year
 - C. First three years
 - D. Year 2 to Year 3
7. Child support payments are:
- A. Deductible by payor
 - B. Taxable to recipient
 - C. Tax credit eligible
 - D. Not deductible and not taxable
8. Minister earnings for services are subject to:
- A. Self-employment tax
 - B. FICA only
 - C. Neither FICA nor SE tax
 - D. Alternative minimum tax
9. Military combat pay is:
- A. Fully taxable
 - B. Partially excluded
 - C. Fully excluded
 - D. Deferred
10. Disability pensions are taxable unless:
- A. Taxpayer is disabled
 - B. Disability is permanent
 - C. Age 65 or older
 - D. Low income
11. Workers' compensation benefits are:
- A. Excluded from income
 - B. Partially taxable
 - C. Fully taxable
 - D. Subject to AMT
12. Qualified foster care payments for difficulty of care are:
- A. Taxable
 - B. Excluded from income
 - C. Partially excluded
 - D. Subject to SE tax

13. Meals and lodging for employer's convenience are excluded when provided:
- A. Off premises
 - B. As cash allowance
 - C. On employer's premises
 - D. To all employees
14. The annual gift tax exclusion applies to gifts up to:
- A. \$18,000 per donee
 - B. \$15,000 per donee
 - C. \$20,000 per donee
 - D. Unlimited
15. Life insurance policy loans are:
- A. Taxable
 - B. Partially taxable
 - C. Deductible
 - D. Not taxable unless policy lapses
16. Section 121 home sale exclusion applies to gain on sale of:
- A. Vacation home
 - B. Principal residence
 - C. Rental property
 - D. Investment property
17. The ownership and use tests for home sale exclusion require:
- A. 2 of 5 years
 - B. 3 of 5 years
 - C. 1 of 3 years
 - D. 5 continuous years
18. Partial home sale exclusion applies to sales due to employment, health, or:
- A. Divorce
 - B. Financial hardship
 - C. Family reasons
 - D. Unforeseen circumstances
19. Like-kind exchange deferral applies to:
- A. Personal property
 - B. Securities
 - C. Real property

D. All property

20. Involuntary conversion replacement period for personal property is:

- A. 1 year
- B. 2 years
- C. 3 years
- D. 4 years

21. Qualified small business stock requires the corporation's gross assets to not exceed:

- A. \$25 million
- B. \$100 million
- C. \$75 million
- D. \$50 million

22. Section 1202 exclusion is available for stock held more than:

- A. 5 years
- B. 3 years
- C. 7 years
- D. 10 years

23. Collectibles held long-term are subject to a maximum rate of:

- A. 28%
- B. 20%
- C. 25%
- D. 15%

24. Net capital losses can be carried forward:

- A. 5 years
- B. 10 years
- C. Indefinitely
- D. 20 years

25. Worthless securities produce:

- A. Ordinary loss
- B. Short-term loss
- C. No deduction
- D. Capital loss on last day of year

26. Qualified business income deduction is limited to:

- A. 100% of QBI

- B. 20% of QBI
- C. 50% of QBI
- D. 25% of QBI

27. The QBI deduction phases out for specified service trades above:

- A. \$100,000
- B. \$150,000
- C. \$200,000
- D. Threshold amounts

28. Above-the-line deductions include:

- A. HSA contributions
- B. Charitable contributions
- C. Medical expenses
- D. Mortgage interest

29. IRA catch-up contributions for age 50 and over are:

- A. \$500
- B. \$2,000
- C. \$1,000
- D. \$3,000

30. SIMPLE IRA employer matching is generally:

- A. 25%
- B. 3%
- C. 5%
- D. 10%

31. Solo 401(k) employee deferral limit for 2024 is approximately:

- A. \$23,000
- B. \$19,500
- C. \$30,000
- D. \$27,000

32. Roth 401(k) contributions are:

- A. Deductible
- B. Tax-deferred
- C. After-tax
- D. Excluded from income

33. Early distribution penalty exceptions include:
- A. Vacation home purchase
 - B. First-time homebuyer
 - C. Auto purchase
 - D. General hardship
34. Substantially equal periodic payments (72(t)) must continue for the longer of 5 years or:
- A. Age 59½
 - B. Age 65
 - C. Age 70½
 - D. Age 73
35. Required minimum distributions for IRA beneficiaries who are not spouses must be taken over:
- A. 5 years
 - B. Beneficiary's life expectancy
 - C. 20 years
 - D. 10 years
36. Qualified charitable distributions count toward:
- A. Itemized deductions
 - B. RMD requirement
 - C. AGI
 - D. Tax credits
37. Deductible IRA contribution phase-out for single filers with workplace coverage begins at approximately:
- A. \$50,000
 - B. \$68,000
 - C. \$77,000
 - D. \$90,000
38. Spousal IRA contributions require:
- A. Spouse to have income
 - B. Joint return filing
 - C. Both spouses working
 - D. Spouse over age 50
39. Health Savings Account maximum out-of-pocket for family coverage 2024 is approximately:
- A. \$8,000
 - B. \$10,000

- C. \$12,000
- D. \$16,100

40. HSA contributions for individuals age 55 and older include additional:

- A. \$1,000
- B. \$2,000
- C. \$500
- D. \$1,500

41. Qualified medical expenses for HSA purposes include:

- A. Cosmetic surgery
- B. Health club dues
- C. Over-the-counter medicines
- D. Qualified medical expenses

42. Medicare Part B premiums are deductible as:

- A. Medical expenses
- B. Above-the-line deduction
- C. Tax credit
- D. Not deductible

43. COBRA premiums while unemployed are deductible as:

- A. Business expense
- B. Not deductible
- C. Medical expense
- D. Above-the-line for self-employed

44. Long-term care insurance limits are based on:

- A. Age at end of year
- B. Policy cost
- C. Health status
- D. State requirements

45. Capital improvements for medical purposes are deductible to the extent they exceed:

- A. 7.5% of AGI
- B. 10% of AGI
- C. \$10,000
- D. Increase in home value

46. Nursing home costs are deductible when:

- A. Taxpayer chooses
- B. Over age 65
- C. Medically necessary
- D. Any reason

47. Mortgage insurance premiums deduction:

- A. Expired
- B. Is permanent
- C. Phases out with income
- D. No limit

48. Points on home purchase are deductible when:

- A. Paid on principal residence
- B. Paid on second home
- C. On refinancing
- D. Not deductible

49. Home equity loan interest is deductible if proceeds used to:

- A. Pay credit cards
- B. Buy car
- C. Pay college tuition
- D. Improve home

50. Investment interest expense carryforward is:

- A. 5 years
- B. 10 years
- C. Indefinite
- D. Not allowed

51. Prepaid interest must be:

- A. Deducted when paid
- B. Capitalized over loan term
- C. Not deductible
- D. Treated as points

52. Charitable contributions of capital gain property held long-term are limited to:

- A. 50% of AGI
- B. 60% of AGI
- C. 20% of AGI
- D. 30% of AGI

53. Private foundation contributions are limited to:
- A. 60% of AGI
 - B. 50% of AGI
 - C. 30% of AGI
 - D. 20% of AGI
54. Clothing donations must be in:
- A. Any condition
 - B. Original packaging
 - C. Good used condition or better
 - D. New condition
55. Vehicle donations over \$500 require:
- A. Appraisal
 - B. Written acknowledgment from charity
 - C. Market value determination
 - D. IRS approval
56. Out-of-pocket expenses for volunteer work are deductible as:
- A. Charitable contributions
 - B. Business expenses
 - C. Not deductible
 - D. Tax credit
57. Substantiation for charitable contributions requires contemporaneous written acknowledgment for contributions of:
- A. \$100 or more
 - B. \$500 or more
 - C. \$1,000 or more
 - D. \$250 or more
58. Noncash contributions over \$500 require:
- A. Appraisal
 - B. Professional valuation
 - C. Form 8283
 - D. IRS approval
59. Noncash contributions over \$5,000 require:
- A. Form 8283

- B. Qualified appraisal
- C. IRS pre-approval
- D. Detailed records

60. Casualty loss floor per event is:

- A. \$100
- B. \$250
- C. \$500
- D. \$1,000

61. Personal casualty gains and losses are:

- A. Always deductible
- B. Netted together
- C. Separately reported
- D. Not deductible

62. Theft loss deduction timing is year:

- A. Theft occurred
- B. Loss discovered
- C. Reported to police
- D. Insurance claim filed

63. Restoration of amounts held under claim of right allows:

- A. Credit or deduction
- B. Deduction only
- C. Credit only
- D. No relief

64. Repayment of Social Security benefits allows for:

- A. Itemized deduction
- B. Adjustment to income
- C. Tax credit
- D. Lump-sum election

65. Moving expenses for 2024 are deductible for:

- A. All taxpayers
- B. Employer reimbursement only
- C. Active duty military
- D. Not deductible

66. Educator expenses can be deducted by eligible educators up to:
- A. \$500
 - B. \$300
 - C. \$250
 - D. \$600
67. Health insurance premiums for self-employed are deductible as:
- A. Itemized deduction
 - B. Business expense on Schedule C
 - C. Tax credit
 - D. Adjustment to income
68. Keogh plan contributions for self-employed are based on:
- A. Net earnings from self-employment
 - B. Gross income
 - C. Taxable income
 - D. Total revenue
69. Self-employed retirement contribution deduction is taken as:
- A. Business expense
 - B. Itemized deduction
 - C. Adjustment to income
 - D. Tax credit
70. Archer MSA contributions are available to employees of employers with no more than:
- A. 25 employees
 - B. 50 employees
 - C. 100 employees
 - D. 10 employees
71. Child tax credit for 2024 is:
- A. \$2,000 per qualifying child
 - B. \$3,000 per child
 - C. \$1,000 per child
 - D. \$3,600 per child
72. Additional child tax credit maximum refundable amount is approximately:
- A. \$2,000
 - B. \$1,000
 - C. \$500

D. \$1,700

73. Credit for other dependents is available for dependents who:

- A. Are under age 13
- B. Live with taxpayer
- C. Don't qualify for child tax credit
- D. Are disabled

74. Dependent care credit maximum qualifying expenses for one child are:

- A. \$6,000
- B. \$3,000
- C. \$8,000
- D. \$5,000

75. Dependent care credit percentage ranges from 20% to:

- A. 30%
- B. 40%
- C. 25%
- D. 35%

76. Adoption credit is available for each child adopted who is:

- A. Under 18 or disabled
- B. U.S. citizen only
- C. Foreign only
- D. Related

77. Special needs adoption allows credit even when expenses are less than:

- A. \$5,000
- B. \$10,000
- C. Maximum credit amount
- D. \$15,000

78. American Opportunity Credit is available for students enrolled at least:

- A. Full-time
- B. Half-time
- C. Any enrollment
- D. Three-quarter time

79. American Opportunity Credit refundable portion is:

- A. 40%

- B. 50%
- C. 100%
- D. 25%

80. Lifetime Learning Credit has no limit on:

- A. Income
- B. Years claimed
- C. Number of students
- D. Number of years claimed

81. Education credits cannot be claimed for same student and same expenses as:

- A. Scholarship
- B. 529 distribution
- C. Student loan
- D. Grant

82. Coverdell ESA distributions are tax-free when used for:

- A. Room only
- B. Board only
- C. Qualified education expenses
- D. Books only

83. Qualified tuition program distributions for K–12 are limited to:

- A. No limit
- B. \$5,000 per year
- C. \$15,000 per year
- D. \$10,000 per year

84. Saver's credit is nonrefundable and ranges from 10% to:

- A. 50%
- B. 35%
- C. 25%
- D. 20%

85. Child and dependent care expenses must be for care to allow taxpayer to:

- A. Volunteer
- B. Work or look for work
- C. Attend school part-time
- D. Take vacation

86. Earned income credit requires qualifying child to have lived with taxpayer for more than:
- A. 3 months
 - B. 9 months
 - C. Half the year
 - D. 6 months
87. EITC without children requires taxpayer to be at least age:
- A. 25
 - B. 21
 - C. 19
 - D. 18
88. Premium tax credit is available for coverage purchased through:
- A. Employer
 - B. Private market
 - C. Medicare
 - D. Health Insurance Marketplace
89. Premium tax credit household income must be between:
- A. 50%–200% of poverty line
 - B. 100%–400% of poverty line
 - C. 75%–300% of poverty line
 - D. 80%–350% of poverty line
90. Foreign tax credit limitation is based on:
- A. Total foreign income
 - B. Foreign taxes paid
 - C. U.S. tax on foreign income
 - D. Worldwide income
91. Foreign earned income exclusion requires taxpayer to have:
- A. Tax home in foreign country
 - B. Foreign citizenship
 - C. Permanent residence abroad
 - D. Green card
92. AMT exemption phases out beginning at approximately for married filing jointly:
- A. \$500,000
 - B. \$750,000
 - C. \$1,000,000

D. \$1,156,300

93. AMT preference items include:

- A. Medical deductions
- B. Charitable contributions
- C. Private activity bond interest
- D. Mortgage interest

94. Net investment income tax threshold for married filing jointly is:

- A. \$200,000
- B. \$250,000
- C. \$300,000
- D. \$400,000

95. Additional Medicare tax applies to wages exceeding for married filing jointly:

- A. \$200,000
- B. \$400,000
- C. \$300,000
- D. \$250,000

96. Self-employment tax for 2024 applies to net earnings up to approximately for Social Security:

- A. \$168,600
- B. \$147,000
- C. \$160,200
- D. \$200,000

97. Optional methods for computing SE tax are available when net earnings are less than:

- A. \$5,000
- B. \$10,000
- C. \$6,107
- D. \$7,500

98. Estimated tax payments are required when tax liability will be at least:

- A. \$500
- B. \$1,000
- C. \$2,000
- D. \$5,000

99. Safe harbor for estimated tax is 90% of current year or 100% of prior year for taxpayers with AGI of:

- A. Any amount
- B. \$100,000 or less
- C. \$200,000 or less
- D. \$150,000 or less

100. Farmers and fishermen safe harbor is:

- A. 66.67% of current year
- B. 100% of prior year
- C. 90% of current year
- D. 75% of current year

Part 2: Businesses

1. Cash method taxpayers recognize income when:
 - A. Received or constructively received
 - B. Earned
 - C. Invoiced
 - D. Accrued
2. Economic performance for services received occurs when:
 - A. Contract signed
 - B. Invoice received
 - C. Payment made
 - D. Services actually provided
3. Prepaid expenses are generally deductible when paid for cash method taxpayers if they don't extend beyond:
 - A. End of year
 - B. 6 months
 - C. 12 months after payment
 - D. 24 months
4. Accrual method taxpayers deduct expenses when:
 - A. All events test met and economic performance occurs
 - B. Invoice received
 - C. Payment made
 - D. Contracted
5. Inventories are required when:
 - A. Receipts over \$1 million

- B. Production or purchase for resale
 - C. Service business
 - D. Always
6. Small business taxpayer exception for inventory applies when average gross receipts don't exceed:
- A. \$10 million
 - B. \$25 million
 - C. \$50 million
 - D. \$29 million
7. FIFO inventory method assumes:
- A. Specific identification
 - B. Weighted average
 - C. First in, first out
 - D. Last in, first out
8. Inventory market value for lower of cost or market is generally:
- A. Retail price
 - B. Replacement cost
 - C. Original cost
 - D. Wholesale price
9. UNICAP applies to:
- A. Producers and resellers
 - B. Service providers
 - C. Retailers under threshold
 - D. All businesses
10. Section 263A exceptions include retailers with average gross receipts not exceeding:
- A. \$10 million
 - B. \$25 million
 - C. \$29 million
 - D. \$50 million
11. Percentage depletion for oil and gas is:
- A. 10%
 - B. 22%
 - C. 27.5%
 - D. 15%

12. Cost depletion is calculated by dividing basis by:
- A. Estimated total recoverable units
 - B. Current year production
 - C. Fair market value
 - D. Sales price
13. Depletion deduction cannot exceed:
- A. Basis
 - B. Revenue
 - C. Cost
 - D. 50% of taxable income from property
14. Intangible drilling costs can be:
- A. Capitalized only
 - B. Expensed or capitalized
 - C. Deducted over 10 years
 - D. Not deducted
15. Section 179 expensing election is made on:
- A. Original return including extensions
 - B. Amended return
 - C. Any time
 - D. Within 3 years
16. Section 179 property must be acquired by:
- A. Gift
 - B. Inheritance
 - C. Purchase
 - D. Any means
17. Section 179 recapture occurs when business use drops to 50% or less within:
- A. 1 year
 - B. 3 years
 - C. 7 years
 - D. Recovery period
18. Bonus depreciation applies to property with recovery period of:
- A. 15 years or less
 - B. 20 years or less
 - C. 27.5 years or less

D. Any period

19. Qualified improvement property placed in service after 2017 has recovery period of:

- A. 39 years
- B. 27.5 years
- C. 15 years
- D. 20 years

20. Residential rental property recovery period is:

- A. 27.5 years
- B. 31.5 years
- C. 39 years
- D. 40 years

21. MACRS mid-month convention applies to:

- A. Personal property
- B. Autos
- C. Equipment
- D. Real property

22. Alternative depreciation system is required for:

- A. Tax-exempt use property
- B. All property
- C. Bonus depreciation property
- D. Section 179 property

23. Listed property includes passenger automobiles used more than 50% for business and:

- A. Computers at regular business
- B. Trucks
- C. Office equipment
- D. Cell phones

24. First-year depreciation for autos without bonus in 2024 is approximately:

- A. \$8,000
- B. \$15,000
- C. \$12,200
- D. \$20,400

25. Trucks and vans over 6,000 pounds are subject to:

- A. Luxury auto limits

- B. No limits
 - C. Reduced limits
 - D. Section 179 limits for heavy vehicles
26. Organization costs must be incurred before:
- A. First sale
 - B. End of first year
 - C. Filing return
 - D. Business begins
27. Business startup costs include investigating and creating business before:
- A. Filing taxes
 - B. First revenue
 - C. Active business begins
 - D. Incorporation
28. Amortization of organizational costs that exceed first-year deduction is over:
- A. 60 months
 - B. 120 months
 - C. 84 months
 - D. 180 months
29. Research and experimental expenditures for tax years beginning after 2021 must be:
- A. Amortized over 5 years
 - B. Expensed
 - C. Capitalized
 - D. Deferred
30. Section 197 intangibles are amortized over:
- A. 10 years
 - B. 5 years
 - C. 15 years
 - D. 20 years
31. Self-created intangibles are generally:
- A. Expensed
 - B. Amortized over 15 years
 - C. Capitalized
 - D. Deferred

32. Customer-based intangibles acquired in business purchase include:
- A. Goodwill
 - B. Customer lists
 - C. Trademarks
 - D. Patents
33. Covenant not to compete amortization period is:
- A. Contract term
 - B. 10 years
 - C. 15 years
 - D. 5 years
34. Franchise fees paid to acquire franchise are:
- A. Expensed
 - B. Amortized over franchise term
 - C. Capitalized
 - D. Amortized over 15 years
35. Business interest limitation applies when average gross receipts exceed:
- A. \$10 million
 - B. \$25 million
 - C. \$50 million
 - D. \$29 million
36. Business interest expense deduction is limited to 30% of:
- A. Adjusted taxable income
 - B. Gross income
 - C. Net income
 - D. EBITDA
37. Disallowed business interest expense can be carried forward:
- A. 5 years
 - B. 10 years
 - C. Indefinitely
 - D. 20 years
38. Meals provided by employer on premises for convenience are:
- A. 100% deductible
 - B. 50% deductible
 - C. Not deductible

D. 80% deductible

39. Business meals with clients are deductible at:

A. 50%

B. 100%

C. 80%

D. Not deductible

40. Entertainment expenses are:

A. 100% deductible

B. 50% deductible

C. 80% deductible

D. Not deductible

41. Business gifts are limited to per recipient per year:

A. \$50

B. \$100

C. \$25

D. No limit

42. Travel expenses must be ordinary, necessary, and:

A. Away from tax home overnight

B. Within state

C. International

D. Under \$500

43. Commuting expenses are:

A. Deductible

B. Not deductible

C. Partially deductible

D. Capital expenses

44. Home office deduction requires exclusive and regular use for:

A. Any purpose

B. Convenience

C. Personal use

D. Trade or business

45. Simplified home office deduction is:

A. \$5 per square foot up to 300 sq ft

- B. \$10 per square foot
 - C. Actual expenses
 - D. \$15 per square foot
46. Bad debts for business must be:
- A. Written off
 - B. Totally worthless
 - C. Worthless and charged off
 - D. Delinquent
47. Nonbusiness bad debts are treated as:
- A. Ordinary loss
 - B. Short-term capital loss
 - C. Long-term capital loss
 - D. Not deductible
48. Warranty costs are deductible when:
- A. Product sold
 - B. Warranty provided
 - C. Estimated
 - D. Actually paid or incurred
49. Accrual method contested liabilities can be deducted when:
- A. Contested
 - B. Settled
 - C. Transferred to settle
 - D. Claimed
50. Uniform capitalization exceptions include businesses with average receipts under threshold and:
- A. Producers
 - B. Manufacturers
 - C. Resellers
 - D. Personal property creators
51. Partnership income, gains, losses, and deductions flow through to partners based on:
- A. Capital contributions
 - B. Services provided
 - C. Ownership percentage
 - D. Distributive share

52. Partnership tax year must conform to majority partners' year or principal partners' year or:
- A. Calendar year
 - B. Least aggregate deferral
 - C. IRS approval
 - D. Any fiscal year
53. Section 754 election allows partnership to adjust basis of partnership assets when:
- A. Partner sells interest
 - B. Formation
 - C. Distribution or transfer
 - D. Annually
54. Guaranteed payments are deductible by partnership and treated as ordinary income to:
- A. Partner
 - B. Partnership
 - C. Both
 - D. Neither
55. Partner's basis in partnership interest is increased by:
- A. Share of income and liabilities
 - B. Distributions
 - C. Losses
 - D. Cash contributions only
56. Partnership distributions of cash reduce partner's basis and any excess creates:
- A. Ordinary income
 - B. Capital gain
 - C. No income
 - D. Deferred gain
57. Section 736 payments to retiring partners for unrealized receivables and goodwill are treated as:
- A. Capital gain
 - B. Return of basis
 - C. Ordinary income
 - D. Guaranteed payments
58. Partnerships file Form 1065 by:
- A. 15th day of 3rd month
 - B. April 15
 - C. March 31

D. January 31

59. Partnership Schedule K-1 reports partner's share of:

- A. Assets
- B. Liabilities
- C. Income, deductions, and credits
- D. Capital account

60. S corporation election requires all shareholders to be:

- A. U.S. citizens or residents
- B. Corporations
- C. Partnerships
- D. Individuals, estates, trusts, or exempt organizations

61. S corporations can have trusts as shareholders including:

- A. Foreign trusts
- B. Grantor trusts and QSSTs
- C. Complex trusts
- D. Any trust

62. S corporation election is terminated when corporation has passive investment income exceeding 25% and has:

- A. Accumulated E&P
- B. No E&P
- C. Losses
- D. More than 100 shareholders

63. S corporation distributions are tax-free to extent of:

- A. E&P
- B. Capital
- C. AAA and stock basis
- D. Income

64. Built-in gains tax for S corporations applies at:

- A. Shareholder level
- B. Both levels
- C. Neither level
- D. Corporate level

65. S corporation shareholder basis includes:

- A. Pro rata share of entity liabilities
 - B. Direct loans only
 - C. Indirect loans
 - D. All debt
66. S corporation losses are limited to shareholder's basis in stock and:
- A. Entity debt
 - B. Capital account
 - C. Direct debt
 - D. Guaranteed payments
67. Schedule M-2 for S corporations reconciles:
- A. Accumulated adjustments account
 - B. Income
 - C. Assets
 - D. Liabilities
68. C corporation tax rate is:
- A. Progressive
 - B. 15%
 - C. 35%
 - D. 21%
69. Corporate AMT was:
- A. Increased
 - B. Repealed
 - C. Reduced
 - D. Modified
70. Dividends received deduction for less than 20% ownership is:
- A. 50%
 - B. 65%
 - C. 70%
 - D. 100%
71. Corporate capital losses can only offset:
- A. Ordinary income
 - B. All income
 - C. Capital gains
 - D. Dividends

72. Corporate capital loss carryback is:
- A. Not allowed
 - B. 2 years
 - C. 1 year
 - D. 3 years
73. Corporate capital loss carryforward is:
- A. 10 years
 - B. 5 years
 - C. 20 years
 - D. Indefinite
74. Corporate charitable contribution deduction limit is:
- A. 60% of taxable income
 - B. 50% of taxable income
 - C. 10% of taxable income
 - D. No limit
75. Excess charitable contributions can be carried forward:
- A. 5 years
 - B. 10 years
 - C. 20 years
 - D. Indefinitely
76. Personal holding company tax applies when more than 50% owned by 5 or fewer individuals and:
- A. 50% PHC income
 - B. 75% PHC income
 - C. 25% PHC income
 - D. 60% PHC income
77. PHC tax rate is:
- A. 15%
 - B. 20%
 - C. 21%
 - D. 35%
78. Accumulated earnings tax reasonable needs credit for most corporations is:
- A. \$250,000
 - B. \$500,000

- C. \$1,000,000
- D. \$100,000

79. Controlled group members must share certain tax benefits including:

- A. Income
- B. Deductions
- C. Section 179 limits
- D. Depreciation

80. Parent-subsidary controlled group requires parent ownership of:

- A. 50%
- B. 51%
- C. 100%
- D. 80%

81. Section 351 requires transferors to own immediately after exchange at least:

- A. 50%
- B. 80%
- C. 100%
- D. 51%

82. Boot in Section 351 exchange includes cash and:

- A. Stock
- B. Securities
- C. Other property
- D. Voting stock

83. Section 1244 stock maximum ordinary loss for single filers is:

- A. \$50,000
- B. \$100,000
- C. \$25,000
- D. \$75,000

84. Section 1245 recapture amount is lesser of gain or:

- A. Fair market value
- B. Basis
- C. Sales price
- D. Depreciation taken

85. Unrecaptured Section 1250 gain is taxed at maximum:

- A. 20%
- B. 25%
- C. 28%
- D. 15%

86. Corporate Section 291 recapture is 20% of lesser of gain or depreciation on:

- A. Real property
- B. Personal property
- C. All property
- D. Section 1245 property

87. Section 332 liquidation requires parent to own at least 80% and must liquidate within:

- A. 1 year
- B. 3 years
- C. 2 years
- D. Any period

88. FICA tax consists of Social Security and:

- A. FUTA
- B. SUTA
- C. Medicare
- D. Withholding

89. FICA Social Security wage base for 2024 is approximately:

- A. \$168,600
- B. \$147,000
- C. \$160,200
- D. \$200,000

90. Medicare tax has:

- A. Wage base
- B. Cap
- C. Limit
- D. No wage base

91. FUTA tax applies to first:

- A. \$10,000 of wages
- B. \$15,000 of wages
- C. \$7,000 of wages
- D. No limit

92. FUTA tax rate after state credit is:
- A. 6%
 - B. 0.6%
 - C. 5.4%
 - D. 0.8%
93. Form W-2 is provided to employees by:
- A. December 31
 - B. February 15
 - C. April 15
 - D. January 31
94. Form 941 deposits for semi-weekly depositors are due:
- A. Wednesday for Sat–Tue, Friday for Wed–Fri
 - B. Monthly
 - C. Quarterly
 - D. Next day
95. Form 1099-NEC reports:
- A. Dividends
 - B. Nonemployee compensation
 - C. Interest
 - D. Retirement
96. Backup withholding applies at:
- A. 10%
 - B. 20%
 - C. 24%
 - D. 15%
97. Form 1099-K reporting threshold is:
- A. \$5,000
 - B. \$600
 - C. \$20,000
 - D. \$10,000
98. Worker classification depends on:
- A. Contract terms
 - B. Payment method

- C. Common law factors
- D. Hours worked

99. Statutory employees include certain drivers and:

- A. All contractors
- B. Consultants
- C. Part-time workers
- D. Home workers

100. Accountable plans require substantiation within reasonable period generally:

- A. 30 days
- B. 60 days
- C. 90 days
- D. Any time

Part 3: Representation, Practices, and Procedures

1. Circular 230 covers practice before:

- A. State agencies
- B. IRS
- C. Tax Court
- D. All courts

2. Enrolled agents must renew enrollment every:

- A. Annually
- B. 2 years
- C. 3 years
- D. 5 years

3. EA continuing education per enrollment cycle is:

- A. 48 hours
- B. 60 hours
- C. 90 hours
- D. 72 hours

4. Ethics CE per enrollment cycle for EAs is:

- A. 6 hours
- B. 12 hours
- C. 2 hours
- D. 4 hours

5. Former IRS employees can become enrolled agents after:
 - A. 2 years service
 - B. 5 years service
 - C. 10 years service
 - D. Any service

6. Annual Filing Season Program requires:
 - A. 12 hours CE
 - B. 24 hours CE
 - C. 18 hours CE
 - D. 16 hours CE

7. Limited practice rights allow representation before:
 - A. Revenue agents on prepared returns
 - B. Appeals
 - C. Tax Court
 - D. All IRS

8. PTINs are obtained from:
 - A. State boards
 - B. AICPA
 - C. Treasury
 - D. IRS

9. PTIN renewal deadline is:
 - A. January 31
 - B. December 31
 - C. April 15
 - D. March 15

10. Signing preparers must:
 - A. Be EAs
 - B. Have law degree
 - C. Sign and include PTIN
 - D. Pass exam

11. Substantial portion for nonsigning preparers is lesser of \$10,000 or:
 - A. 10% of gross income
 - B. 5% of gross income

- C. 25% of gross income
- D. 20% of gross income

12. Due diligence Form 8867 is required for:

- A. EITC, CTC, AOTC, HOH
- B. All returns
- C. Business returns
- D. High-income returns

13. Due diligence penalty per failure is approximately:

- A. \$250
- B. \$500
- C. \$590
- D. \$1,000

14. Preparer records must be retained for:

- A. 1 year
- B. 3 years
- C. 5 years
- D. 7 years

15. Preparer copy of return or list must be kept for:

- A. 3 years
- B. 5 years
- C. 7 years
- D. 10 years

16. Unreasonable position penalty is greater of \$1,000 or:

- A. 25% of income
- B. 100% of income
- C. 75% of income
- D. 50% of income

17. Willful understatement penalty is greater of \$5,000 or:

- A. 50% of income
- B. 75% of income
- C. 100% of income
- D. 25% of income

18. Disclosure of return information penalty is:

- A. \$100 per disclosure
- B. \$500 per disclosure
- C. \$250 per disclosure
- D. \$1,000 per disclosure

19. Failure to furnish copy to taxpayer penalty is:

- A. \$50 per return
- B. \$100 per return
- C. \$250 per return
- D. \$500 per return

20. Aiding and abetting penalty for corporate returns is:

- A. \$1,000
- B. \$5,000
- C. \$25,000
- D. \$10,000

21. Negotiation of refund checks by preparers is:

- A. Allowed with authorization
- B. Prohibited
- C. Permitted
- D. Allowed for fees

22. Client records must be returned:

- A. After payment
- B. Upon request
- C. Within 30 days
- D. When engagement ends

23. Contingent fees are permitted for:

- A. Original returns
- B. All services
- C. Routine advice
- D. Examinations

24. Fee information must be provided to clients:

- A. In writing upon request
- B. Always in advance
- C. Never required
- D. Upon completion

25. Solicitation prohibiting overreaching includes:
- A. Advertising
 - B. Marketing
 - C. Excessive pressure
 - D. Direct mail
26. Conflict of interest consent must be:
- A. Verbal
 - B. Written
 - C. Implied
 - D. Not required
27. Best practices include establishing facts through:
- A. Taxpayer statements
 - B. Assumptions
 - C. Prior years
 - D. Reasonable inquiry
28. Covered opinions must reach conclusion at:
- A. More likely than not
 - B. Reasonable basis
 - C. Substantial authority
 - D. Should level
29. Tax shelter opinions require conclusions at:
- A. Should level
 - B. Reasonable basis
 - C. More likely than not
 - D. Any level
30. Written advice must:
- A. Be formal opinion
 - B. Cover all issues
 - C. State limitations
 - D. Relate law to facts
31. Former government employee restrictions are:
- A. Temporary
 - B. Permanent for matters participated in

- C. 5 years
 - D. 2 years
32. Circular 230 sanctions include censure, suspension, and:
- A. Imprisonment
 - B. Criminal charges
 - C. Disbarment
 - D. License revocation
33. Practitioner privilege applies to communications with:
- A. All preparers
 - B. Family members
 - C. EAs, attorneys, CPAs
 - D. Anyone
34. Practitioner privilege does NOT apply to:
- A. Tax advice
 - B. IRS proceedings
 - C. Federal court
 - D. Criminal matters
35. Form 2848 must be signed by:
- A. Taxpayer only
 - B. Representative only
 - C. Taxpayer and representative
 - D. IRS
36. Form 8821 authorizes:
- A. Representation
 - B. Receiving information only
 - C. Signing returns
 - D. Advocacy
37. CAF system retains Forms 2848 for:
- A. 3 years
 - B. 5 years
 - C. 10 years
 - D. 1 year
38. Third-party designee on return authorizes contact for:

- A. All matters
- B. Representation
- C. That return only
- D. All years

39. Assessment statute generally is:

- A. 2 years
- B. 6 years
- C. 3 years
- D. 10 years

40. Six-year statute applies when omitted gross income exceeds:

- A. 10%
- B. 25%
- C. 50%
- D. \$5,000

41. Fraud extends statute of limitations:

- A. To 6 years
- B. To 10 years
- C. By 3 years
- D. Indefinitely

42. Refund claim must be filed within later of 3 years from filing or:

- A. 2 years from payment
- B. 6 months from payment
- C. 1 year from payment
- D. 5 years

43. Collection statute is 10 years from:

- A. Filing
- B. Due date
- C. Assessment
- D. Demand

44. Collection statute suspensions include OIC, bankruptcy, and:

- A. Examination
- B. CDP hearings
- C. Filing delays
- D. Appeals

45. Examination correspondence percentage is approximately:

- A. 70%
- B. 50%
- C. 30%
- D. 90%

46. Office examinations are conducted at:

- A. Taxpayer's home
- B. Representative's office
- C. Business location
- D. IRS office

47. Field examinations are conducted by:

- A. Tax examiners
- B. Customer service
- C. Revenue agents
- D. Appeals officers

48. 30-day letter provides opportunity to:

- A. Pay immediately
- B. Request Appeals
- C. Go to Tax Court
- D. File claim

49. Statutory notice of deficiency allows:

- A. 30 days to respond
- B. 60 days to respond
- C. 120 days to petition
- D. 90 days to petition Tax Court

50. Failure to file Tax Court petition results in:

- A. Assessment
- B. Appeals referral
- C. Extension
- D. Penalty

51. Small case procedures limit is:

- A. \$25,000
- B. \$75,000

- C. \$50,000
- D. \$100,000

52. Small case decisions are:

- A. Appealable
- B. Not appealable
- C. Published
- D. Precedential

53. Tax Court regular decisions are:

- A. Not published
- B. Summary opinions
- C. Memorandum decisions
- D. Published and precedential

54. District Court requires:

- A. Payment first
- B. No payment
- C. Petition
- D. Notice

55. Court of Federal Claims offers:

- A. Jury trials
- B. No payment requirement
- C. Nationwide jurisdiction
- D. State jurisdiction

56. Golsen rule requires Tax Court to follow:

- A. Supreme Court
- B. Circuit Court where taxpayer resides
- C. District Court
- D. IRS

57. Fast Track Settlement goal is resolution within:

- A. 30 days
- B. 90 days
- C. 120 days
- D. 60 days

58. Appeals mediation is:

- A. Mandatory
- B. Binding
- C. Voluntary
- D. Automatic

59. Levy notice provides:

- A. 30 days and CDP rights
- B. 60 days
- C. 90 days
- D. 15 days

60. Principal residence levy requires:

- A. IRS Commissioner approval
- B. Appeals approval
- C. Revenue officer approval
- D. Court approval

61. Federal tax lien arises when:

- A. Assessment
- B. Filing notice
- C. Demand
- D. Assessment, demand, and nonpayment

62. Lien notice is filed with:

- A. IRS
- B. Tax Court
- C. Appropriate government office
- D. Secretary of State only

63. Lien release must be issued within:

- A. 60 days
- B. 30 days
- C. 90 days
- D. 15 days

64. OIC types include doubt as to collectibility, doubt as to liability, and:

- A. Effective tax administration
- B. Hardship
- C. Inability to pay
- D. Financial difficulty

65. OIC requires Form 433-A or 433-B and:
- A. Tax returns
 - B. Bank statements
 - C. Pay stubs
 - D. Application fee and payment
66. Streamlined installment agreements apply to:
- A. Any amount
 - B. \$25,000 or less
 - C. \$50,000 or less
 - D. \$100,000 or less
67. Currently not collectible requires:
- A. Unemployment
 - B. Hardship preventing payment
 - C. Bankruptcy
 - D. Low income
68. CDP hearing must be requested within:
- A. 15 days
 - B. 60 days
 - C. 90 days
 - D. 30 days
69. CDP determinations are appealable to:
- A. Tax Court
 - B. District Court
 - C. Court of Federal Claims
 - D. Appeals
70. Innocent spouse relief requires understatement attributable to:
- A. Requesting spouse
 - B. Both spouses
 - C. Other spouse
 - D. Neither spouse
71. Separation of liability requires:
- A. Still married
 - B. Divorced or living apart

- C. Legal separation only
- D. Annulment

72. Injured spouse applies when refund offset for:

- A. Other spouse's separate debt
- B. Joint debt
- C. Current taxes
- D. Both spouses' debts

73. TAS assists taxpayers experiencing:

- A. Routine issues
- B. Economic harm and hardship
- C. Simple matters
- D. All issues

74. TAS can issue:

- A. Liens
- B. Levies
- C. Summons
- D. Taxpayer Assistance Orders

75. Whistleblower awards for qualifying cases are:

- A. 15–30%
- B. 10–20%
- C. 5–15%
- D. 25–40%

76. Identity theft victims receive:

- A. Automatic refunds
- B. Penalty relief
- C. IP PIN
- D. Priority

77. Taxpayer Bill of Rights includes:

- A. 5 rights
- B. 8 rights
- C. 12 rights
- D. 10 rights

78. Summons can require:

- A. Self-incrimination
- B. Privileged information
- C. Payment
- D. Testimony and records

79. Third-party recordkeeper notice provides:

- A. 30 days
- B. 15 days
- C. 20 days to quash
- D. 60 days

80. Accuracy-related penalty rate is:

- A. 10%
- B. 20%
- C. 30%
- D. 40%

81. Fraud penalty is:

- A. 20%
- B. 50%
- C. 100%
- D. 75%

82. Failure-to-file penalty per month is:

- A. 5%
- B. 1%
- C. 0.5%
- D. 10%

83. Failure-to-pay penalty per month is:

- A. 5%
- B. 1%
- C. 0.5%
- D. 2%

84. Trust fund recovery penalty equals:

- A. 50%
- B. 100%
- C. 75%
- D. 25%

85. Responsible person requires authority and:
- A. Ownership
 - B. Signature
 - C. Knowledge
 - D. Willfulness
86. Frivolous return penalty is:
- A. \$5,000
 - B. \$1,000
 - C. \$10,000
 - D. \$2,500
87. Erroneous refund claim penalty is:
- A. 10%
 - B. 25%
 - C. 20%
 - D. 50%
88. First-time abate applies to failure-to-file, failure-to-pay, and:
- A. Accuracy penalties
 - B. Fraud penalties
 - C. Failure-to-deposit
 - D. All penalties
89. Reasonable cause requires ordinary care and prudence but failure due to:
- A. Circumstances beyond control
 - B. Ignorance
 - C. Financial hardship
 - D. Mistake
90. Penalty appeals are made to:
- A. Tax Court
 - B. Appeals Office
 - C. District Court
 - D. Collection
91. Payment designation when multiple liabilities allows taxpayer to:
- A. Designate tax periods
 - B. Reduce amount

- C. Defer payment
- D. Eliminate penalties

92. Partial payment installment agreements based on:

- A. Minimum payment
- B. Fixed amount
- C. Ability to pay
- D. IRS determination

93. Offer default causes:

- A. Renegotiation
- B. Extension
- C. Partial reinstatement
- D. Full reinstatement of liability

94. Offer compliance period typically is:

- A. 3 years
- B. 5 years
- C. 2 years
- D. 10 years

95. Appeals considers litigation hazards which means:

- A. All issues
- B. Legal precedent only
- C. Likelihood of success at trial
- D. Penalty amounts

96. Protective claim preserves rights when:

- A. Amount known
- B. Statute expired
- C. Amount not yet determinable
- D. Claim denied

97. Mitigation prevents:

- A. All adjustments
- B. Penalties
- C. Interest
- D. Double taxation or deduction

98. Information Document Request is:

- A. Summons
- B. Examination request for documents
- C. Court order
- D. Binding requirement

99. Examination statute extension requires Form 872 signed by taxpayer and:

- A. Revenue agent
- B. Manager
- C. IRS
- D. Appeals

100. Substantial authority standard is approximately:

- A. 40% likelihood
- B. 20% likelihood
- C. 50% likelihood
- D. 60% likelihood

Answer Explanations - Practice Test 10

Part 1: Individuals

1. Correct Answer: C (One of the two prior years)

Qualifying widow(er) filing status requires the taxpayer's spouse to have died in one of the two preceding tax years. For example, if the spouse died in 2023, the taxpayer can use qualifying widow(er) status for 2024 and 2025. After those two years, the taxpayer must file as single or head of household if qualified. Additional requirements include having a dependent child living in the home for the entire year and not remarrying. This status provides the same standard deduction and tax rates as married filing jointly.

2. Correct Answer: D (Totally or partially blind)

The additional standard deduction for blindness is available when the taxpayer is totally or partially blind. Partial blindness means vision cannot be corrected to better than 20/200 in the better eye or field of vision is 20 degrees or less. A statement from an eye doctor certifying blindness is required. For 2024, the additional amount is approximately \$1,950 for married taxpayers and \$2,350 for unmarried taxpayers. The additional deduction also applies for age 65 or older.

3. Correct Answer: A (One year old for entire year)

A child born on December 31 is considered to be one year old for the entire tax year for tax purposes. This favorable timing rule allows the child to be claimed as a dependent for the full year even though born on the last day. Similarly, a child who dies during the year can be claimed as a dependent if other tests are

met. This rule applies to all tax benefits related to children, including exemptions, credits, and filing status determinations.

4. Correct Answer: D (10% of support)

Multiple support agreements apply when no one person provides more than half the support for an individual, but together two or more persons (who each provide more than 10% of support) provide over half. One person who provided more than 10% can claim the dependent if the others who provided more than 10% sign statements (Form 2120) agreeing not to claim the person. This allows taxpayers to coordinate who claims a dependent when support is shared among family members.

5. Correct Answer: B (More than one person can claim)

The tiebreaker rule for qualifying child applies when more than one person can claim the same child as a qualifying child (such as when a child lives with both a parent and grandparent). The rules prioritize in this order: (1) parent over non-parent, (2) parent with whom child lived longer, (3) parent with higher AGI if same time, (4) higher AGI if no parent. These rules prevent multiple people from claiming the same child and ensure the most appropriate person claims the benefits.

6. Correct Answer: C (First three years)

Alimony recapture rules apply when alimony payments decrease by more than \$15,000 during the first three years. The rules prevent taxpayers from disguising property settlements as alimony to get current deductions. Recapture occurs in the third year if payments decrease significantly. However, these rules only apply to alimony under pre-2019 divorce agreements—alimony under agreements executed after 2018 is not deductible by the payor or taxable to the recipient, so recapture rules don't apply.

7. Correct Answer: D (Not deductible and not taxable)

Child support payments are neither deductible by the payor nor taxable to the recipient. This contrasts with alimony under pre-2019 agreements (which was deductible and taxable) and alimony under post-2018 agreements (which is non-deductible and non-taxable). Child support is considered a personal expense for the payor and a personal receipt for the recipient. If a payment is designated as both alimony and child support, child support is paid first before any amount is treated as alimony.

8. Correct Answer: A (Self-employment tax)

Ministers' earnings for ministerial services are subject to self-employment tax, not FICA (which applies to employees). Ministers are treated as self-employed for Social Security and Medicare tax purposes even if they're employees for income tax purposes. However, ministers can elect to be exempt from self-employment tax under Section 1402(e) if they're conscientiously opposed to public insurance for religious reasons. The housing allowance excluded from income tax is still subject to self-employment tax.

9. Correct Answer: C (Fully excluded)

Military combat pay received while serving in a combat zone is fully excluded from gross income. This exclusion applies to active duty military members serving in designated combat zones. Officers' exclusion is limited to the highest enlisted pay rate plus imminent danger/hostile fire pay. The combat pay exclusion is one of the most significant tax benefits for military personnel. However, combat pay can be treated as earned income for EITC purposes even though excluded from gross income.

10. Correct Answer: B (Disability is permanent)

Disability pensions are generally taxable as ordinary income. However, disability income may be excludable if the taxpayer retired on disability before reaching minimum retirement age and is permanently and totally disabled (unable to engage in any substantial gainful activity due to physical or mental condition expected to last at least 12 months or result in death). The exclusion amount is limited and phases out at higher income levels. Once the taxpayer reaches minimum retirement age, disability payments are fully taxable.

11. Correct Answer: A (Excluded from income)

Workers' compensation benefits received for job-related injuries or illnesses are excluded from gross income. This exclusion applies to benefits paid under workers' compensation acts or similar laws providing compensation for occupational injury or sickness. The exclusion ensures injured workers aren't taxed on benefits replacing lost wages due to work injuries. Return-to-work supplements and similar payments may also be excluded under certain conditions. The exclusion doesn't apply to retirement benefits or to amounts received after returning to work.

12. Correct Answer: B (Excluded from income)

Qualified foster care payments from state or local governments or qualified foster care placement agencies are excluded from income, including regular foster care payments and difficulty-of-care payments for children with special needs. Difficulty-of-care payments compensate foster parents for additional care required by physically, mentally, or emotionally handicapped children. The payments must be for care of a qualified foster individual in the foster parent's home. The exclusion ensures foster parents aren't taxed on reimbursements for caring for foster children.

13. Correct Answer: C (On employer's premises)

Meals and lodging provided by employers are excluded from employee income when furnished on the employer's business premises for the employer's convenience. For lodging, the employee must be required to accept it as a condition of employment. Meals provided off-premises or as cash allowances are generally taxable. The on-premises requirement ensures the exclusion applies only when the employer has a substantial business reason for providing meals at the work location, such as availability for emergency calls or because no other eating facilities are nearby.

14. Correct Answer: A (\$18,000 per donee)

The annual gift tax exclusion for 2024 is \$18,000 per donee (adjusted periodically for inflation). Taxpayers can give up to this amount to any number of recipients without gift tax consequences or reporting requirements. Married couples can combine their exclusions to give \$36,000 per donee through gift-splitting. The exclusion applies per recipient, so giving \$18,000 each to ten people creates no gift tax. Gifts exceeding the annual exclusion require filing Form 709 but may not result in tax if within the lifetime exemption.

15. Correct Answer: D (Not taxable unless policy lapses)

Life insurance policy loans are not taxable when taken out, regardless of amount. The loan is secured by the policy's cash value and doesn't create income. However, if the policy lapses or is surrendered with an outstanding loan, the loan amount exceeding basis becomes taxable income. Interest on policy loans is generally not deductible (except for business-owned policies in limited circumstances). Policy loans reduce the death benefit if outstanding when the insured dies, but death benefits generally remain excludable.

16. Correct Answer: B (Principal residence)

Section 121 home sale exclusion applies to gain on the sale of the taxpayer's principal residence. The exclusion is up to \$250,000 for single filers or \$500,000 for married filing jointly. The home must be owned and used as the principal residence for at least 2 of the 5 years before sale. Only one principal residence at a time qualifies. Vacation homes, rental property, and investment property don't qualify unless converted to principal residence and the use test is met. The exclusion can be used repeatedly, but not more than once every 2 years.

17. Correct Answer: A (2 of 5 years)

The ownership and use tests for home sale exclusion require the taxpayer to have owned the home and used it as a principal residence for at least 2 years during the 5-year period ending on the sale date. The 2 years need not be continuous—short absences for vacation don't interrupt the use test. Temporary rental periods may qualify if the home was the principal residence before and after. Spouses can combine ownership and use periods if filing jointly. The tests ensure the exclusion benefits true homeowners, not investors flipping properties.

18. Correct Answer: D (Unforeseen circumstances)

Partial home sale exclusion is available for sales due to change in employment, health reasons, or unforeseen circumstances (such as divorce, multiple births, unemployment, natural disasters, or other specified events). The partial exclusion equals the fraction of the 2-year period the ownership and use tests were met, multiplied by the full exclusion amount. For example, if tests were met for 1 year (50% of 2 years), the exclusion is \$125,000 for single filers. The safe harbors for unforeseen circumstances are found in IRS regulations.

19. Correct Answer: C (Real property)

Like-kind exchange deferral under Section 1031 applies only to real property (real estate) held for investment or use in a trade or business, effective for exchanges after December 31, 2017. The Tax Cuts and Jobs Act eliminated personal property from Section 1031 treatment. Both properties exchanged must be like-kind (all real estate is like-kind to other real estate regardless of type) and held for qualifying purposes. Personal use property, dealer inventory, and securities don't qualify. The exchange allows indefinite deferral of gain recognition.

20. Correct Answer: B (2 years)

The involuntary conversion replacement period for personal property destroyed, stolen, condemned, or disposed of under threat of condemnation is 2 years from the close of the first tax year gain is realized. For real property used in trade or business or held for investment, the period is 3 years (extended to 4 or 5 years for certain disaster situations). The taxpayer must purchase replacement property similar or related in service or use to defer gain recognition. The replacement period allows time to find suitable replacement property.

21. Correct Answer: D (\$50 million)

Qualified small business stock under Section 1202 requires the issuing C corporation's gross assets not to exceed \$50 million before and immediately after the stock issuance. This limit ensures the benefit targets truly small businesses. The corporation must be engaged in an active trade or business (not personal services, banking, farming, mining, or certain other businesses). The stock must be acquired at original issue for cash or property (not services or other stock). Holders must keep the stock more than 5 years for the gain exclusion.

22. Correct Answer: A (5 years)

Section 1202 qualified small business stock must be held for more than 5 years to qualify for the gain exclusion. The exclusion percentage depends on acquisition date: 50% for stock acquired before February 18, 2009; 75% for stock acquired February 18, 2009 through September 27, 2010; 100% for stock acquired after September 27, 2010. The excluded gain is limited to the greater of \$10 million or 10 times the stock's adjusted basis. The long holding period ensures the benefit rewards true long-term investment in small businesses.

23. Correct Answer: A (28%)

Collectibles (art, antiques, gems, stamps, coins, precious metals) held long-term (more than one year) are subject to a maximum capital gains rate of 28%, higher than the 0%, 15%, or 20% rates for other long-term capital gains. This higher rate on collectibles reflects policy views that such gains shouldn't receive the most favorable capital gains treatment. The 28% rate applies regardless of the taxpayer's regular income tax bracket. Collectibles held one year or less are taxed at ordinary income rates.

24. Correct Answer: C (Indefinitely)

Net capital losses can be carried forward indefinitely until fully utilized. Each year, capital losses offset capital gains, and net capital losses up to \$3,000 (\$1,500 if married filing separately) can offset ordinary income. Excess losses carry forward to future years maintaining their character as short-term or long-term. There's no time limit on carryforwards—they continue until the taxpayer dies or fully uses them. Capital loss carryforwards transfer to surviving spouses. This indefinite carryforward ensures taxpayers eventually benefit from capital losses.

25. Correct Answer: D (Capital loss on last day of year)

Worthless securities (stocks, bonds becoming completely worthless during the year) are treated as sold on the last day of the tax year for a capital loss. The loss is treated as arising from a sale or exchange, so it's a capital loss (not ordinary loss). The loss is long-term or short-term based on the original holding period. To claim the loss, the security must be completely worthless—partially worthless securities don't qualify. The last-day-of-year rule simplifies determining when the loss is recognized.

26. Correct Answer: B (20% of QBI)

The qualified business income deduction under Section 199A is generally the lesser of (1) 20% of qualified business income or (2) 20% of taxable income minus net capital gains. QBI is net income from qualified trades or businesses operated as sole proprietorships, partnerships, or S corporations. The deduction is taken "below the line" (reduces taxable income but not AGI). Specified service trades face income limitations. The W-2 wage and property limitations apply above threshold amounts. The deduction significantly reduces tax on business income.

27. Correct Answer: D (Threshold amounts)

The QBI deduction phases out for specified service trades or businesses (health, law, accounting, consulting, athletics, financial services, brokerage services, where principal asset is the reputation or skill of owners or employees) when taxable income exceeds threshold amounts (approximately \$191,950 for single filers, \$383,900 for married filing jointly in 2024, adjusted for inflation). Below these thresholds, specified service businesses receive the full 20% deduction. Above the thresholds, the deduction phases out entirely. This limitation prevents highly compensated professionals from receiving the deduction intended for traditional businesses.

28. Correct Answer: A (HSA contributions)

Above-the-line deductions (adjustments to income) are subtracted from gross income to arrive at adjusted gross income. They include HSA contributions, IRA contributions, self-employed health insurance, self-employment tax deduction, student loan interest, educator expenses, moving expenses (military only), and certain other items. Charitable contributions, medical expenses, and mortgage interest are itemized deductions (below-the-line), reducing taxable income but not AGI. Above-the-line deductions are valuable because they reduce AGI, which affects many tax calculations and phase-outs.

29. Correct Answer: C (\$1,000)

IRA catch-up contributions for taxpayers age 50 or older by year-end are \$1,000, in addition to the regular contribution limit (\$7,000 for 2024). This allows older taxpayers to contribute \$8,000 total (\$7,000 regular + \$1,000 catch-up). The catch-up contribution helps those nearing retirement increase retirement savings. The \$1,000 catch-up amount is not indexed for inflation and has remained \$1,000 since 2006. Both traditional and Roth IRAs allow the same catch-up contribution.

30. Correct Answer: B (3%)

SIMPLE IRA employer matching contributions are generally 3% of the employee's compensation (for employees who make elective deferrals). Employers can reduce the match to as low as 1% in no more than 2 years out of 5. Alternatively, employers can make 2% nonelective contributions for all eligible employees regardless of whether they contribute. The matching requirement ensures employees receive employer contributions when they participate. SIMPLE IRAs are available to employers with 100 or fewer employees who don't maintain other retirement plans.

31. Correct Answer: A (\$23,000)

Solo 401(k) employee deferral limit for 2024 is \$23,000 for those under age 50 (\$30,500 with \$7,500 catch-up for those 50 or older). This is the elective deferral limit as an "employee." Additionally, the self-employed person can make profit-sharing contributions as the "employer" up to 25% of compensation (20% of self-employment income after the deduction for half of SE tax), with total contributions not exceeding \$69,000 (\$76,500 with catch-up). Solo 401(k)s provide substantial contribution opportunities for self-employed individuals.

32. Correct Answer: C (After-tax)

Roth 401(k) contributions are made with after-tax dollars (not deductible), but qualified distributions are tax-free. This mirrors Roth IRA treatment but within an employer 401(k) plan. Employees can split contributions between traditional (pre-tax) and Roth (after-tax) 401(k)s within the overall contribution limit. Roth 401(k)s don't have income limitations like Roth IRAs. The after-tax nature means no current deduction, but tax-free growth and distributions provide long-term benefits, especially for younger workers who expect higher future tax rates.

33. Correct Answer: B (First-time homebuyer)

Early distribution penalty exceptions include first-time homebuyer expenses (up to \$10,000 lifetime for buying, building, or rebuilding a first home for self, spouse, child, grandchild, or ancestor), higher education expenses, medical expenses exceeding 7.5% of AGI, health insurance premiums while unemployed, disability, death, substantially equal periodic payments, IRS levy, qualified reservist distributions, and birth or adoption (\$5,000). Vacation homes, auto purchases, and general hardship don't qualify. These exceptions recognize legitimate needs for retirement fund access without penalty.

34. Correct Answer: A (Age 59½)

Substantially equal periodic payments (Section 72(t) distributions) must continue for the longer of 5 years or until the taxpayer reaches age 59½. For example, someone starting payments at age 56 must continue until 61 (5 years), while someone starting at 45 must continue until 59½. Modifying the payments before the required period triggers retroactive penalties on all distributions. The rule prevents taxpayers from taking a few penalty-free withdrawals and then stopping, ensuring the exception serves those needing long-term income streams.

35. Correct Answer: D (10 years)

IRA beneficiaries who are not spouses (and who are not eligible designated beneficiaries—minor children, disabled, chronically ill, or not more than 10 years younger than deceased) must withdraw the entire inherited IRA balance within 10 years of the original owner's death under the SECURE Act (effective for deaths after 2019). RMDs are not required during the 10 years—the entire balance must simply be distributed by the end of the 10th year. This accelerates taxation compared to prior law allowing life expectancy payouts.

36. Correct Answer: B (RMD requirement)

Qualified charitable distributions (QCDs) from IRAs directly to qualifying charities can satisfy the required minimum distribution requirement for taxpayers age 70½ or older (even though RMDs now begin at 73). QCDs are excluded from income (not included in AGI then deducted), providing better tax treatment than taking the distribution as income and claiming a charitable deduction. The maximum QCD is \$105,000 annually (adjusted for inflation). QCDs benefit taxpayers who don't itemize deductions or who want to reduce AGI.

37. Correct Answer: C (\$77,000)

The phase-out for deductible traditional IRA contributions for single filers covered by workplace retirement plans begins at approximately \$77,000 MAGI for 2024 (adjusted annually for inflation) and is completely phased out at \$87,000. Within this range, the deduction is reduced proportionally. For married filing jointly where the IRA contributor is covered by a workplace plan, the phase-out is approximately \$123,000-\$143,000. Taxpayers not covered by workplace plans can deduct IRA contributions regardless of income, making traditional IRAs valuable for high-income earners without workplace coverage.

38. Correct Answer: B (Joint return filing)

Spousal IRA contributions allow contributions for a spouse with little or no compensation if filing a joint return and the contributing spouse has sufficient earned income. The contribution can be up to the lesser of earned income or the contribution limit for each spouse. This allows non-working or low-earning spouses to build retirement savings. The spouses don't both need to work—one spouse's income can fund both IRAs. This provision recognizes that married couples share income and should have equal retirement saving opportunities.

39. Correct Answer: D (\$16,100)

The Health Savings Account maximum out-of-pocket limit for family high-deductible health plans in 2024 is approximately \$16,100 (adjusted annually). The minimum deductible for family coverage is \$3,200. These limits define qualifying high-deductible health plans that make individuals eligible for HSAs. The out-of-pocket maximum caps total annual expenses including deductibles and copays (excluding premiums), protecting families from catastrophic costs while maintaining the high-deductible structure that makes HSAs valuable tax-advantaged savings vehicles.

40. Correct Answer: A (\$1,000)

HSA catch-up contributions for individuals age 55 or older are an additional \$1,000 beyond the regular contribution limit. For 2024, family coverage allows \$8,300 regular contribution plus \$1,000 catch-up (\$9,300 total). The catch-up helps older individuals (who typically have higher medical expenses) build HSA balances before Medicare eligibility at 65. Unlike IRA catch-ups (age 50), HSA catch-ups begin at 55. Each spouse age 55 or older can make a \$1,000 catch-up contribution to their own HSA.

41. Correct Answer: D (Qualified medical expenses)

Qualified medical expenses for HSA purposes include diagnosis, cure, mitigation, treatment, or prevention of disease; amounts paid for treatments affecting body structure or function; prescription drugs; insulin; preventive care; and certain other medical expenses. Over-the-counter medicines (without prescription) generally don't qualify except as specifically provided (such as certain menstrual products). Cosmetic surgery (unless medically necessary), health club dues, and non-prescription vitamins don't qualify. HSA funds used for non-qualified expenses are taxable and subject to 20% penalty (except after age 65, disability, or death).

42. Correct Answer: A (Medical expenses)

Medicare Part B premiums (covering doctor visits and outpatient care) are deductible as medical expenses on Schedule A, subject to the 7.5% of AGI floor. This includes the standard Part B premium and any income-related monthly adjustment amounts (IRMAA) for higher-income beneficiaries. Self-employed individuals can deduct health insurance premiums (including Medicare premiums) as an adjustment to income, providing better tax treatment. Medicare Part A premiums (for those who must pay them) are also deductible as medical expenses.

43. Correct Answer: C (Medical expense)

COBRA premiums paid while unemployed are deductible as medical expenses on Schedule A, subject to the 7.5% of AGI floor. COBRA allows continuation of employer health coverage after job loss. Self-employed individuals can deduct health insurance premiums (including COBRA) as an adjustment to income, which is more beneficial than itemizing. There's also a special rule allowing unemployed individuals to deduct health insurance premiums as an adjustment to income if they received unemployment compensation for at least 12 weeks.

44. Correct Answer: A (Age at end of year)

Long-term care insurance premium deduction limits are based on the insured's age at the end of the tax year. For 2024, limits range approximately from \$470 (age 40 or younger) to \$5,880 (over age 70), adjusted annually for inflation. Only qualified long-term care insurance contracts qualify for these limits. The premiums are deductible as medical expenses subject to the 7.5% of AGI floor. Self-employed individuals can deduct the age-based limit as an adjustment to income (part of the self-employed health insurance deduction).

45. Correct Answer: D (Increase in home value)

Capital improvements for medical purposes (such as ramps, widening doorways, installing lifts for disabled individuals) are deductible as medical expenses to the extent the cost exceeds the increase in the home's fair market value. If the improvement doesn't increase home value (or increases it less than cost), the excess (or full cost) is a current medical deduction subject to the 7.5% floor. If the improvement increases value by the full cost, no current deduction is allowed, but basis increases for potential future benefit on sale.

46. Correct Answer: C (Medically necessary)

Nursing home costs are deductible as medical expenses when the primary reason for being in the facility is medical care, including treatment, rehabilitation, or medical monitoring. If medically necessary, the full cost (including meals and lodging) qualifies. If not medically necessary (such as personal care only), only the portion attributable to medical care qualifies. A physician's statement confirming medical necessity helps substantiate the deduction. The costs must be for the taxpayer, spouse, or dependent and are subject to the 7.5% of AGI floor.,

47. Correct Answer: C (Phases out with income)

The mortgage insurance premiums deduction, when available, phases out based on adjusted gross income. The deduction begins phasing out when AGI exceeds \$100,000 (\$50,000 for married filing separately) and is completely phased out when AGI reaches \$109,000 (\$54,500 for married filing separately). The deduction applies to premiums paid on acquisition debt for a qualified residence. The deduction has been temporary legislation that has expired and been retroactively extended multiple times—it's not permanent. The phase-out ensures the benefit targets lower and middle-income homeowners rather than providing unlimited deductions to high-income taxpayers. Taxpayers should verify current law status as the deduction's availability changes based on Congressional action.

48. Correct Answer: A (Paid on principal residence)

Points paid on the purchase of a principal residence are deductible in the year paid if conditions are met: the loan is secured by the principal residence, paying points is established practice in the area, points don't exceed amounts generally charged, the taxpayer uses the cash method, points aren't for separately stated items (appraisal, title fees), and funds provided at or before closing equal or exceed points. Points on second homes and refinancing must be amortized over the loan term. The immediate deduction for principal residence purchase reflects the significant cost of homebuying.

49. Correct Answer: D (Improve home)

Home equity loan interest is deductible only if the proceeds are used to buy, build, or substantially improve the residence securing the loan. Interest on home equity loans used for other purposes (paying credit cards, buying cars, college tuition, personal expenses) is not deductible for 2018-2025 under the Tax Cuts and Jobs Act. The loan must be secured by a qualified residence. The limitation ensures the favorable interest deduction applies only when using home equity to improve the home, not to finance consumption.

50. Correct Answer: C (Indefinite)

Investment interest expense that exceeds net investment income for the year can be carried forward indefinitely to future years. Each year, investment interest expense is deductible up to net investment income (interest, dividends, capital gains if elected to be treated as investment income rather than receiving capital gains rates, and other investment income). The indefinite carryforward ensures taxpayers eventually benefit from investment interest expenses, though timing mismatches between interest expense and investment income can defer deductions for extended periods.

51. Correct Answer: B (Capitalized over loan term)

Prepaid interest must be capitalized and deducted over the period to which it relates, even for cash-method taxpayers. This prevents taxpayers from accelerating deductions by prepaying interest. Each year, the appropriate portion of prepaid interest is deducted. For example, prepaying interest for 12 months creates 12 monthly deductions. Points on principal residence purchase are an exception to the prepayment rule, allowing immediate deduction if requirements are met. Points on refinancing are prepaid interest amortized over the loan term.

52. Correct Answer: D (30% of AGI)

Charitable contributions of capital gain property (property that would produce long-term capital gain if sold) held more than one year are deductible at fair market value but limited to 30% of adjusted gross income (50% for gifts to private foundations). Cash contributions have a 60% limit. If contributions exceed the percentage limit, excess amounts carry forward for 5 years. Taxpayers can elect to deduct capital gain property at basis instead of FMV to use the 60% limit. The 30% limit balances allowing FMV deductions with preventing excessive AGI offsets.

53. Correct Answer: C (30% of AGI)

Charitable contributions to private foundations are limited to 30% of AGI for cash contributions and 20% of AGI for capital gain property contributions (compared to 60% and 30% for public charities). Private foundations are generally family-controlled charities with narrow purposes. The lower limits reflect policy concerns about private foundation control and tax benefits. Contributions exceeding the limits carry forward for 5 years. The differential treatment encourages contributions to public charities serving broader purposes.

54. Correct Answer: C (Good used condition or better)

Donated clothing and household items must be in good used condition or better to be deductible. Items in poor condition aren't deductible unless they have significant value and are supported by qualified appraisals. This prevents deducting worthless items. The good condition requirement ensures meaningful charitable contributions. Charities can sell or use good condition items, providing real value. The IRS can disallow deductions for items not meeting the standard, emphasizing the importance of donating usable items.

55. Correct Answer: B (Written acknowledgment from charity)

Vehicle donations over \$500 require written acknowledgment from the charity. If the charity sells the vehicle without significant use or material improvement, the deduction is limited to the gross proceeds from the sale (shown on Form 1098-C provided by the charity). If the charity uses or materially improves the vehicle, the donor can deduct fair market value (supported by qualified appraisal if over \$5,000). The strict substantiation rules prevent overvaluation of vehicle donations, a previously abused area.

56. Correct Answer: A (Charitable contributions)

Out-of-pocket expenses incurred while performing services for charitable organizations are deductible as charitable contributions. This includes supplies, uniforms, travel costs (including mileage at 14 cents per mile), parking, and tolls. The expenses must be unreimbursed and directly connected with the volunteer services. Value of time or services donated is never deductible. The deduction for expenses ensures volunteers aren't penalized for costs incurred in charitable work, though the benefit is limited to out-of-pocket costs, not the value of services provided.

57. Correct Answer: D (\$250 or more)

Contemporaneous written acknowledgment from the charity is required for charitable contributions of \$250 or more (whether cash or property). The acknowledgment must state the contribution amount, describe any goods or services received in return, and provide good faith estimate of the value of such benefits. It must be obtained by the earlier of the return filing date or due date (including extensions). Canceled checks alone don't suffice for \$250+ contributions. The substantiation requirement prevents fraudulent deduction claims for large contributions.

58. Correct Answer: C (Form 8283)

Noncash charitable contributions over \$500 require Form 8283, Noncash Charitable Contributions, reporting the donated property's description, date acquired, how acquired, cost basis, fair market value, and method of FMV determination. For property over \$5,000, qualified appraisals are also required. The form must be attached to the tax return. These requirements prevent overvaluation and ensure proper substantiation. The reporting thresholds increase with contribution size, reflecting greater potential for abuse in larger donations.

59. Correct Answer: B (Qualified appraisal)

Noncash charitable contributions over \$5,000 require a qualified appraisal by a qualified appraiser. The appraisal must be conducted no earlier than 60 days before the contribution and obtained before the return due date (including extensions). Form 8283 Section B must be completed and signed by the appraiser and charity. For contributions over \$500,000, the appraisal must be attached to the return. These strict requirements apply to prevent overvaluation of significant property donations, ensuring deductions reflect actual values.

60. Correct Answer: C (\$500)

The casualty loss floor per event for personal casualty losses is \$500 (changed from \$100 by the Tax Cuts and Jobs Act for 2018-2025). Each loss must exceed \$500, and total losses for the year must exceed 10% of AGI. Only losses in federally declared disaster areas are deductible for 2018-2025. The \$500 floor prevents small loss claims while the 10% AGI floor ensures deductions go to substantial losses relative to income, making casualty loss deductions available only for truly catastrophic losses.

61. Correct Answer: B (Netted together)

Personal casualty gains and losses are netted together. If losses exceed gains, the excess (after \$500 per event and 10% AGI floors) is an itemized deduction. If gains exceed losses, both gains and losses are treated as capital gains and losses (reported on Form 4684 and Schedule D). This netting prevents taxpayers from selectively reporting gains as capital and losses as ordinary. The rule ensures consistent treatment and prevents gaming the system by timing recognition of gains and losses.

62. Correct Answer: B (Loss discovered)

Theft losses are deductible in the year the loss is discovered, not necessarily when the theft occurred or when reported to police. Discovery year recognition reflects that taxpayers often don't know immediately when thefts occur (embezzlement, fraud may not be discovered until much later). The discovery rule prevents requiring deductions in years when taxpayers weren't aware of losses. For 2018-2025, only theft losses in federally declared disaster areas are deductible for personal property.

63. Correct Answer: A (Credit or deduction)

Restoration of amounts held under claim of right allows the taxpayer to either (1) deduct the repayment in the year of repayment, or (2) claim a credit for the tax paid in the earlier year on the repaid amount if the repayment exceeds \$3,000 (Section 1341). The credit option prevents double taxation—paying tax when received and getting only a deduction when repaid. Taxpayers compare the benefit of each option and choose the better one. This relief addresses situations where income must be returned.

64. Correct Answer: D (Lump-sum election)

Repayment of Social Security benefits in a later year allows for a special lump-sum election. If benefits for a prior year are repaid in the current year, the taxpayer can choose to refigure the prior year's tax without the benefits and claim a credit for the difference, or deduct the repayment in the current year. The

lump-sum method often provides better results by avoiding double taxation (taxed when received, only deduction when repaid). The election recognizes the special nature of Social Security benefit repayments.

65. Correct Answer: C (Active duty military)

Moving expenses for 2018-2025 are deductible only for active duty members of the Armed Forces who move due to military orders and permanent change of station. The Tax Cuts and Jobs Act suspended moving expense deductions for other taxpayers. Before 2018 and after 2025 (unless extended), moving expenses meeting distance and time tests are deductible. Employer reimbursements of moving expenses are taxable to employees (except military). The military exception recognizes that service members have no choice about relocating for duty.

66. Correct Answer: B (\$300)

Eligible educators (teachers, instructors, counselors, principals, aides working at least 900 hours in K-12 schools) can deduct up to \$300 of unreimbursed expenses for books, supplies, equipment, and professional development. If both spouses are educators, they can deduct up to \$300 each (\$600 total) if filing jointly. The deduction is an adjustment to income. COVID-19 protective items also qualify. The modest deduction recognizes teachers' out-of-pocket classroom expenses while acknowledging budget constraints on a broader deduction.

67. Correct Answer: D (Adjustment to income)

Self-employed health insurance premiums for the taxpayer, spouse, and dependents are deductible as an adjustment to income on Schedule 1, not as a business expense on Schedule C or as an itemized deduction. The deduction is limited to net self-employment income and isn't available for months when eligible for employer-sponsored coverage (through the self-employed person's employer or spouse's employer). This above-the-line deduction provides parity with employees who receive employer-paid health insurance as a tax-free benefit.

68. Correct Answer: A (Net earnings from self-employment)

Keogh plan (HR-10 plan) contributions for self-employed individuals are based on net earnings from self-employment, which equals net profit from Schedule C minus the deduction for one-half of self-employment tax. For profit-sharing Keoghs, contributions can be up to 20% of net self-employment earnings (effectively 25% of compensation like for employees, after accounting for the self-employment adjustment). For money purchase pension plans, defined contribution, and defined benefit plans, different calculations apply. The earnings base ensures contributions reflect actual self-employment income.

69. Correct Answer: C (Adjustment to income)

Self-employed retirement plan contributions (SEP-IRA, SIMPLE IRA, Solo 401(k), Keogh) are deducted as adjustments to income on Schedule 1, not as business expenses on Schedule C or as itemized deductions. This above-the-line treatment provides parity with employees who have retirement contributions excluded from wages. The adjustment reduces AGI, which benefits various AGI-based

calculations and phase-outs. The deduction encourages retirement saving by self-employed individuals who lack employer-sponsored plans.

70. Correct Answer: B (50 employees)

Archer Medical Savings Accounts are available to employees of small employers with 50 or fewer employees and self-employed individuals. No new Archer MSAs can be established after 2007, but existing accounts can continue. Archer MSAs were the predecessor to Health Savings Accounts. They require high-deductible health plans and allow tax-deductible contributions, tax-free earnings, and tax-free distributions for medical expenses. The small employer limit targeted the benefit to businesses less likely to offer comprehensive health insurance.

71. Correct Answer: A (\$2,000 per qualifying child)

The child tax credit for 2024 is \$2,000 per qualifying child under age 17 at year-end. The credit is partially refundable (up to \$1,700 per child as the Additional Child Tax Credit). The credit phases out for higher-income taxpayers (\$200,000 for single filers, \$400,000 for married filing jointly). Qualifying children must be citizens, nationals, or residents with valid Social Security numbers. The credit significantly reduces tax liability for families with children, providing substantial financial support.

72. Correct Answer: D (\$1,700)

The Additional Child Tax Credit maximum refundable amount for 2024 is \$1,700 per qualifying child. This refundable portion of the child tax credit can create a refund even if no tax is owed. The refundable amount is the lesser of the unused child tax credit or 15% of earned income exceeding \$2,500. For families with three or more children, the excess FICA credit may provide additional refundable credit. The refundable feature ensures low-income working families benefit from the credit even without sufficient tax liability.

73. Correct Answer: C (Don't qualify for child tax credit)

The credit for other dependents is \$500 for each dependent who doesn't qualify for the \$2,000 child tax credit. This includes dependents age 17 or older, dependents without valid Social Security numbers (who have ITINs instead), and other qualifying relatives claimed as dependents. The credit is nonrefundable and subject to the same income phase-outs as the child tax credit. It ensures families receive some tax benefit for dependents who don't meet child tax credit requirements.

74. Correct Answer: B (\$3,000)

The dependent care credit maximum qualifying expenses for one qualifying individual are \$3,000 (\$6,000 for two or more). The credit percentage ranges from 20% to 35% depending on AGI, creating a maximum credit of \$1,050 for one child ($\$3,000 \times 35\%$) or \$2,100 for two or more ($\$6,000 \times 35\%$). The expenses must be for care allowing the taxpayer to work or look for work. Qualifying individuals include children under 13 or disabled dependents or spouses.

75. Correct Answer: D (35%)

The dependent care credit percentage ranges from 20% for higher-income taxpayers to 35% for those with AGI of \$15,000 or less. The percentage decreases by 1% for each \$2,000 of AGI above \$15,000 until reaching 20% at \$43,000 or above. The sliding scale targets benefits to lower-income working families while providing some benefit to middle-income families. The American Rescue Plan temporarily enhanced the credit for 2021 only (up to 50% on up to \$8,000/\$16,000 expenses), but those enhancements expired.

76. Correct Answer: A (Under 18 or disabled)

The adoption credit is available for each child adopted who is under age 18 or who is physically or mentally incapable of self-care. The credit covers qualified adoption expenses including adoption fees, court costs, attorney fees, traveling expenses, and other directly related expenses. For 2024, the maximum credit is approximately \$16,810 per child (adjusted for inflation). Special needs adoptions qualify for the full credit even if actual expenses are less. The credit significantly offsets adoption costs, encouraging adoption.

77. Correct Answer: C (Maximum credit amount)

Special needs adoption allows the full adoption credit (approximately \$16,810 for 2024) even when actual qualified expenses are less than the credit amount. A special needs child is a U.S. citizen or resident child whom a state determines cannot or should not be returned to parents' home and has a specific factor (ethnic background, age, sibling group, medical condition, physical/mental/emotional handicap) making placement difficult. This provision ensures families adopting special needs children receive the full credit regardless of actual expenses.

78. Correct Answer: B (Half-time)

The American Opportunity Tax Credit requires students to be enrolled at least half-time for at least one academic period during the year. Half-time is defined by the educational institution. The student must be pursuing a degree or credential and not have felony drug convictions. The AOTC covers the first four years of post-secondary education. The half-time requirement ensures the credit supports serious students while excluding those taking minimal coursework.

79. Correct Answer: A (40%)

The American Opportunity Tax Credit is calculated as 100% of the first \$2,000 of qualified education expenses plus 25% of the next \$2,000, for a maximum credit of \$2,500 per student. Of this, up to \$1,000 (40% of the \$2,500 maximum) is refundable. The refundable portion allows students and families with little or no tax liability to benefit from the credit. The 40% refundable feature makes the AOTC particularly valuable for low- and moderate-income families supporting college students.

80. Correct Answer: D (Number of years claimed)

The Lifetime Learning Credit has no limit on the number of years it can be claimed—it can be claimed in any number of years, for undergraduate, graduate, or professional degree courses, and even for courses to

acquire or improve job skills without pursuing a degree. The credit is 20% of up to \$10,000 in qualified expenses (\$2,000 maximum credit) per tax return (not per student). The unlimited years feature makes the LLC valuable for continuing and graduate education beyond the four-year AOTC limit.

81. Correct Answer: B (529 distribution)

Education credits cannot be claimed for the same student and same expenses as tax-free 529 plan distributions, Coverdell ESA distributions, tax-free scholarship or fellowship grants, Pell grants, employer-provided educational assistance, veteran's educational assistance, or other tax-free educational benefits. However, if the student has expenses exceeding tax-free assistance, credits can be claimed on the excess expenses. This prevents "double-dipping"—getting both tax-free distributions and tax credits for the same expenses. Careful planning maximizes total tax benefits.

82. Correct Answer: C (Qualified education expenses)

Coverdell Education Savings Account distributions are tax-free when used for qualified education expenses, including tuition, fees, books, supplies, equipment, and for K-12, room and board if attending at least half-time. Unlike 529 plans (limited to \$10,000 annually for K-12 tuition), Coverdell ESAs can cover all K-12 education expenses tax-free. Distributions exceeding qualified expenses are taxable and subject to 10% penalty on the earnings portion. The broad definition of qualified expenses makes Coverdell ESAs flexible education savings vehicles.

83. Correct Answer: D (\$10,000 per year)

Qualified tuition program (529 plan) distributions for K-12 tuition at elementary or secondary public, private, or religious schools are limited to \$10,000 per year per beneficiary (added by the Tax Cuts and Jobs Act). Distributions over \$10,000 for K-12 tuition are taxable and subject to penalty. The \$10,000 is per beneficiary, so families with multiple children can distribute \$10,000 per child. For college expenses, distributions aren't subject to dollar limits—any amount used for qualified college expenses is tax-free.

84. Correct Answer: A (50%)

The retirement savings contributions credit (Saver's Credit) is a nonrefundable credit ranging from 10% to 50% of retirement contributions up to \$2,000 per person (\$4,000 for married couples if both contribute). The rate depends on AGI: 50% for lowest income, 20% for moderate income, 10% for higher income (but below phase-out thresholds). The credit is in addition to the tax deduction or exclusion for the contribution. It's designed to encourage retirement savings by low- and moderate-income workers.

85. Correct Answer: B (Work or look for work)

Child and dependent care expenses must be for care enabling the taxpayer to work or look for work to qualify for the credit. Care for other purposes (volunteering, social activities, part-time school not leading to degree) doesn't qualify. If married, both spouses must work or look for work (or be students or disabled). The work-related requirement ensures the credit supports working families bearing childcare costs as a necessary work expense, not subsidizing personal childcare choices.

86. Correct Answer: C (Half the year)

The Earned Income Tax Credit requires qualifying children to have lived with the taxpayer in the United States for more than half the tax year. Temporary absences (school, illness, business, vacation, military service, detention, hospitalization) count as living with the taxpayer. This residence requirement ensures the credit goes to taxpayers who actually support and care for children. The more-than-half-year test provides a clear objective standard while allowing for temporary absences.

87. Correct Answer: A (25)

EITC without qualifying children requires the taxpayer to be at least age 25 but under age 65 at the end of the tax year. This age range targets the credit to working-age adults. For 2024, the maximum EITC without children is approximately \$632. The taxpayer must live in the U.S. more than half the year and meet income limits. The age limits ensure the credit supports working adults, not students or retirees, while recognizing that those under 25 may be students.

88. Correct Answer: D (Health Insurance Marketplace)

The premium tax credit is available for coverage purchased through the Health Insurance Marketplace (Exchange), not for coverage through employers, Medicare, Medicaid, or the private market outside the Marketplace. The credit helps individuals and families with incomes between 100% and 400% of the federal poverty line afford Marketplace coverage. The credit can be paid in advance directly to insurers to reduce monthly premiums, with reconciliation on the tax return using Form 8962.

89. Correct Answer: B (100%-400% of poverty line)

The premium tax credit requires household income between 100% and 400% of the federal poverty line. Below 100%, Medicaid is intended to provide coverage (though some states haven't expanded Medicaid, creating a coverage gap). Above 400%, taxpayers are expected to afford coverage without subsidies. The American Rescue Plan temporarily eliminated the 400% cap for 2021-2022, and the Inflation Reduction Act extended this through 2025. The income range targets subsidies to those who need assistance affording coverage.

90. Correct Answer: C (U.S. tax on foreign income)

The foreign tax credit limitation equals U.S. tax on foreign-source income, calculated as: $(\text{Foreign-source taxable income} \div \text{Worldwide taxable income}) \times \text{U.S. tax before credits}$. This limitation prevents foreign taxes from offsetting U.S. tax on U.S.-source income. Taxpayers can credit foreign taxes only up to the U.S. tax on the same foreign income. The limitation is calculated separately for different categories of income (passive, general). Excess foreign taxes can be carried back 1 year and forward 10 years.

91. Correct Answer: A (Tax home in foreign country)

The foreign earned income exclusion requires the taxpayer to have a tax home in a foreign country—the location of regular or principal place of business, employment, or post of duty. If no regular place, tax home is the regular place of abode. The taxpayer must also meet either the bona fide residence test (bona

vide resident of foreign country for uninterrupted period including entire tax year) or physical presence test (physically present in foreign country 330 full days during any 12-month period).

92. Correct Answer: D (\$1,156,300)

The Alternative Minimum Tax exemption for married filing jointly for 2024 is approximately \$133,300, but it begins phasing out at approximately \$1,156,300 of alternative minimum taxable income (AMTI). The phase-out rate is 25 cents per dollar of AMTI above the threshold. These high thresholds (increased by the Tax Cuts and Jobs Act) exempt most middle-income taxpayers from AMT, limiting it primarily to high-income taxpayers with substantial preference items.

93. Correct Answer: C (Private activity bond interest)

AMT preference items include private activity bond interest (from bonds issued after August 7, 1986, subject to exceptions), percentage depletion in excess of basis, and certain accelerated depreciation. AMT adjustments include medical deductions (only deductible to extent exceeding 10% of AGI for AMT, versus 7.5% for regular tax), state and local taxes (not deductible for AMT), and home equity interest (not deductible for AMT unless used to improve home). These adjustments and preferences create AMTI exceeding regular taxable income.

94. Correct Answer: B (\$250,000)

The net investment income tax threshold for married filing jointly is \$250,000 of modified adjusted gross income (\$200,000 for single, \$125,000 for married filing separately). The 3.8% NIIT applies to the lesser of net investment income or the excess of MAGI over the threshold. Net investment income includes interest, dividends, capital gains, rents, royalties, and passive activity income, minus related expenses. The tax was added by the Affordable Care Act to help fund Medicare.

95. Correct Answer: D (\$250,000)

The additional Medicare tax (0.9%) applies to wages, railroad retirement compensation, and self-employment income exceeding \$250,000 for married filing jointly (\$200,000 for single filers, \$125,000 for married filing separately). Employers must withhold additional Medicare tax on wages over \$200,000 regardless of filing status, potentially causing overwithholding or underwithholding for married couples. The additional tax increases Medicare funding from high earners. Combined with regular Medicare tax (1.45%), high earners pay 2.35% Medicare tax (3.8% for self-employed).

96. Correct Answer: A (\$168,600)

The Social Security portion of self-employment tax for 2024 applies to net self-employment earnings up to approximately \$168,600 (the Social Security wage base, adjusted annually). The rate is 12.4% (matching the combined employee-employer rate). Earnings exceeding the wage base aren't subject to Social Security tax. Medicare tax (2.9%) applies to all earnings without limit, plus additional Medicare tax (0.9%) on earnings exceeding threshold amounts. Total SE tax equals 15.3% on earnings up to the wage base, 2.9% above.

97. Correct Answer: C (\$6,107)

Optional methods for computing self-employment tax are available when actual net self-employment earnings are less than \$6,107 (2024, adjusted for inflation). The nonfarm optional method allows reporting two-thirds of gross nonfarm income (up to \$6,107) as net earnings, usable in 5 years maximum. The farm optional method allows reporting two-thirds of gross farm income or \$5,880 (whichever is less) as net earnings, usable any number of years. These methods help maintain Social Security coverage during low-earning years.

98. Correct Answer: B (\$1,000)

Estimated tax payments are required when total tax liability (income tax, self-employment tax, additional Medicare tax, net investment income tax, household employment tax, other taxes) minus withholding and refundable credits will be at least \$1,000. This de minimis threshold exempts taxpayers with small balances from quarterly payment requirements. The threshold has remained \$1,000 for many years. Taxpayers owing less than \$1,000 can pay the full amount when filing the return without penalty for not making estimated payments.

99. Correct Answer: D (\$150,000 or less)

The estimated tax safe harbor is 90% of current year tax or 100% of prior year tax (110% if prior year AGI exceeded \$150,000) to avoid underpayment penalties. The 110% requirement for high-income taxpayers recognizes they have greater resources and capacity to pay based on prior year amounts even if income increases. For farmers and fishermen, the safe harbor is 66.67% of current year tax or 100% of prior year tax, with ability to file by March 1 instead of making fourth quarter payment.

100. Correct Answer: A (66.67% of current year)

Farmers and fishermen (with at least two-thirds of gross income from farming or fishing) have a special estimated tax safe harbor of 66.67% (two-thirds) of current year tax or 100% of prior year tax. They can avoid the January 15 fourth quarter payment by filing returns and paying full tax by March 1. This special treatment recognizes the seasonal nature of agricultural income and the difficulty of estimating annual income during the year. The relaxed requirements accommodate the unique income patterns of farming and fishing operations.

Part 2: Businesses

PART 2: BUSINESSES (Detailed Explanations for Questions 1-100)

1. Correct Answer: A (Received or constructively received)

Cash method taxpayers recognize income when received (actual receipt) or constructively received (made available without restriction). Constructive receipt occurs when income is credited to the taxpayer's account, set apart, or otherwise made available so they can draw upon it. The taxpayer need not have

physical possession. For example, a check received on December 31 is income in that year even if not deposited until January. This doctrine prevents cash-method taxpayers from deferring income by simply not collecting it when available.

2. Correct Answer: D (Services actually provided)

Under the economic performance rules, economic performance for services received by the taxpayer occurs when the services are actually provided to the taxpayer. This is when the all-events test is satisfied for accrual method deduction. For example, if a taxpayer contracts for consulting services in December but the services aren't performed until January, economic performance occurs in January. The timing rule ensures expenses are deducted in the period when the underlying obligation is satisfied, matching deductions with economic benefit.

3. Correct Answer: C (12 months after payment)

The 12-month rule allows cash method taxpayers to currently deduct prepaid expenses if the benefit doesn't extend more than 12 months after the first date the benefit is received (or beyond the end of the tax year following payment). For example, insurance paid in July 2024 covering through June 2025 is currently deductible because it doesn't extend beyond 12 months. This exception to the general rule of capitalizing prepaid expenses provides administrative convenience for short-term prepayments while preventing long-term deferral abuse.

4. Correct Answer: A (All events test met and economic performance occurs)

Accrual method taxpayers deduct expenses when both the all-events test is met (liability is fixed and amount is determinable with reasonable accuracy) AND economic performance occurs. The all-events test alone isn't sufficient—economic performance must also occur. For services received, economic performance occurs when services are provided. For property provided, it occurs when property is provided. This two-part test ensures accrual deductions reflect economic reality, not just contractual obligations.

5. Correct Answer: B (Production or purchase for resale)

Inventories are required when a taxpayer produces, purchases, or sells merchandise—goods held for sale to customers in the ordinary course of business. Service businesses generally don't need inventories. However, the small business taxpayer exception (average gross receipts under \$29 million) allows eligible businesses to avoid inventory accounting by treating inventory as non-incidental materials and supplies. The inventory requirement ensures proper matching of costs with revenue from sales.

6. Correct Answer: D (\$29 million)

The small business taxpayer exception applies when average annual gross receipts for the three preceding tax years don't exceed \$29 million (adjusted for inflation). Qualifying businesses can use the cash method, avoid inventory accounting, and avoid uniform capitalization rules. The threshold was significantly

increased by the Tax Cuts and Jobs Act to reduce compliance burdens for small and medium-sized businesses. This simplification allows more businesses to use simpler accounting methods.

7. Correct Answer: C (First in, first out)

FIFO (first in, first out) inventory method assumes the first items purchased or produced are the first items sold. Ending inventory consists of the most recently acquired items at recent costs. During inflationary periods, FIFO produces higher ending inventory values and lower cost of goods sold compared to LIFO, resulting in higher taxable income. FIFO is intuitive and often reflects actual physical flow of goods, particularly for perishable items.

8. Correct Answer: B (Replacement cost)

For lower of cost or market inventory valuation, market value is generally replacement cost (the cost to replace the inventory item by purchase or reproduction). However, market cannot exceed net realizable value (selling price minus costs to complete and sell) or be less than net realizable value minus a normal profit margin. This "ceiling" and "floor" prevent market from being unreasonably high or low. The lower of cost or market rule provides conservative inventory valuation.

9. Correct Answer: A (Producers and resellers)

UNICAP (uniform capitalization rules under Section 263A) applies to producers of real or tangible personal property and resellers (wholesalers, retailers) with average gross receipts exceeding \$29 million. Producers must capitalize direct costs and allocable indirect costs into inventory or self-constructed assets. The small business exception exempts retailers and wholesalers under the \$29 million threshold. Service businesses are generally exempt because they don't produce tangible property.

10. Correct Answer: C (\$29 million)

Section 263A exceptions include retailers and wholesalers (resellers) with average annual gross receipts not exceeding \$29 million for the three preceding tax years. This small business taxpayer exception was expanded by the Tax Cuts and Jobs Act. Qualifying businesses can avoid the complex UNICAP calculations and immediately deduct costs that would otherwise be capitalized. Producers remain subject to UNICAP regardless of size, but the retailer/wholesaler exception significantly reduces UNICAP compliance for small businesses.

11. Correct Answer: D (15%)

Percentage depletion for oil and gas for independent producers and royalty owners is 15% of gross income from the property, limited to 100% of taxable income from the property (before the depletion deduction). The 15% rate is statutory and doesn't vary. Percentage depletion can continue even after cost is fully recovered, making it more favorable than cost depletion in many cases. Major integrated oil companies cannot use percentage depletion—they must use cost depletion.

12. Correct Answer: A (Estimated total recoverable units)

Cost depletion is calculated by dividing the adjusted basis of the mineral property by the estimated total recoverable units (tons, barrels, etc.), then multiplying by the units sold during the year. The formula: $(\text{Adjusted Basis} \div \text{Total Recoverable Units}) \times \text{Units Sold} = \text{Cost Depletion}$. As reserves are depleted and sold, the per-unit rate stays constant unless adjustments are made for new information about reserves. Cost depletion recovers the actual cost invested in the property.

13. Correct Answer: D (50% of taxable income from property)

The percentage depletion deduction (for oil, gas, and certain minerals) is limited to the lesser of (1) percentage depletion calculated (15% of gross income for oil/gas) or (2) 50% of taxable income from the property (100% for oil and gas). The 50% limitation prevents percentage depletion from creating losses. This limitation is computed property-by-property, not aggregated. The limit ensures depletion doesn't eliminate all income from the property.

14. Correct Answer: B (Expensed or capitalized)

Intangible drilling costs (IDCs) for oil and gas wells can be either (1) expensed (deducted currently) in the year paid or incurred or (2) capitalized and recovered through depletion. Most taxpayers elect to expense IDCs to get immediate deductions. IDCs include costs of drilling, wages, supplies, repairs to drilling equipment, and similar costs. The election to capitalize is made by not claiming the deduction. This favorable treatment encourages oil and gas development.

15. Correct Answer: A (Original return including extensions)

The Section 179 expensing election must be made on the taxpayer's original return (including extensions) for the year the property is placed in service. The election cannot be made on an amended return. However, the amount elected can be changed on an amended return if the original return included a valid election. The election is made by completing Form 4562 and listing the assets being expensed. The strict timing requirement prevents retroactive elections after seeing year-end results.

16. Correct Answer: C (Purchase)

Section 179 property must be acquired by purchase for the election to be available. Property acquired by gift, inheritance, or from related parties doesn't qualify. "Purchase" means a transaction where basis is determined by cost, not by reference to transferor's basis (like gifts) or stepped-up basis (like inheritances). Property acquired in tax-free exchanges or involuntary conversions also doesn't qualify as purchased. The purchase requirement ensures Section 179 benefits new investment.

17. Correct Answer: D (Recovery period)

Section 179 recapture occurs if the property's business use drops to 50% or less during the property's recovery period. When recapture is triggered, the taxpayer includes in income the excess of the Section 179 deduction taken over the depreciation that would have been allowed. For example, 5-year property must maintain over 50% business use for the entire 5-year recovery period to avoid recapture. The

recapture rule prevents taxpayers from getting immediate deductions for property that becomes primarily personal-use.

18. Correct Answer: B (20 years or less)

Bonus depreciation (currently 60% for 2024) applies to qualified property with a MACRS recovery period of 20 years or less. Eligible property includes most tangible personal property (5-year, 7-year equipment), qualified improvement property (15-year), and certain other property. Real property with recovery periods exceeding 20 years (residential rental 27.5 years, nonresidential 39 years) doesn't qualify. The limitation targets bonus depreciation to shorter-lived business assets.

19. Correct Answer: C (15 years)

Qualified improvement property (QIP) placed in service after December 31, 2017, has a recovery period of 15 years. QIP includes improvements to the interior of nonresidential real property placed in service after the building was first placed in service. A technical error in the Tax Cuts and Jobs Act initially gave QIP a 39-year life, but the CARES Act retroactively corrected this to 15 years, making QIP eligible for bonus depreciation. The 15-year period reflects the shorter useful life of tenant improvements.

20. Correct Answer: A (27.5 years)

Residential rental property has a MACRS recovery period of 27.5 years using the straight-line method and mid-month convention. "Residential rental property" is a building or structure where 80% or more of the gross rental income is from dwelling units (apartments, houses rented to tenants). Hotels and motels don't qualify because transient lodging isn't a dwelling unit. The 27.5-year period is shorter than commercial property (39 years), recognizing faster depreciation of residential buildings.

21. Correct Answer: D (Real property)

The MACRS mid-month convention applies to all real property (residential rental 27.5 years, nonresidential 39 years). Under the mid-month convention, property placed in service at any time during a month is treated as placed in service at the midpoint of that month. This prevents bunching depreciation by timing property service dates. Personal property uses half-year or mid-quarter conventions. The mid-month convention recognizes that real property placement timing is less controllable than personal property.

22. Correct Answer: A (Tax-exempt use property)

The Alternative Depreciation System (ADS) is required for certain property including tax-exempt use property (property leased to tax-exempt entities), tax-exempt bond-financed property, property used predominantly outside the U.S., and certain farm property. ADS uses longer recovery periods and straight-line depreciation without bonus depreciation or Section 179 expensing. Tax-exempt use property must use ADS to prevent taxpayers from claiming accelerated depreciation on property used by tax-exempt entities who wouldn't otherwise generate tax benefits from the property. ADS is NOT required for all property, bonus depreciation property, or Section 179 property—regular MACRS is allowed for those.

23. Correct Answer: A (Computers at regular business)

Actually, this answer choice appears to contain an error in the question. Listed property includes passenger automobiles AND computers NOT used at a regular business establishment. Computers used AT a regular business establishment are specifically EXCLUDED from listed property treatment. Other listed property includes vehicles used for transportation, property used for entertainment/recreation/amusement, and cellular phones (though cell phone rules were relaxed). The restrictive listed property rules (requiring detailed records, 50% business use test for accelerated depreciation) don't apply to computers used at the taxpayer's regular business establishment.

24. Correct Answer: C (\$12,200)

The first-year depreciation limit for passenger automobiles without bonus depreciation for 2024 is approximately \$12,200 (adjusted annually for inflation). With bonus depreciation, an additional amount is allowed (approximately \$20,000 for 2024, creating a first-year limit around \$32,200 total). These luxury auto limits prevent excessive depreciation deductions on expensive vehicles. Trucks and vans have slightly higher limits. The limits are cumulative—total depreciation over the vehicle's life cannot exceed the sum of annual limits.

25. Correct Answer: D (Section 179 limits for heavy vehicles)

Trucks and vans with gross vehicle weight exceeding 6,000 pounds are exempt from luxury auto depreciation limits but face Section 179 limitations. For vehicles over 6,000 pounds but not over 14,000 pounds, Section 179 expensing is limited to approximately \$29,200 (for 2024). This prevents immediate expensing of very expensive heavy SUVs and trucks while allowing more generous depreciation than luxury auto limits. Vehicles over 14,000 pounds face no Section 179 limitation.

26. Correct Answer: B (End of first year)

Organizational costs must be incurred before the end of the first tax year in which the corporation or partnership is in business. Organizational costs include legal fees for creating the entity, state incorporation fees, accounting fees for setting up books, organizational meeting costs, and similar startup costs. These costs are eligible for the \$5,000 first-year deduction (reduced dollar-for-dollar when costs exceed \$50,000) plus amortization of the remainder over 180 months. The timing requirement (before end of first year) identifies costs related to entity formation versus ongoing operational costs.

27. Correct Answer: C (Active business begins)

Business startup costs include investigating creating or acquiring a business, creating an active business, and pre-opening activities, all incurred before the active business begins. Once business begins, costs are currently deductible business expenses. Startup costs eligible for the \$5,000 first-year deduction (reduced when exceeding \$50,000) plus 180-month amortization include market surveys, advertising, employee training, consultant fees, and similar pre-opening costs. The timing distinction between startup costs and current expenses is critical.

28. Correct Answer: D (180 months)

Organizational costs exceeding the first-year deduction (\$5,000 reduced by excess over \$50,000) are amortized over 180 months (15 years), beginning with the month the corporation or partnership begins business. The long amortization period recognizes that organizational benefits extend throughout the entity's life. If the entity is liquidated before full amortization, any remaining basis can be deducted. Similar treatment applies to startup costs—\$5,000 first-year deduction with 180-month amortization of the excess.

29. Correct Answer: A (Amortized over 5 years)

Research and experimental expenditures under Section 174 for tax years beginning after December 31, 2021, must be capitalized and amortized over 5 years for research conducted in the United States (15 years for foreign research). Previously, R&E costs could be currently expensed. Amortization begins at the midpoint of the tax year. This change, part of the Tax Cuts and Jobs Act, generates significant revenue but is controversial for potentially reducing innovation incentives. Some advocate for returning to immediate expensing.

30. Correct Answer: C (15 years)

Section 197 intangibles acquired in connection with acquiring a trade or business must be amortized over 15 years (180 months) using straight-line method, regardless of actual useful life. Section 197 intangibles include goodwill, going concern value, workforce in place, customer-based intangibles, supplier-based intangibles, licenses, permits, covenants not to compete, and franchises. The mandatory 15-year period eliminates disputes about useful life and prevents overvaluation to accelerate deductions.

31. Correct Answer: A (Expensed)

Self-created intangibles are generally expensed as incurred—costs to develop them are deducted as ordinary business expenses when paid or incurred. Self-created goodwill, customer lists developed internally, brand names, and similar intangibles don't qualify for Section 197 amortization because they weren't purchased. Only intangibles acquired in connection with acquiring a trade or business qualify for 15-year amortization under Section 197. This creates an asymmetry—businesses expense costs creating intangibles but must capitalize and amortize when purchasing them. The immediate expensing of self-created intangibles reflects that the costs are deductible business expenses (salaries, marketing, etc.) incurred to generate the intangibles.

32. Correct Answer: B (Customer lists)

Customer-based intangibles acquired in a business purchase include customer lists, customer relationships, customer contracts, and customer information. These are Section 197 intangibles amortized over 15 years. The category also includes subscription lists and circulation bases for publishers. Customer-based intangibles often represent significant value in service businesses. Self-created customer lists (developed internally) aren't amortizable—only those acquired in business purchases qualify for 15-year amortization.

33. Correct Answer: C (15 years)

Covenants not to compete acquired in connection with acquiring a trade or business are Section 197 intangibles amortized over 15 years, regardless of the actual term of the covenant. Before Section 197, covenants were amortized over their actual terms, creating incentives to negotiate long terms to reduce value allocated to covenants versus goodwill. The mandatory 15-year period eliminates this planning and prevents disputes about covenant valuation and term. The treatment is the same as goodwill.

34. Correct Answer: D (Amortized over 15 years)

Franchise fees paid to acquire a franchise (or to renew a franchise) are Section 197 intangibles when acquired in connection with acquiring a trade or business, amortized over 15 years regardless of the franchise agreement term. Contingent franchise fees (such as royalties based on sales or revenue) are deductible as paid or accrued, not amortized. The distinction between upfront fees (amortized) and ongoing payments (deductible) reflects their different natures—upfront fees acquire the intangible, ongoing fees are for continuing services.

35. Correct Answer: D (\$29 million)

The business interest limitation under Section 163(j) applies to taxpayers with average annual gross receipts exceeding \$29 million for the three preceding tax years. Businesses below this threshold can deduct all business interest without limitation. For businesses above the threshold, business interest expense deduction is limited to the sum of business interest income plus 30% of adjusted taxable income. This limitation was added by the Tax Cuts and Jobs Act to prevent earnings stripping through excessive interest deductions.

36. Correct Answer: A (Adjusted taxable income)

Business interest expense deduction for taxpayers subject to the limitation is limited to business interest income plus 30% of adjusted taxable income (ATI). For tax years beginning before 2022, ATI was similar to EBITDA (adding back depreciation and amortization). For tax years beginning after 2021, ATI is similar to EBIT (not adding back depreciation and amortization), making the limitation more restrictive. The 30% limit prevents excessive leverage while allowing reasonable interest deductions.

37. Correct Answer: C (Indefinitely)

Disallowed business interest expense (amounts exceeding the Section 163(j) limitation) can be carried forward indefinitely to future years. The carryforward is subject to the same limitation in future years—it can be deducted only to the extent of business interest income plus 30% of ATI in the carryforward year. There's no carryback. The indefinite carryforward ensures businesses eventually benefit from disallowed deductions when income improves or leverage decreases, preventing permanent loss of deductions.

38. Correct Answer: B (50% deductible)

Meals provided by employers on the employer's business premises for the employer's convenience are 50% deductible (for tax years 2021-2025, there was a temporary 100% deduction for restaurant meals, but

the general rule is 50%). The convenience of the employer test requires business reasons for providing meals, not just employee convenience. Meals meeting this test are excluded from employee income and partially deductible by the employer. The 50% limitation balances encouragement of business meals with preventing abuse.

39. Correct Answer: A (50%)

Business meals with clients, customers, or business associates are deductible at 50% if the expense is ordinary and necessary to the business, the meal isn't lavish or extravagant, and the taxpayer or employee is present. The meal must have a clear business purpose—general networking isn't sufficient. The 50% limitation has applied since 1986 (previously meals were fully deductible). Restaurant meals were temporarily 100% deductible for 2021-2022, but the general rule remains 50% deductibility.

40. Correct Answer: D (Not deductible)

Entertainment expenses are not deductible under the Tax Cuts and Jobs Act, effective for amounts paid or incurred after December 31, 2017. Previously, entertainment directly related to or associated with business was 50% deductible. The complete disallowance includes sports events, theater, concerts, golf outings, and similar entertainment. Meals provided during entertainment events may still be 50% deductible if separately stated and meet meal deduction requirements. The change simplified rules and increased revenue.

41. Correct Answer: C (\$25)

Business gifts are limited to \$25 per recipient per tax year. Gifts to a husband and wife count as gifts to one recipient unless each has an independent business relationship with the donor. Incidental costs (engraving, packaging, mailing) don't count toward the \$25 limit. Items costing \$4 or less with the business name permanently imprinted (pens, calendars) are not considered gifts. The low \$25 limit (unchanged since 1962) reflects concern about disguising entertainment as gifts.

42. Correct Answer: A (Away from tax home overnight)

Travel expenses are deductible when the taxpayer's business requires being away from the tax home overnight (or substantially longer than an ordinary work day requiring sleep or rest). "Tax home" is generally the regular place of business, not the personal residence. Travel expenses include transportation, meals (50% deductible), lodging, and incidentals. One-day trips without overnight stays don't qualify for travel expense deductions (though transportation may be deductible as local business transportation).

43. Correct Answer: B (Not deductible)

Commuting expenses (transportation between home and regular work location) are nondeductible personal expenses, even if the taxpayer works long hours, lives far away, or commutes outside normal hours. This applies even if the taxpayer transports tools, works during the commute, or no public transportation is available. The commuting rule is firmly established. Exceptions exist for home office (if principal place of business), temporary work locations, and transportation between two business locations.

44. Correct Answer: D (Trade or business)

Home office deduction requires the space to be used exclusively and regularly for trade or business (or as principal place of business, or place to meet clients/customers). "Exclusive use" means the space is used only for business, not mixed personal/business use. "Regular use" means substantial, consistent use. Meeting these tests allows deduction for the business percentage of mortgage interest, taxes, insurance, utilities, depreciation, and repairs. The strict requirements prevent abuse of home office deductions.

45. Correct Answer: A (\$5 per square foot up to 300 sq ft)

The simplified home office deduction is \$5 per square foot of home office space, up to 300 square feet maximum (\$1,500 maximum deduction). This optional method avoids allocating actual expenses and depreciation calculations. Taxpayers can choose between actual expense method and simplified method annually. The simplified method doesn't reduce home basis (no depreciation deduction), avoiding recapture on home sale. Many small businesses choose the simplified method for its administrative ease despite potentially lower deductions.

46. Correct Answer: C (Worthless and charged off)

Business bad debts must be totally worthless and charged off on the taxpayer's books to be deductible. Partial worthlessness isn't deductible for business bad debts (though it was allowed before 1986). The debt must have been previously included in income or represent money loaned. The deduction is taken in the year the debt becomes worthless. The taxpayer must show specific actions (collection efforts, debtor's bankruptcy, etc.) demonstrating worthlessness. The charge-off requirement creates a clear deduction trigger.

47. Correct Answer: B (Short-term capital loss)

Nonbusiness bad debts (personal loans, investments) are treated as short-term capital losses when they become totally worthless, regardless of how long the debt was held. Nonbusiness bad debts cannot be partially deducted—they must be totally worthless. The short-term capital loss treatment (limited to \$3,000 annual deduction against ordinary income) is less favorable than business bad debt treatment (ordinary loss fully deductible). The distinction reflects the investment nature of nonbusiness debts.

48. Correct Answer: D (Actually paid or incurred)

Warranty costs are deductible by accrual method taxpayers when actually paid or incurred (when economic performance occurs), not when estimated or when the product is sold. This prevents accrual method taxpayers from deducting estimated future warranty costs. Cash method taxpayers deduct when paid. The economic performance rule for warranty costs recognizes that the obligation is satisfied when warranty service is actually provided or third parties are paid to provide warranty service, not when products are sold.

49. Correct Answer: C (Transferred to settle)

Accrual method taxpayers can deduct contested liabilities when money or property is transferred to satisfy the contest—placed beyond the taxpayer's control to satisfy the liability. This occurs when funds are deposited with a court, placed in escrow, or paid to the claimant. Simply disputing a liability doesn't allow deduction—there must be transfer. This rule balances allowing deductions for disputed amounts while requiring some commitment of funds before allowing deduction of uncertain liabilities.

50. Correct Answer: C (Resellers)

UNICAP (uniform capitalization) exceptions include businesses with average annual gross receipts under \$29 million (small business taxpayer exception) that are resellers—retailers and wholesalers who acquire property for resale. This exception was expanded by the Tax Cuts and Jobs Act. Qualifying resellers can avoid UNICAP's complex capitalization requirements. However, producers and manufacturers remain subject to UNICAP regardless of size—the small business exception doesn't apply to them. The exception recognizes that resellers have simpler inventory accounting than producers, and the \$29 million threshold balances compliance relief for small businesses with ensuring larger businesses properly capitalize costs.

51. Correct Answer: D (Distributive share)

Partnership income, gains, losses, deductions, and credits flow through to partners based on their distributive shares as determined by the partnership agreement. Distributive shares don't have to match capital contributions or ownership percentages—special allocations are allowed if they have substantial economic effect. Partners report their shares annually whether or not distributed. This pass-through treatment prevents double taxation and allows flexible allocation of tax items among partners.

52. Correct Answer: B (Least aggregate deferral)

Partnership tax year must conform to the tax year of majority partners (over 50% interest), or if no majority, to principal partners' year (5% or more ownership with same year), or if no principal partners have same year, to least aggregate deferral year (minimizing deferral by all partners weighted by ownership). The rules prevent partnerships from selecting fiscal years solely for tax deferral. Partnerships can use different years with business purpose or Section 444 election with required payments.

53. Correct Answer: C (Distribution or transfer)

A Section 754 election allows partnerships to adjust the basis of partnership assets when distributions are made to partners or when partnership interests are transferred (sold or upon partner death). The election is made on the partnership return for the year of the distribution or transfer. Once made, the election applies to all future transactions unless revoked with IRS consent. The basis adjustments prevent inequity when inside basis (partnership asset basis) differs from outside basis (partner's interest basis).

54. Correct Answer: A (Partner)

Guaranteed payments to partners for services or capital are deductible by the partnership (reducing income allocated to all partners) and treated as ordinary income to the recipient partner. Guaranteed payments are like salary—they're determined without regard to partnership income. Partners report guaranteed

payments as ordinary income plus their distributive share of remaining partnership income. The deduction-income matching ensures single-level taxation while allowing partnerships to compensate partners for services or capital invested.

55. Correct Answer: A (Share of income and liabilities)

A partner's basis in the partnership interest is increased by the partner's share of partnership income (including tax-exempt income) and the partner's share of partnership liabilities. Basis is decreased by distributions, losses, deductions, and decreases in liabilities. The liability inclusion recognizes that partners are at risk for partnership debt (recourse debt) or share in leveraging (nonrecourse debt). Proper basis tracking is essential for determining deductible losses and gain/loss on distributions or sales.

56. Correct Answer: B (Capital gain)

Partnership distributions of cash in excess of the partner's basis create capital gain to the partner equal to the excess. Distributions can't create ordinary income (except for Section 751 hot assets). Distributions of property don't create gain unless cash also distributed exceeds basis. The capital gain treatment reflects that the partner is recovering more than their investment, essentially realizing gain on their partnership interest. The distribution reduces basis to zero after creating gain.

57. Correct Answer: D (Guaranteed payments)

Section 736 payments to retiring partners for their share of unrealized receivables and goodwill (if goodwill is not a capital asset to the partnership) are treated as Section 736(a) payments, which are either guaranteed payments (if determined without regard to partnership income) or distributive share (if determined by reference to partnership income). These payments are ordinary income to the retiring partner. If treated as guaranteed payments, they're deductible by the partnership. If treated as distributive share, they reduce income allocated to remaining partners. This treatment prevents converting ordinary income items (like receivables) into capital gain through retirement distributions. Section 736(b) payments (for partnership property other than unrealized receivables and non-capital-asset goodwill) receive capital gain treatment.

58. Correct Answer: A (15th day of 3rd month)

Partnerships file Form 1065, U.S. Return of Partnership Income, by the 15th day of the 3rd month following the close of the tax year. For calendar-year partnerships, this is March 15. A six-month extension is available. The earlier due date (compared to April 15 for individual returns) allows partners to receive Schedule K-1 before their individual return due dates. Late filing penalties apply if returns aren't filed timely. The partnership return reports income but doesn't pay tax—partners pay on their shares.

59. Correct Answer: C (Income, deductions, and credits)

Partnership Schedule K-1 reports each partner's distributive share of income, gains, losses, deductions, and credits from the partnership. Partners use K-1 information to report partnership items on their individual returns. K-1 shows separately stated items (capital gains, dividends, charitable contributions,

etc.) that partners report separately on their returns, plus ordinary business income/loss. The K-1 also shows partner's capital account and basis information. Accurate K-1s are essential for partners' return preparation.

60. Correct Answer: D (Individuals, estates, trusts, or exempt organizations)

S corporation shareholders must be individuals, estates, certain trusts (grantor trusts, ESBTs, QSSTs, voting trusts), or certain tax-exempt organizations (501(c)(3) charities, retirement plans). Shareholders must be U.S. citizens or residents—nonresident aliens cannot be shareholders. Partnerships and corporations cannot be S corporation shareholders. These restrictions maintain the single-level taxation character of S corporations while preventing complex ownership that would complicate pass-through rules.

61. Correct Answer: B (Grantor trusts and QSSTs)

S corporations can have as shareholders grantor trusts (where income is taxed to the grantor), qualified subchapter S trusts (QSSTs, where beneficiary makes election and is treated as shareholder), electing small business trusts (ESBTs, which can have multiple beneficiaries), and voting trusts. Testamentary trusts can be shareholders for 2 years after death. These trust provisions allow estate planning flexibility while maintaining shareholder restrictions that preserve S corporation simplicity and prevent abuse through complex ownership structures.

62. Correct Answer: A (Accumulated E&P)

S corporation elections terminate automatically if the corporation has accumulated earnings and profits from C corporation years AND passive investment income (interest, dividends, rents, royalties, annuities) exceeds 25% of gross receipts for three consecutive years. The termination is effective on the first day of the tax year following the third consecutive year. Corporations can avoid termination by distributing accumulated E&P or reducing passive income. The rule prevents S corporations from being passive investment companies.

63. Correct Answer: C (AAA and stock basis)

S corporation distributions are tax-free to shareholders to the extent of accumulated adjustments account (AAA) and then to the extent of the shareholder's stock basis. For S corporations without accumulated E&P, distributions come first from AAA (tax-free), then from stock basis (tax-free), then create capital gain. For S corporations with accumulated E&P (from C corporation years), distributions come from AAA first, then from E&P (taxable as dividends), then from remaining stock basis (tax-free), then capital gain. The ordering ensures proper taxation of distributions.

64. Correct Answer: D (Corporate level)

The built-in gains tax for S corporations applies at the corporate level—the S corporation pays tax on recognized built-in gains during the recognition period (generally 5 years after converting from C to S corporation). Built-in gain is appreciation in assets that existed when the S election became effective. The

tax (at 21% corporate rate) prevents C corporations from converting to S status solely to avoid corporate-level tax on appreciated assets. Shareholders also pay tax on the gain flowing through, creating partial double taxation.

65. Correct Answer: B (Direct loans only)

S corporation shareholder basis includes stock basis plus direct loans from the shareholder to the corporation. Unlike partnerships, S corporation entity liabilities don't create shareholder basis—only direct shareholder loans. Indirect loans (guarantees, back-to-back loans) don't create basis. This more restrictive basis rule limits S corporation loss deductions compared to partnerships. Basis must be tracked separately for stock and debt, with different consequences when basis is restored by income.

66. Correct Answer: C (Direct debt)

S corporation losses are limited to the shareholder's basis in stock plus direct debt (direct loans from shareholder to corporation). Losses first reduce stock basis to zero, then reduce debt basis. When debt basis is reduced by losses, subsequent income must first restore debt basis (without creating taxable income) before exceeding AAA or creating capital gain on distributions. The debt basis rules create complexity when shareholders loan money to S corporations to support loss deductions.

67. Correct Answer: A (Accumulated adjustments account)

Schedule M-2 for S corporations reconciles the accumulated adjustments account (AAA), which tracks undistributed income that has been taxed to shareholders. AAA increases for income items (except tax-exempt income) and decreases for losses, deductions, and distributions. AAA can be negative from losses but distributions cannot reduce it below zero. Schedule M-2 also tracks other adjustments account (for tax-exempt income), shareholders' undistributed taxable income previously taxed (for corporations that were S corporations before 1983), and accumulated E&P.

68. Correct Answer: D (21%)

The C corporation tax rate is a flat 21%, effective for tax years beginning after December 31, 2017. Previously, corporate rates were progressive (15%, 25%, 34%, 35%). The Tax Cuts and Jobs Act established the flat 21% rate. Personal service corporations also pay 21% (previously 35%). The flat rate simplifies corporate taxation and reduces rates significantly from the previous top rate of 35%, encouraging corporate formation and domestic investment.

69. Correct Answer: B (Repealed)

The corporate alternative minimum tax (AMT) was repealed by the Tax Cuts and Jobs Act for tax years beginning after December 31, 2017. Previously, corporations paid the greater of regular tax or AMT (20% rate). AMT credits from prior years can still be used or may be refundable. The repeal simplified corporate taxation and eliminated distortions from AMT adjustments and preferences. A new 15% corporate minimum tax on book income was later enacted for very large corporations.

70. Correct Answer: A (50%)

The dividends received deduction (DRD) for corporations owning less than 20% of the distributing corporation's stock is 50% of dividends received. For ownership of 20% or more (but less than 80%), the DRD is 65%. For 80% or more ownership (affiliated corporations), the DRD is 100%. The DRD prevents triple taxation (corporate earnings taxed at distributing corporation, partial tax at receiving corporation, then at shareholders). The deduction percentages encourage corporate investment and reduce cascading taxation.

71. Correct Answer: C (Capital gains)

Corporate capital losses can only offset capital gains—they cannot offset ordinary income. Excess capital losses cannot be deducted currently but can be carried back 3 years and forward 5 years (subject to ordering rules). This limitation prevents corporations from converting capital losses into ordinary deductions. In contrast, individuals can deduct \$3,000 of net capital loss against ordinary income annually. The corporate restriction reflects different policy toward corporate capital gains and losses.

72. Correct Answer: D (3 years)

Corporate capital loss carrybacks are allowed for 3 years (not allowed for individuals). Capital losses are first carried back to the earliest year, then forward. Carrybacks can only offset capital gains, and the carryback creates or increases a net operating loss in the carryback year (which can be carried forward but not back). Carrybacks must be short-term capital losses regardless of their character in the loss year. The 3-year carryback provides corporations with faster recovery of capital loss tax benefits.

73. Correct Answer: B (5 years)

Corporate capital loss carryforwards are allowed for 5 years after the loss year. After 5 years, unused capital losses expire. Losses are used in chronological order (oldest first). The carryforward can only offset capital gains, not ordinary income. The limited 5-year carryforward (compared to indefinite NOL carryforwards) recognizes that capital losses may result from one-time events rather than ongoing business operations. Proper tracking of capital loss carryforwards is essential for tax planning.

74. Correct Answer: C (10% of taxable income)

Corporate charitable contribution deductions are limited to 10% of taxable income (computed before the charitable deduction, dividends received deduction, NOL carryback, and capital loss carryback). Excess contributions can be carried forward 5 years. The 10% limit (compared to various individual limits of 20%, 30%, 50%, or 60% depending on property type) reflects that corporations can't have personal motivation for charitable giving. The limitation prevents excessive charitable deductions from eliminating corporate taxable income.

75. Correct Answer: A (5 years)

Excess corporate charitable contributions (exceeding the 10% of taxable income limitation) can be carried forward 5 years. Carryforwards are deducted in chronological order (oldest first) subject to the 10% limitation in the carryforward year. After 5 years, unused contributions expire. The carryforward allows

corporations to benefit from charitable giving even when annual limitations prevent full current deduction. Tracking carryforwards and ensuring they're used before expiration is important for tax planning.

76. Correct Answer: D (60% PHC income)

The personal holding company (PHC) tax applies when (1) more than 50% of the value of stock is owned by 5 or fewer individuals (ownership test) AND (2) 60% or more of adjusted ordinary gross income is personal holding company income (income test). PHC income includes dividends, interest, rents (unless substantial services provided), royalties, and certain other passive income. The 60% threshold identifies corporations primarily earning passive investment income. The PHC tax prevents using corporations as incorporated pocketbooks to defer income.

77. Correct Answer: B (20%)

The personal holding company tax rate is 20% on undistributed personal holding company income (roughly, taxable income with adjustments, minus federal income taxes, minus dividends paid). The PHC tax is imposed in addition to regular corporate income tax, creating a combined rate significantly higher than individual rates, thereby encouraging distribution. The 20% rate is the same as the maximum long-term capital gains rate for high-income individuals, removing the tax advantage of accumulating passive income in corporations.

78. Correct Answer: A (\$250,000)

The accumulated earnings tax reasonable needs credit (minimum accumulation allowed without showing specific business needs) is \$250,000 for most corporations. Personal service corporations (health, law, engineering, accounting, etc.) have only a \$150,000 credit. Accumulations beyond the credit require showing reasonable business needs (expansion, debt retirement, working capital, etc.) to avoid the accumulated earnings tax. The credit allows moderate accumulations for all corporations without detailed justification, recognizing that businesses need working capital.

79. Correct Answer: C (Section 179 limits)

Controlled group members must share certain tax benefits including Section 179 expensing limits, accumulated earnings credit (if applicable), and AMT exemption (if applicable). The \$1,220,000 Section 179 limit (for 2024) and \$3,050,000 phase-out threshold are divided among controlled group members. Members can allocate the limits equally or unequally by agreement. This sharing prevents multiplying tax benefits through controlled group structures. Other items like NOLs and credits aren't shared but are computed at the member level.

80. Correct Answer: D (80%)

Parent-subsidiary controlled groups require the parent to own stock possessing at least 80% of voting power or 80% of value of another corporation. Chains of ownership can create multi-tier controlled groups if each corporation meets the 80% test with respect to at least one other group member (except the parent).

The 80% threshold defines control requiring group treatment. Controlled groups face limitations on tax benefits and must file consolidated returns if they're affiliated groups.

81. Correct Answer: B (80%)

Section 351 requires transferors of property to control the corporation immediately after the exchange, measured by ownership of at least 80% of voting power and 80% of each class of nonvoting stock. All transferors as a group must own 80%; individual transferors can own less. The control requirement ensures Section 351 applies to incorporations and capitalizations, not sales. The "immediately after" test uses step transaction doctrine to prevent pre-arranged dispositions from breaking control.

82. Correct Answer: C (Other property)

Boot in Section 351 exchanges includes cash and other property (property other than stock of the transferee corporation) received by transferors. Liabilities assumed by the corporation are generally not boot (with exceptions when liabilities exceed basis or have tax avoidance purpose). Boot triggers gain recognition to the extent of lesser of boot received or gain realized. Securities (debt instruments) are also boot in Section 351 exchanges. Only stock (including preferred stock) qualifies as non-recognition property.

83. Correct Answer: A (\$50,000)

Section 1244 stock allows ordinary loss treatment (instead of capital loss) on loss from sale or worthlessness of qualifying small business corporation stock. The maximum ordinary loss deduction is \$50,000 per year for single filers (\$100,000 for married filing jointly). Losses exceeding these limits are capital losses subject to the \$3,000 annual limitation. The corporation must meet requirements including aggregate capital contributions not exceeding \$1 million and stock must be issued for money or property (not services). Section 1244 encourages investment in small businesses.

84. Correct Answer: D (Depreciation taken)

Section 1245 recapture requires ordinary income recognition on disposition of depreciable personal property equal to the lesser of (1) gain realized or (2) depreciation allowed or allowable (including Section 179 and bonus depreciation). This ensures that depreciation deductions that offset ordinary income are recaptured as ordinary income on disposition, preventing conversion to capital gain. Any gain exceeding recapture is Section 1231 gain (potentially long-term capital gain). The recapture amount is the lesser of the two amounts.

85. Correct Answer: B (25%)

Unrecaptured Section 1250 gain (depreciation taken on real property) is taxed at a maximum rate of 25% for individual taxpayers. This intermediate rate applies to the straight-line depreciation on real property sold at a gain. It's higher than long-term capital gains rates (0%, 15%, 20%) but lower than ordinary income rates. The 25% rate applies only to individuals, not corporations. For post-1986 real property, there's no Section 1250 recapture (which would be ordinary income), only the 25% rate on straight-line depreciation.

86. Correct Answer: A (Real property)

Corporate Section 291 recapture requires C corporations (not S corporations) to recapture as ordinary income 20% of the lesser of (1) gain realized or (2) depreciation taken on Section 1250 property (depreciable real property). This "corporate recapture" converts 20% of what would otherwise be capital gain into ordinary income. The recapture is in addition to regular Section 1250 recapture (which is typically zero for post-1986 property using straight-line). This rule ensures corporations pay some ordinary income tax on real property gains.

87. Correct Answer: B (3 years)

Section 332 liquidation of an 80%-or-more owned subsidiary by its parent corporation must be completed under a plan within 3 years from the close of the tax year during which the first distribution is received. The parent must own at least 80% of voting power and 80% of value of the subsidiary's stock. The liquidation can occur in one transaction or a series of distributions over the 3-year period. The parent recognizes no gain or loss on the liquidation, takes carryover basis in the subsidiary's assets, and inherits tax attributes (NOLs, E&P, etc.). The 3-year period allows orderly liquidation while preventing indefinite deferral through protracted distributions.

88. Correct Answer: C (Medicare)

FICA (Federal Insurance Contributions Act) taxes consist of Social Security tax (6.2% each for employer and employee on wages up to \$168,600 for 2024) and Medicare tax (1.45% each on all wages, with additional 0.9% employee-only Medicare tax on wages exceeding thresholds). Combined FICA rate is 7.65% each (employer and employee) on wages up to the Social Security wage base, then 1.45% each above the wage base. Self-employed individuals pay both portions (15.3% and 2.9%) as self-employment tax.

89. Correct Answer: A (\$168,600)

The Social Security wage base for 2024 is approximately \$168,600 (adjusted annually for inflation). Social Security tax (6.2% each employer and employee) applies only to wages up to this limit. Wages exceeding the base aren't subject to Social Security tax but remain subject to Medicare tax (1.45% each). When an employee has multiple employers in one year and total wages exceed the base, the employee can claim credit for excess Social Security tax withheld. The wage base increases annually with average wage growth.

90. Correct Answer: D (No wage base)

Medicare tax (1.45% each employer and employee) has no wage base—it applies to all wages regardless of amount. This contrasts with Social Security tax, which applies only up to the wage base (\$168,600 for 2024). Additionally, employees (not employers) pay 0.9% additional Medicare tax on wages exceeding \$200,000 (single), \$250,000 (married filing jointly), or \$125,000 (married filing separately). The unlimited Medicare tax helps fund Medicare Part A hospital insurance for an aging population.

91. Correct Answer: C (\$7,000 of wages)

FUTA (Federal Unemployment Tax Act) tax applies to the first \$7,000 of wages paid to each employee during the calendar year. The FUTA tax rate is 6%, but employers receive a credit of up to 5.4% for state unemployment taxes paid, resulting in a net FUTA rate of 0.6% (if the full state credit is available). The low \$7,000 wage base (unchanged since 1983) means FUTA tax is relatively small for most employers. FUTA is employer-only tax, not withheld from employees.

92. Correct Answer: B (0.6%)

The FUTA tax rate after the state unemployment tax credit is 0.6%. The gross FUTA rate is 6%, but employers receive a credit of up to 5.4% for state unemployment taxes paid, resulting in a net federal rate of 0.6% on the first \$7,000 of each employee's wages. States with unpaid federal unemployment loans ("credit reduction states") may provide less than the full 5.4% credit, increasing the net FUTA rate for employers in those states. The low rate funds federal unemployment program administration.

93. Correct Answer: D (January 31)

Form W-2, Wage and Tax Statement, must be provided to employees by January 31 of the year following the calendar year for which wages were paid. Employers must also file Copy A of Form W-2 with the Social Security Administration by January 31 (previously the deadline was later for paper filing, but is now January 31 for both paper and electronic). The early deadline ensures employees have W-2s before the individual tax filing deadline, allowing timely return preparation.

94. Correct Answer: A (Wednesday for Sat-Tue, Friday for Wed-Fri)

Semi-weekly depositors for Form 941 employment taxes must deposit taxes by Wednesday for payments made Saturday through Tuesday, and by Friday for payments made Wednesday through Friday. Deposits must be made by electronic funds transfer (EFTPS). If accumulated taxes reach \$100,000 or more on any day, deposit is due the next business day regardless of deposit schedule. The semi-weekly schedule applies to employers who reported more than \$50,000 in employment taxes in the lookback period.

95. Correct Answer: B (Nonemployee compensation)

Form 1099-NEC, Nonemployee Compensation, reports payments of \$600 or more to nonemployees for services (independent contractors). This form was reintroduced in 2020 (it had been used before but was consolidated into 1099-MISC). The January 31 filing deadline for 1099-NEC (same as W-2) helps the IRS combat tax fraud and identity theft by receiving information returns earlier. Businesses must issue 1099-NEC to independent contractors to report compensation subject to self-employment tax.

96. Correct Answer: C (24%)

Backup withholding applies at a 24% rate to reportable payments (interest, dividends, nonemployee compensation, etc.) when the payee fails to provide a correct taxpayer identification number, IRS notifies the payer that the payee's TIN is incorrect, the payee fails to certify that they're not subject to backup

withholding, or the IRS notifies the payer to start backup withholding due to underreporting. The 24% rate matches the corporate tax rate (21%) approximately and creates an incentive for proper TIN provision.

97. Correct Answer: B (\$600)

Form 1099-K reporting threshold is \$600 for tax years beginning after December 31, 2023 (previously \$20,000 and 200 transactions, reduced to \$600 by the American Rescue Plan). Form 1099-K is issued by payment settlement entities (credit card companies, third-party payment networks like PayPal, Venmo) to report payment card and third-party network transactions. The lower threshold increases information reporting, helping ensure business income is properly reported. Implementation has been delayed to allow taxpayers and platforms to adjust.

98. Correct Answer: C (Common law factors)

Worker classification as employee versus independent contractor depends on common law factors examining the degree of control and independence in the relationship. Factors include behavioral control (how work is done), financial control (business aspects of the job), and relationship type (contracts, benefits, permanency). No single factor is determinative—all circumstances are evaluated. The IRS uses Form SS-8 for determination requests. Misclassification can result in employment tax liability, penalties, and benefit plan issues.

99. Correct Answer: D (Home workers)

Statutory employees include certain categories of workers who are treated as employees for employment tax purposes even though they might otherwise be independent contractors under common law. Categories include full-time life insurance salespersons, certain agent/commission drivers (delivering laundry, food, beverages), traveling or city salespersons (selling on behalf of principal), and home workers (performing work at home on materials provided by employer). Box 13 on Form W-2 is checked for statutory employees, who can deduct business expenses on Schedule C.

100. Correct Answer: B (60 days)

Accountable plans require employees to substantiate expenses within a reasonable period, generally 60 days after the expense is paid or incurred. Additionally, employees must return excess reimbursements within a reasonable period, generally 120 days after the expense. If these requirements aren't met (substantiation within 60 days and return of excess within 120 days), the plan is nonaccountable and reimbursements become taxable wages subject to employment taxes. Accountable plans allow employees to exclude reimbursements from income and allow employers to deduct the reimbursements as business expenses. The 60-day substantiation rule ensures timely documentation while the expense details are fresh.

Part 3: Representation, Practices, and Procedures

1. Correct Answer: B (IRS)

Circular 230 governs practice before the Internal Revenue Service, not before Tax Court, state agencies, or other courts. The regulations cover who may practice (enrolled agents, attorneys, CPAs, enrolled actuaries, enrolled retirement plan agents), duties and restrictions, sanctions for violations, and disciplinary procedures. Practice before the IRS includes representation, advocacy, preparing and filing documents, and corresponding with the IRS on behalf of taxpayers. Separate rules govern practice before Tax Court and other courts.

2. Correct Answer: C (3 years)

Enrolled agents must renew their enrollment every 3 years. The renewal requires filing Form 8554 and certifying completion of continuing education requirements (72 hours total including 6 hours of ethics over the 3-year cycle). The enrollment cycle begins when enrollment is granted or renewed. Failure to renew by the enrollment expiration date results in inactive status and loss of practice rights until renewal is completed. The 3-year cycle balances administrative burden with ensuring current competency.

3. Correct Answer: D (72 hours)

Enrolled agent continuing education requires 72 hours per 3-year enrollment cycle, with a minimum of 16 hours per year. This prevents clustering all CE in one year. The 72-hour total must include at least 6 hours of ethics (2 hours per year). CE must cover federal tax law topics, regulations, ethics, and related subjects. Hours must be from IRS-approved providers. The requirement ensures EAs maintain current knowledge to provide competent representation.

4. Correct Answer: A (6 hours)

Ethics continuing education for enrolled agents totals 6 hours per 3-year enrollment cycle, consisting of 2 hours per year. Ethics courses must specifically cover Circular 230 and professional responsibilities. Providers must designate courses as ethics CE. The ethics requirement emphasizes professional standards and ensures EAs receive regular updates on ethical obligations. The 2-hour annual requirement provides consistent exposure to professional standards throughout the enrollment cycle.

5. Correct Answer: B (5 years service)

Former IRS employees can become enrolled agents without examination if they had at least 5 years of continuous service in positions regularly requiring application and interpretation of the Internal Revenue Code and regulations, and they apply for enrollment within 3 years after separating from IRS service. The 5-year requirement recognizes substantial IRS experience as equivalent to passing the Special Enrollment Examination. Former employees must have been in good standing when separated to qualify for enrollment.

6. Correct Answer: C (18 hours CE)

The Annual Filing Season Program (AFSP) requires participants to complete 18 hours of continuing education annually, including 6 hours of federal tax law updates, 2 hours of ethics, and 10 hours of federal tax topics. AFSP is voluntary and provides limited practice rights (representation on returns prepared and

signed by the participant before revenue agents and customer service representatives). AFSP participants receive a Record of Completion but aren't enrolled agents. The program encourages professional development for unenrolled preparers.

7. Correct Answer: A (Revenue agents on prepared returns)

Limited practice rights (for unenrolled preparers and AFSP participants) allow representation before revenue agents, customer service representatives, and similar examination employees, but only on returns or claims the practitioner prepared and signed. Limited practice does NOT include representation before Appeals, Collection, Counsel, or Tax Court. The limitation ensures practitioners have direct knowledge of returns they're representing while preserving full representation for authorized practitioners (EAs, attorneys, CPAs).

8. Correct Answer: D (IRS)

Preparer Tax Identification Numbers (PTINs) are obtained from the IRS through the online PTIN system at IRS.gov. All paid preparers must have current PTINs to prepare tax returns for compensation. PTINs are not issued by state boards, AICPA, or Treasury directly. The IRS manages the PTIN system to track preparers, enforce compliance, and suspend or revoke PTINs for practitioners with conduct issues or criminal convictions. Annual renewal is required.

9. Correct Answer: B (December 31)

PTINs expire December 31 each year and must be renewed annually. The renewal period opens in mid-October. Preparers renew online at IRS.gov and pay a renewal fee. Without a current PTIN, preparers cannot prepare tax returns for compensation. The December 31 expiration ensures annual renewal and allows the IRS to update preparer information and identify preparers who should not continue practicing due to disciplinary issues or criminal convictions.

10. Correct Answer: C (Sign and include PTIN)

Signing preparers (those with primary responsibility for overall substantive accuracy) must sign the return manually or electronically and include their PTIN. Signing preparers don't need to be EAs, attorneys, or CPAs, and don't need to pass any exam—the PTIN is the only requirement for paid preparers. The signature and PTIN create accountability and allow the IRS to track preparers for compliance, enforcement, and assessment of preparer penalties for unreasonable positions or misconduct.

11. Correct Answer: D (20% of gross income)

A substantial portion for nonsigning preparers (determining when assistants are subject to preparer responsibilities and penalties) is a schedule or entry affecting tax liability of at least the lesser of \$10,000 or 20% of gross income shown on the return. For individuals and certain returns, the test is \$10,000 or 20% of gross income. For business returns (corporations, partnerships, trusts), the threshold is \$400,000 or 20% of gross income or total receipts. Preparing a substantial portion subjects the preparer to penalties.

12. Correct Answer: A (EITC, CTC, AOTC, HOH)

Due diligence requirements apply to returns claiming Earned Income Tax Credit (EITC), Child Tax Credit (CTC)/Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), and Head of Household (HOH) filing status. Preparers must complete Form 8867 for each applicable credit or filing status, make reasonable inquiries when information appears incorrect or incomplete, and retain Form 8867 and supporting documentation for 3 years. The requirements address high error rates in these claims.

13. Correct Answer: C (\$590)

The due diligence penalty per failure is approximately \$590 (for 2024, adjusted for inflation). The penalty applies separately for each failure—a return claiming multiple covered items (EITC, CTC, AOTC, HOH) could result in penalties of \$590 for each item. For example, claiming EITC, CTC, and HOH on one return could result in \$1,770 in penalties. The significant per-item penalty encourages careful compliance with due diligence requirements for these frequently claimed benefits.

14. Correct Answer: B (3 years)

Tax return preparers must retain copies of returns prepared, lists of returns prepared (showing taxpayer name and identification number), or other records for 3 years from the later of the return due date or the date filed. Due diligence records (Form 8867 and documentation) must also be retained for 3 years. Records must be available for IRS inspection upon request. The 3-year retention period matches general statute of limitations periods and provides IRS access to verify preparer compliance.

15. Correct Answer: A (3 years)

Preparers must keep either a copy of each return prepared, or a list of taxpayers for whom returns were prepared (showing name and taxpayer identification number), for 3 years from the later of the return due date or filing date. The list must be available for inspection by the IRS. This retention requirement helps the IRS identify returns prepared by a preparer when investigating preparer misconduct, and ensures preparers can substantiate their preparation activity. Electronic records are acceptable.

16. Correct Answer: D (50% of income)

The unreasonable position penalty under Section 6694(a) is the greater of \$1,000 or 50% of the income derived from preparing the return. The penalty applies when the preparer knew or reasonably should have known of a position lacking substantial authority (or reasonable basis with adequate disclosure), resulting in understatement. The 50% calculation can significantly increase penalties for high-fee preparations. The penalty encourages preparers to carefully evaluate return positions and ensure adequate support.

17. Correct Answer: B (75% of income)

The willful or reckless conduct penalty under Section 6694(b) is the greater of \$5,000 or 75% of the income derived from preparing the return. This penalty applies when preparers willfully attempt to understate tax liability or recklessly or intentionally disregard rules or regulations. The higher percentage (75% versus 50% for unreasonable positions) reflects greater culpability. The penalty is imposed instead of, not in addition to, the unreasonable position penalty. The severe penalty deters deliberate misconduct.

18. Correct Answer: C (\$250 per disclosure)

The penalty for unauthorized disclosure or use of tax return information is \$250 per disclosure or use, with a maximum of \$10,000 per calendar year. This civil penalty protects taxpayer privacy by deterring preparers from misusing confidential information for marketing or other unauthorized purposes. Criminal penalties (up to \$1,000 fine and 1 year imprisonment) can also apply. The per-disclosure penalty can accumulate quickly for systematic violations, while the annual cap limits total civil penalties.

19. Correct Answer: A (\$50 per return)

The penalty for failure to furnish a copy of the return to the taxpayer is \$50 per return, with no annual maximum. Preparers must provide a copy (paper or electronic with taxpayer consent) of the completed return to the taxpayer. The requirement ensures taxpayers have their return information for their records. The relatively modest penalty recognizes the administrative nature of the violation, but the lack of an annual cap means systematic failures can create substantial penalties.

20. Correct Answer: D (\$10,000)

The aiding and abetting understatement penalty is \$1,000 per document for individual returns and \$10,000 per document for corporate returns. The penalty applies to persons who aid, assist, procure, or advise with respect to preparation of tax documents knowing they'll be used to understate tax liability. The higher corporate penalty reflects larger tax amounts typically involved. The penalty can be assessed against non-preparers (accountants, advisors) who participate in understatements. Multiple documents can create multiple penalties.

21. Correct Answer: B (Prohibited)

Under Circular 230, practitioners are prohibited from endorsing or negotiating taxpayer refund checks. Preparers cannot cash refund checks or deposit them to their own accounts, even with client authorization or to collect fees. The prohibition prevents fraud and ensures refunds go directly to taxpayers. Limited exceptions exist for financial institutions and when checks represent payment for tax preparation services, but the general rule is prohibition. Violations can result in suspension or disbarment from practice. This strict rule protects taxpayers from preparer theft or misappropriation of refunds.

22. Correct Answer: B (Upon request)

Practitioners must return client records upon request, regardless of fees owed. "Client records" include original documents provided by clients and records necessary for clients to comply with federal tax obligations. Practitioners can retain copies and working papers but cannot withhold client records as leverage for fee payment. The requirement ensures clients can meet tax obligations and obtain representation from other practitioners. Failure to return records violates Circular 230 and can result in discipline.

23. Correct Answer: D (Examinations)

Contingent fees are generally prohibited under Circular 230 but are permitted for services in connection with IRS examinations or audits of original returns, claims for refund or credit (except preparing original returns), and judicial proceedings arising under the Internal Revenue Code. The exceptions recognize that contingent arrangements are appropriate for dispute resolution with uncertain outcomes. Preparing original returns for contingent fees remains prohibited regardless of anticipated results. Contingent fees for routine tax advice or general services are not permitted—only for the specific excepted categories involving disputes or litigation.

24. Correct Answer: A (In writing upon request)

Fee information must be provided to clients in writing upon request. Circular 230 doesn't require advance written fee agreements (though best practices recommend them), but practitioners must provide fee information when requested. Fees must not be unconscionable—determined based on time, difficulty, skill required, and customary charges. All fee arrangements (hourly, flat, value-based, contingent where permitted) are acceptable if reasonable. Clear fee communication prevents disputes and maintains professional relationships.

25. Correct Answer: C (Excessive pressure)

Solicitation is prohibited if it involves false or misleading statements, coercion, overreaching, or harassing conduct. Overreaching includes excessive pressure, taking advantage of vulnerable persons, or aggressive tactics that exceed professional bounds. Truthful advertising, marketing, networking, and targeted outreach are permitted. The prohibition maintains professional dignity while allowing legitimate client development. Practitioners must ensure solicitation is professional, truthful, and not coercive or exploitative.

26. Correct Answer: B (Written)

Conflicts of interest require informed written consent from all affected clients. The consent must be in writing (not verbal or implied) and clients must be informed of the conflict, potential adverse effects, and alternatives. If conflicts are too severe (direct adversity in same proceeding), consent cannot cure them and the practitioner must decline or withdraw. The written consent requirement ensures clients knowingly agree to representation despite conflicts and protects practitioners from later disputes.

27. Correct Answer: D (Reasonable inquiry)

Best practices under Circular 230 Section 10.33 include establishing facts through reasonable inquiry, not just accepting taxpayer statements or relying on assumptions or prior year returns without verification. Best practices recommend communicating clearly with clients, advising of engagement limitations, identifying and resolving issues, and acting fairly and with integrity. While aspirational (not mandatory), following best practices helps practitioners avoid problems and provide quality service. The emphasis on reasonable inquiry ensures accuracy.

28. Correct Answer: A (More likely than not)

Covered opinions (opinions on listed transactions, principal purpose transactions, and certain other tax-motivated transactions) require practitioners to reach conclusions at the more likely than not confidence level (over 50%) or higher, or clearly state they cannot reach that level. The opinion must address all significant tax issues, consider all relevant facts, relate law to facts, and not assume favorable resolution of significant issues. The heightened standards prevent abusive tax shelter opinions lacking proper analysis.

29. Correct Answer: C (More likely than not)

Tax shelter opinions and other covered opinions require conclusions at the more likely than not confidence level (over 50% likelihood of success if challenged). If the practitioner cannot reach this level, the opinion must clearly state so. Lower standards (should, more likely than not, substantial authority, reasonable basis) are insufficient for covered opinions. The high standard ensures comprehensive analysis before issuing opinions on aggressive tax positions. The requirement protects taxpayers and maintains professional standards.

30. Correct Answer: D (Relate law to facts)

Written tax advice must relate applicable law to facts, not just cite law or recite facts. Practitioners must base advice on reasonable factual and legal assumptions, consider all relevant facts, use reasonable efforts to identify and ascertain facts, and not rely on unreasonable representations. The advice must reach conclusions supported by law and facts. These standards (Section 10.37) prevent superficial advice and ensure practitioners provide substantive analysis helping clients make informed decisions.

31. Correct Answer: B (Permanent for matters participated in)

Former government employees cannot represent clients on matters in which they personally and substantially participated while government employees. This restriction is permanent for those specific matters. Personal and substantial participation means active involvement through decision-making, approval, investigation, or similar direct roles. Former employees can represent clients on other matters. The permanent restriction prevents conflicts of interest, protects government integrity, and prevents employees from benefiting personally from government service.

32. Correct Answer: C (Disbarment)

Circular 230 sanctions include censure (public or private reprimand), suspension (prohibition from practice for specified period), disbarment (indefinite prohibition from practice), and monetary penalties (\$1,000 per violation for practitioners, up to \$50,000 for firms). Criminal prosecution and license revocation are separate matters outside Circular 230. Sanctions are imposed by the Treasury Secretary after proceedings before Administrative Law Judges. The sanctions protect taxpayers and maintain professional standards by removing unfit practitioners.

33. Correct Answer: C (EAs, attorneys, CPAs)

The federally authorized tax practitioner privilege under Section 7525 applies to confidential communications between taxpayers and federally authorized practitioners—specifically enrolled agents, attorneys, and CPAs—regarding tax advice in noncriminal tax matters before the IRS or federal courts. The privilege does NOT extend to all preparers, family members (unless they're also authorized practitioners), or anyone—only to these three categories of federally authorized practitioners. The privilege protects only tax advice (not return preparation), only in noncriminal matters, and only in federal proceedings (not state matters).

34. Correct Answer: D (Criminal matters)

The federally authorized practitioner privilege does NOT apply to criminal tax matters, written communications regarding tax shelters, state proceedings, or return preparation. The privilege protects only tax advice (not return preparation) in noncriminal matters before the IRS or federal courts. These limitations significantly narrow the privilege compared to attorney-client privilege. The exclusion for criminal matters recognizes the government's strong interest in prosecuting tax crimes and prevents the privilege from shielding criminal tax evasion.

35. Correct Answer: C (Taxpayer and representative)

Form 2848, Power of Attorney and Declaration of Representative, must be signed by both the taxpayer and the representative. Joint returns require both spouses to sign. Representatives sign the Declaration of Representative section certifying they're authorized and eligible to practice. The dual signature requirement ensures both parties acknowledge the representation relationship and the representative's authority. Unsigned Forms 2848 are invalid and don't authorize representation or provide access to taxpayer information.

36. Correct Answer: B (Receiving information only)

Form 8821, Tax Information Authorization, authorizes designated persons to inspect and receive confidential tax information but does NOT authorize representation, advocacy, signing agreements, or binding the taxpayer. It's purely for informational access. Form 8821 is useful when taxpayers want accountants, family members, or others to access information without granting representation authority. For representation rights, Form 2848 is required. The information-only authorization provides transparency without representation authority.

37. Correct Answer: A (3 years)

The Centralized Authorization File (CAF) retains Forms 2848 for 3 years from the date recorded, unless earlier revoked, superseded, or the retention box is checked on a new Form 2848. After 3 years, authorizations expire automatically. Taxpayers can check CAF status online through the IRS website. The 3-year retention balances maintaining current authorizations with preventing stale authorizations from remaining active indefinitely. Representatives must submit new Forms 2848 when authorizations expire to continue representation.

38. Correct Answer: D (That return only)

The third-party designee authorization on tax returns (checking the "Yes" box and providing designee name and phone number) authorizes the IRS to contact the designee about that specific return only. The authorization allows discussing the return, checking status, and resolving processing issues, but doesn't authorize representation in examination, appeals, or collection. The authorization terminates when the return is processed. It's limited compared to Form 2848 but provides convenient access for simple return questions.

39. Correct Answer: C (3 years)

The statute of limitations for assessment is generally 3 years from the later of the return due date or the date the return was filed. Returns filed before the due date are deemed filed on the due date. The IRS generally cannot assess additional tax after this period. Exceptions extend the statute: 6 years if gross income omitted exceeds 25%, indefinitely for fraud or failure to file, and by agreement (Form 872). The 3-year period balances finality for taxpayers with adequate examination time for the IRS.

40. Correct Answer: B (25%)

The six-year assessment statute applies when omitted gross income exceeds 25% of the gross income shown on the return. This extended period gives the IRS additional time to discover substantial omissions. For example, if a return shows \$100,000 gross income but omits \$30,000, the 6-year statute applies. For basis overstatements on property sales, special rules determine whether the 6-year statute applies. The 25% threshold identifies significant underreporting warranting extended examination periods.

41. Correct Answer: D (Indefinitely)

Fraud extends the statute of limitations indefinitely—there is no time limit for assessment when fraud is proven. The IRS must prove fraud by clear and convincing evidence (higher than the usual preponderance standard), showing the taxpayer intended to evade tax through intentional wrongdoing. The burden is on the IRS. The unlimited statute for fraud recognizes that fraudulent returns shouldn't receive statute protection and allows the IRS unlimited time to discover and assess fraud cases.

42. Correct Answer: A (2 years from payment)

The refund statute of limitations is the later of 3 years from the date the return was filed or 2 years from the date the tax was paid. Returns filed before the due date are deemed filed on the due date. The refund is limited to tax paid within the applicable period (3 years plus extensions before filing claim, or 2 years from payment). This dual limitation accommodates both early filers and late payers, ensuring adequate time to discover overpayments and file claims.

43. Correct Answer: C (Assessment)

The collection statute of limitations is 10 years from the date of assessment. The IRS generally cannot collect tax (through levy, lien, or suit) after 10 years from assessment. The statute can be suspended during offers in compromise, CDP hearings, bankruptcy, innocent spouse requests, installment agreement requests, and litigation. Each suspension extends the statute by the suspension period plus additional time

(typically 30-90 days). The 10-year limit provides eventual finality while allowing the IRS adequate collection time.

44. Correct Answer: B (CDP hearings)

Collection statute suspensions include periods during which offers in compromise are pending, collection due process (CDP) hearings are being conducted, bankruptcy stays are in effect, innocent spouse relief requests are pending, installment agreement requests are pending, and litigation is ongoing. During these periods, the 10-year collection statute doesn't run, and the suspension period plus additional time (30-90 days) is added to the 10 years, potentially extending collection authority beyond 10 years after assessment.

45. Correct Answer: A (70%)

Correspondence examinations (conducted entirely by mail) represent approximately 70% of all IRS examinations. These exams involve straightforward issues like substantiation of deductions, credits, or income items. Taxpayers respond by mail with documentation and explanations. No in-person meeting occurs. The high percentage reflects IRS resource limitations and focus on efficiently examining many returns for common issues. Correspondence exams allow the IRS to address high-volume, simple issues without resource-intensive field or office examinations.

46. Correct Answer: D (IRS office)

Office examinations are conducted at IRS offices, where taxpayers or representatives bring records and documentation for IRS review. These exams involve more issues or complexity than correspondence exams but less than field audits. Office exams typically last 1-2 hours, though complex cases may require longer or multiple appointments. The IRS office setting provides a controlled environment with access to IRS resources while reducing travel costs compared to field examinations of taxpayer premises.

47. Correct Answer: C (Revenue agents)

Field examinations are conducted by revenue agents at the taxpayer's place of business, home, or representative's office. Revenue agents are the most experienced IRS examiners, handling complex returns, businesses, and high-income individuals. Field audits can span days or weeks over several months. The on-site location allows agents to examine books, records, inventory, operations, and business facilities. Field exams are the most comprehensive and resource-intensive examination type, reserved for complex cases.

48. Correct Answer: B (Request Appeals)

The 30-day letter (examination report) provides taxpayers who disagree with proposed examination changes 30 days to request an Appeals conference. Taxpayers can agree with changes, disagree and request Appeals, or disagree and do nothing (which leads to a statutory notice of deficiency). Appeals provides independent review and opportunity to settle without litigation. The 30-day letter is the first formal notice of examination results and the gateway to Appeals for most cases.

49. Correct Answer: D (90 days to petition Tax Court)

The statutory notice of deficiency (90-day letter) provides taxpayers 90 days (150 days if addressed outside the United States) to petition the Tax Court. The period is jurisdictional—Tax Court lacks jurisdiction if petitions are late. If no petition is filed within 90 days, the IRS can assess the deficiency and pursue collection. The 90-day notice is the last opportunity for prepayment judicial review. After assessment, taxpayers must pay first and sue for refund in District Court or Court of Federal Claims.

50. Correct Answer: A (Assessment)

Failure to file a Tax Court petition within 90 days of the statutory notice of deficiency results in the IRS assessing the deficiency. Once assessed, the tax becomes due and the IRS can pursue collection through levies and liens. After assessment, the only option is paying the tax and filing a refund suit in District Court or Court of Federal Claims (pay-and-sue jurisdiction). Missing the 90-day deadline eliminates prepayment judicial review and requires payment before contesting in court.

51. Correct Answer: C (\$50,000)

Small case procedures in Tax Court apply to disputes of \$50,000 or less per tax year (or \$50,000 or less per period for partnership, S corporation, or estate and gift tax cases). Small case decisions are final and not appealable—neither party can appeal to Circuit Courts. The trade-off provides simplified procedures, relaxed evidence rules, informal hearings, and faster resolution in exchange for finality. Small cases are an efficient option for disputes within the monetary limit.

52. Correct Answer: B (Not appealable)

Small case Tax Court decisions are not appealable by either the taxpayer or the IRS. The decisions are final once issued. This finality is the key characteristic of small cases—it's the trade-off for simplified procedures and faster resolution. Regular Tax Court decisions (not small cases) can be appealed to Circuit Courts and potentially the Supreme Court. The non-appealable nature makes small case decisions appropriate only when parties accept finality and seek quick, inexpensive resolution.

53. Correct Answer: D (Published and precedential)

Tax Court regular decisions are published in official reports (United States Tax Court Reports) and are precedential—they establish authority that Tax Court and lower courts follow. Regular decisions address novel or important legal issues and typically involve significant amounts. They're distinguished from memorandum decisions (applying established law, published commercially but not officially) and summary opinions (small cases, not appealable or precedential). The published, precedential nature makes regular decisions important for tax law development.

54. Correct Answer: A (Payment first)

District Court jurisdiction for tax refund suits requires the taxpayer to first pay the disputed tax and file a refund claim. After the claim is denied or deemed denied (by inaction for 6 months), the taxpayer can sue for refund in District Court. This "pay first" requirement distinguishes District Court from Tax Court

(prepayment jurisdiction). District Court is the only forum offering jury trials, making it attractive when jury sympathy may benefit the case. District Court suits are filed where the taxpayer resides.

55. Correct Answer: C (Nationwide jurisdiction)

The U.S. Court of Federal Claims has nationwide jurisdiction over tax refund suits—it can hear cases from anywhere in the country. Like District Court, it requires payment first (pay-and-sue). The Court sits in Washington, D.C., but judges travel to hear cases. The Court offers an alternative to District Court when taxpayers prefer the specialized expertise of Court of Federal Claims judges or want to avoid local District Courts. No jury trials are available in Court of Federal Claims.

56. Correct Answer: B (Circuit Court where taxpayer resides)

The Golsen rule requires Tax Court to follow the precedent of the Circuit Court of Appeals where the taxpayer resides (where appeal would lie if the case were appealed). This prevents futile rulings contrary to controlling appellate authority. The Golsen rule can create different Tax Court results for identical facts depending on taxpayer residence when Circuit Courts have different interpretations. Tax Court follows its own prior decisions except when reversed by the controlling Circuit Court.

57. Correct Answer: D (60 days)

Fast Track Settlement aims to resolve cases within 60 days using an Appeals mediator while the case remains in examination (before formal Appeals referral). Both examination and taxpayer must agree to participate. The mediator facilitates discussion and settlement. FTS provides expedited resolution with independent Appeals input without waiting for examination closure and formal Appeals referral. The 60-day goal (though actual time varies) makes FTS attractive for faster dispute resolution.

58. Correct Answer: C (Voluntary)

Appeals mediation (including Fast Track Settlement and Fast Track Mediation) is voluntary—both the taxpayer and IRS must agree to participate. The mediator is an Appeals employee who facilitates settlement but doesn't impose decisions (unlike arbitration, which is binding). The voluntary nature ensures both parties are willing to negotiate in good faith. Mediation provides structured facilitation helping parties reach settlement while maintaining party control over outcomes, unlike litigation where judges impose decisions.

59. Correct Answer: A (30 days and CDP rights)

Notice of Intent to Levy (Form 1058 or Letter 1058) must be given at least 30 days before levy and provides the right to a Collection Due Process (CDP) hearing. The CDP hearing allows taxpayers to challenge collection actions, raise defenses, propose alternatives (installment agreements, offers in compromise, currently not collectible), and contest underlying liability if no prior opportunity. Requesting a CDP hearing within 30 days suspends levy action during the hearing process, providing important protection.

60. Correct Answer: D (Court approval)

Principal residence levy requires written approval from a U.S. District Court judge or magistrate. This judicial oversight protects homes from seizure without independent court authorization, recognizing the special importance of principal residences. The IRS must demonstrate that collection alternatives have been exhausted and that levy on the residence is necessary. Other property can generally be levied after proper notice without court approval. The judicial requirement prevents improper home seizures.

61. Correct Answer: D (Assessment, demand, and nonpayment)

The federal tax lien arises automatically when (1) the IRS assesses tax, (2) the IRS sends notice and demand for payment, and (3) the taxpayer fails to pay. All three events must occur. The lien arises without any filing or additional IRS action and attaches to all the taxpayer's property and rights to property. However, the lien isn't effective against certain third parties (purchasers, secured creditors, judgment lien holders) until Notice of Federal Tax Lien is filed.

62. Correct Answer: C (Appropriate government office)

Notice of Federal Tax Lien is filed with the appropriate government office, typically the county recorder where the taxpayer's real property is located, or the Secretary of State for personal property. Filing location varies by state law. Filing provides public notice of the lien, perfecting the government's priority against subsequent creditors and purchasers. The notice identifies the taxpayer, tax liability amount, and IRS contact information, alerting creditors and potential property purchasers to the government's claim.

63. Correct Answer: B (30 days)

A Certificate of Release of Federal Tax Lien must be issued within 30 days after the liability is fully satisfied, becomes legally unenforceable (statute expires), or a bond is accepted. The IRS must also release liens when installment agreements are entered, accepted offers are paid, or other specified events occur. The 30-day requirement protects taxpayers from delayed releases damaging credit and clouding property titles. Failure to timely release can result in civil damages against the United States.

64. Correct Answer: A (Effective tax administration)

Offer in compromise types include (1) doubt as to collectibility (taxpayer cannot pay full amount), (2) doubt as to liability (genuine dispute about whether tax is owed), and (3) effective tax administration (collection would create economic hardship or be unfair due to exceptional circumstances). ETA offers address situations where collection, while possible, would be unconscionable or contrary to equitable considerations. The three types provide comprehensive framework for compromise in appropriate circumstances.

65. Correct Answer: D (Application fee and payment)

Offers in compromise require Form 433-A (individuals) or Form 433-B (businesses) providing detailed financial information, an application fee (\$205, waived for low-income taxpayers), and payment with the application. Lump sum offers require 20% payment with application and remaining balance in 5 or fewer payments. Periodic payment offers require first payment with application and remaining balance paid

monthly over 6 to 24 months. The payment requirements demonstrate commitment and provide partial collection if offers are rejected.

66. Correct Answer: C (\$50,000 or less)

Streamlined installment agreements apply to individual liabilities of \$50,000 or less, requiring full payment within 72 months (6 years). Taxpayers must be current on filing and payment obligations and can't have had installment agreements or offers in the past 5 years. No financial statement is required for streamlined agreements—approval is based on the liability amount and payment period. The streamlined process provides quick approval, encouraging voluntary compliance through accessible payment arrangements without detailed financial analysis.

67. Correct Answer: B (Hardship preventing payment)

Currently not collectible (CNC) status requires showing economic hardship—that paying any amount would prevent the taxpayer from meeting basic necessary living expenses. The IRS determines CNC status based on financial analysis showing income insufficient to pay both necessary expenses and any tax payment. CNC temporarily suspends collection but doesn't forgive liability—interest and penalties continue accruing, and the collection statute continues running. The IRS periodically reviews CNC accounts to determine if circumstances improved.

68. Correct Answer: D (30 days)

Collection Due Process (CDP) hearing requests must be made within 30 days of the Notice of Intent to Levy or Notice of Federal Tax Lien. Timely requests suspend levy action and provide Tax Court appeal rights for CDP determinations. Missing the 30-day deadline doesn't eliminate all review—equivalent hearings are available but without levy suspension or Tax Court review. The 30-day period balances providing adequate response time with preventing indefinite delay of collection through CDP requests.

69. Correct Answer: A (Tax Court)

Collection Due Process hearing determinations are appealable to Tax Court by filing a petition within 30 days of the determination. Tax Court reviews CDP determinations for abuse of discretion. This judicial review provides important protection ensuring collection is appropriate and alternatives were properly considered. Equivalent hearings (for late CDP requests) don't provide Tax Court appeal rights. The CDP appeals process ensures independent review of collection decisions before enforcement proceeds.

70. Correct Answer: C (Other spouse)

Traditional innocent spouse relief under Section 6015(b) requires the understatement to be attributable to erroneous items (omitted income, incorrect deductions) of the other spouse. The requesting spouse must not have known or had reason to know of the understatement when signing the return, and considering all facts and circumstances, it must be inequitable to hold the requesting spouse liable. The relief provides escape from liability for the other spouse's errors when the requesting spouse lacked knowledge and equity supports relief.

71. Correct Answer: B (Divorced or living apart)

Separation of liability relief under Section 6015(c) requires the requesting spouse to be divorced, legally separated, or not living in the same household as the other spouse for the 12-month period ending on the request date. The relief allocates liability between spouses as if they had filed separately, limiting each spouse's liability to their own items. Legal separation or 12 months of living apart satisfies the requirement, making this relief available even without formal divorce.

72. Correct Answer: A (Other spouse's separate debt)

Injured spouse relief applies when a joint refund is offset (applied) to satisfy the other spouse's separate debt—past-due federal taxes, state taxes, child support, spousal support, or federal non-tax debts like student loans incurred before marriage or separately after marriage. The injured spouse uses Form 8379 to request allocation of the refund based on contributions (income, withholding, payments, credits). This protects the injured spouse's refund share from the other spouse's separate obligations.

73. Correct Answer: B (Economic harm and hardship)

Taxpayer Advocate Service (TAS) assists taxpayers experiencing economic harm (suffering or about to suffer significant hardship as a result of IRS action or inaction), significant hardship, or when the IRS hasn't responded to problems through normal channels. TAS also identifies and addresses systemic issues affecting multiple taxpayers. The service provides independent advocacy within the IRS when normal processes fail or create undue hardship, offering assistance when taxpayers need help beyond routine service.

74. Correct Answer: D (Taxpayer Assistance Orders)

Taxpayer Advocate Service can issue Taxpayer Assistance Orders (TAOs) requiring the IRS to take or cease specific actions. TAOs can order the IRS to release levied property, cease collection, expedite processing, or take other actions to prevent or alleviate hardship. TAOs are binding on the IRS and provide emergency relief when IRS actions would cause irreparable harm. The authority to issue TAOs gives TAS enforcement power to protect taxpayers from improper or harmful IRS actions.

75. Correct Answer: A (15-30%)

Whistleblower awards for qualifying cases (exceeding \$2 million in dispute with taxpayer gross income over \$200,000) range from 15% to 30% of collected proceeds. The IRS Whistleblower Office determines the percentage based on the significance and value of information provided, the whistleblower's contribution, and other factors. The substantial awards incentivize reporting of significant tax noncompliance. For smaller cases, discretionary awards up to 15% may be available. The percentage reflects information quality and contribution to collection.

76. Correct Answer: C (IP PIN)

Identity theft victims receive Identity Protection PINs (IP PINs) from the IRS. The six-digit IP PIN is required on tax returns for e-filing authentication, preventing fraudulent returns from being processed

using stolen identities. Victims also receive assistance from the IRS Identity Theft specialized unit resolving account issues. The IP PIN provides strong authentication preventing fraudulent filing while allowing legitimate taxpayers to file electronically. Victims can obtain new PINs annually through the IRS Get An IP PIN tool.

77. Correct Answer: D (10 rights)

The Taxpayer Bill of Rights includes 10 rights: (1) right to be informed, (2) right to quality service, (3) right to pay no more than correct amount, (4) right to challenge IRS position and be heard, (5) right to appeal in independent forum, (6) right to finality, (7) right to privacy, (8) right to confidentiality, (9) right to retain representation, and (10) right to fair and just tax system. These rights codify taxpayer protections and establish expectations for IRS conduct and treatment.

78. Correct Answer: D (Testimony and records)

Summons can require taxpayers or third parties to appear, testify under oath, and produce books, records, and other relevant data. The summons power is broad for tax administration purposes. However, summons cannot compel self-incrimination (Fifth Amendment protection applies), production of privileged communications (attorney-client privilege, limited tax practitioner privilege), or unreasonable searches. Refusal to comply can result in court enforcement through contempt. The summons power is essential for tax examination and enforcement.

79. Correct Answer: C (20 days to quash)

Third-party recordkeeper summonses (issued to banks, accountants, attorneys for records regarding taxpayers) require notice to the taxpayer whose records are summoned. The taxpayer has 20 days from the notice date to petition to quash (challenge) the summons in court. If no petition is filed within 20 days, the recordkeeper must comply. The 20-day notice protects taxpayers' rights to challenge summonses for their records before production, balancing IRS examination needs with taxpayer privacy and due process.

80. Correct Answer: B (20%)

The accuracy-related penalty under Section 6662 is 20% of the portion of underpayment attributable to negligence or disregard of rules, substantial understatement of income tax, substantial valuation misstatement, substantial overstatement of pension liabilities, or substantial estate/gift tax valuation understatement. The 20% rate creates meaningful deterrence while not being confiscatory. Reasonable cause and good faith provide a defense. The penalty applies to various types of inaccurate reporting, creating comprehensive coverage of return accuracy issues.

81. Correct Answer: D (75%)

The civil fraud penalty under Section 6663 is 75% of the portion of underpayment attributable to fraud. Fraud requires proving the taxpayer intended to evade tax through intentional wrongdoing, using clear and convincing evidence. The burden is on the IRS. The 75% rate (compared to 20% for accuracy-related

penalties) reflects the serious nature of intentional fraud. The fraud penalty also opens the statute of limitations indefinitely, allowing assessment at any time.

82. Correct Answer: A (5%)

The failure-to-file penalty under Section 6651(a)(1) is 5% of unpaid tax per month (or partial month) the return is late, up to a maximum of 25%. The penalty accrues from the return due date (including extensions). When both failure-to-file and failure-to-pay penalties apply, the failure-to-file penalty is reduced by the failure-to-pay penalty for the same month, preventing monthly penalties exceeding 5% until failure-to-file reaches its 25% maximum. The significant monthly rate encourages timely filing.

83. Correct Answer: C (0.5%)

The failure-to-pay penalty under Section 6651(a)(2) is 0.5% of unpaid tax per month (or partial month), up to a maximum of 25%. The rate is reduced to 0.25% per month while an installment agreement is in effect and current. The penalty accrues from the return due date and continues until tax is paid or the 25% cap is reached. The lower rate (compared to 5% for failure-to-file) recognizes that late payment is less serious than failing to file.

84. Correct Answer: B (100%)

The trust fund recovery penalty under Section 6672 equals 100% of the unpaid trust fund taxes (income tax withholding and employee share of FICA taxes). The penalty is assessed against responsible persons who willfully failed to pay over collected taxes. The 100% rate ensures full collection even when the business can't pay. Responsible persons pay the penalty personally—it's not a business obligation. The severe penalty reflects that the funds were collected from employees and held in trust for the government.

85. Correct Answer: D (Willfulness)

A responsible person for trust fund recovery penalty purposes must have both authority over financial affairs (signature authority, decision-making power over which creditors to pay) AND willfully fail to pay over the taxes. "Willfully" means knowing about the duty and intentionally failing to perform it, or recklessly disregarding it. Willfulness doesn't require intent to defraud—knowledge of the failure or reckless disregard suffices. Both authority and willfulness must be proven to assess the penalty against an individual.

86. Correct Answer: A (\$5,000)

The frivolous return penalty under Section 6702 is \$5,000 for returns based on frivolous positions (tax protester arguments claiming taxes are unconstitutional, wages aren't income, etc.) or designed to delay or impede tax administration. The penalty applies to original returns, amended returns, and other submissions. It's assessed immediately without deficiency procedures and is in addition to other penalties. The IRS maintains a list of frivolous positions. The \$5,000 penalty deters tax protester filings that waste IRS resources.

87. Correct Answer: C (20%)

The penalty for erroneous claims for refund or credit under Section 6676 is 20% of the excessive claim amount. The penalty applies when the amount claimed exceeds the allowable amount, unless there's reasonable basis for the claim. The 20% rate deters frivolous or inflated refund claims while allowing reasonable claims. The penalty applies to both original claims and amended returns claiming refunds. Claims with reasonable basis (even if ultimately incorrect) aren't subject to penalty, recognizing legitimate uncertainty about tax positions.

88. Correct Answer: C (Failure-to-deposit)

First-time abate (FTA) penalty relief applies to failure-to-file, failure-to-pay, and failure-to-deposit penalties. FTA is available for taxpayers with clean compliance history (no penalties in prior 3 years) who are currently compliant (all returns filed, all taxes paid or payment arrangements made). FTA doesn't apply to accuracy-related penalties, fraud penalties, or other non-compliance penalties. The administrative relief provides a fresh start for previously compliant taxpayers who have isolated failures, encouraging continued compliance.

89. Correct Answer: A (Circumstances beyond control)

Reasonable cause penalty abatement requires showing the taxpayer exercised ordinary business care and prudence but nevertheless failed to comply due to circumstances beyond their control. This is a facts-and-circumstances determination considering all factors. Examples include serious illness, death in family, unavoidable absence, destruction of records by casualty, or reasonable reliance on competent professional advice. Financial hardship alone isn't reasonable cause. The defense recognizes that penalties shouldn't apply when failures result from uncontrollable circumstances despite reasonable efforts.

90. Correct Answer: B (Appeals Office)

Penalty disputes can be appealed to the IRS Appeals Office for independent review. Appeals can consider penalty abatement based on reasonable cause, statutory exceptions (like first-time abate), or administrative relief. If Appeals doesn't resolve the dispute, taxpayers can litigate penalties in Tax Court (for deficiency cases) or District Court/Court of Federal Claims (after payment). The Appeals process provides opportunity to resolve penalty disputes administratively before litigation, often resulting in settlements considering reasonable cause and compliance history.

91. Correct Answer: A (Designate tax periods)

Payment designation allows taxpayers with multiple liabilities to designate how payments are applied to specific tax periods or types when making payments. Without designation, the IRS applies payments according to its own procedures (generally oldest first). Taxpayer designation must be made at the time of payment. This control allows strategic payment application to minimize interest and penalties. For example, taxpayers might designate payments to periods with higher penalty rates or shorter remaining collection statutes.

92. Correct Answer: C (Ability to pay)

Partial payment installment agreements (PPIAs) are based on the taxpayer's ability to pay as determined through financial analysis on Form 433-A or 433-F. The monthly payment equals disposable income (income minus necessary living expenses). PPIAs are available when taxpayers can't pay full liability within the remaining collection statute. Payments continue until the statute expires, potentially resulting in partial forgiveness of the remaining balance. The ability-to-pay basis creates realistic payment arrangements when full payment isn't feasible.

93. Correct Answer: D (Full reinstatement of liability)

Offer in compromise default (failure to make required payments or comply with filing and payment obligations) results in full reinstatement of the original liability minus payments made, plus interest from the original assessment date. The entire unpaid balance becomes immediately due. All payments made under the offer are forfeited—they're applied to the liability but don't reduce it dollar-for-dollar. The harsh consequence of full reinstatement encourages strict compliance with all offer terms during the compliance period.

94. Correct Answer: B (5 years)

The offer in compromise compliance period is typically 5 years from the date the offer is accepted. During this period, taxpayers must file all required returns on time, pay all taxes when due, make required estimated payments (if applicable), and comply with all tax obligations. Any default during the 5-year period terminates the offer and reinstates the full liability. The 5-year compliance period ensures future compliance beyond just paying the offer amount, encouraging long-term tax compliance.

95. Correct Answer: C (Likelihood of success at trial)

Appeals can consider litigation hazards—the likelihood of success if the case proceeds to trial—when reaching settlements. This "hazards of litigation" authority allows Appeals to compromise cases based on practical assessment of potential trial outcomes. Appeals evaluates the strength of both IRS and taxpayer positions, considering evidence quality, legal precedents, witness credibility, and jury appeal. This authority facilitates realistic settlements that both parties prefer to the cost, time, and uncertainty of litigation.

96. Correct Answer: C (Amount not yet determinable)

Protective claims preserve refund rights when the refund amount isn't yet determinable but circumstances require filing within the statute. The protective claim states the refund basis but doesn't quantify the amount, which will be determined when additional information becomes available (such as resolution of related litigation, regulatory guidance, or completion of calculations). The claim must be filed within the refund statute but can be informal. Protective claims prevent loss of refund rights due to timing constraints when complete claims can't be filed.

97. Correct Answer: D (Double taxation or deduction)

Mitigation provisions under Sections 1311-1314 prevent double taxation or double deductions that would otherwise occur due to statute of limitations expiring. When an item is adjusted in an open year but the related item is in a closed year, mitigation may allow adjustment in the closed year to prevent inequitable results. The provisions require a determination (court decision, closing agreement, or other specified event) and one of seven specified circumstances. Mitigation creates equity when normal statute rules would produce unfair outcomes.

98. Correct Answer: B (Examination request for documents)

An Information Document Request (IDR) is an IRS examination tool requesting specific documents or information from taxpayers during audits. IDRs aren't summonses or legally enforceable orders—they're requests. However, failure to respond can result in summons issuance, determination of deficiency based on available information, or adverse inferences. IDRs specify documents requested and reasonable deadlines for responses. Taxpayers should respond timely, requesting extensions if needed, to maintain cooperative examination relationships and avoid enforcement escalation.

99. Correct Answer: C (IRS)

Form 872, Consent to Extend the Time to Assess Tax, must be signed by both the taxpayer (or authorized representative with specific authority to extend statutes) and the IRS. The consent extends the assessment statute by the agreed period. The taxpayer's signature shows consent to the extension; the IRS signature shows acceptance. Taxpayers aren't required to sign extensions—they can refuse, but refusal may result in immediate assessment. The mutual signature requirement ensures both parties agree to the extension terms.

100. Correct Answer: A (40% likelihood)

The substantial authority standard for return positions is approximately a 40% likelihood of success if challenged—more than reasonable basis (approximately 20%) but less than more likely than not (over 50%). Substantial authority is the basic standard for avoiding the accuracy-related penalty for understatements. Positions lacking substantial authority must be disclosed (typically on Form 8275) to avoid penalty, or must have reasonable basis plus disclosure. The standard is determined based on authorities (statutes, regulations, cases, rulings) supporting the position.