

# Full-Length Practice Test 2

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

## Part 1: Individuals

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1. A single taxpayer, age 68, has no dependents. What is the standard deduction for 2024?
  - A. \$14,600
  - B. \$16,550
  - C. \$15,700
  - D. \$18,400
2. For a qualifying child to be claimed as a dependent, the child must be under age 19, or under age 24 if a full-time student, or:
  - A. Under 21 if working part-time
  - B. Under 26 if living at home
  - C. Any age if permanently and totally disabled
  - D. Under 30 if unemployed
3. Which of the following is NOT a test for claiming a qualifying relative as a dependent?
  - A. Gross income test
  - B. Support test
  - C. Relationship or household member test
  - D. Age test
4. Alimony paid under a divorce finalized in 2017 is:
  - A. Not deductible by the payer
  - B. Deductible by the payer and taxable to the recipient
  - C. Deductible only if AGI is under \$100,000
  - D. Only 50% deductible
5. Jessica received \$18,000 in Social Security benefits and \$25,000 in other income. What percentage of her Social Security benefits is potentially taxable?
  - A. 0%
  - B. 50%
  - C. Up to 85%
  - D. 100%

6. A taxpayer, age 55, contributed \$8,000 to a traditional IRA in 2024. The taxpayer is covered by a retirement plan at work and has AGI of \$95,000 (married filing jointly). How much is deductible?
  - A. \$0
  - B. \$4,000
  - C. \$7,000
  - D. Partially deductible
  
7. Which of the following is NOT earned income for Earned Income Tax Credit purposes?
  - A. Wages
  - B. Rental income from investment property
  - C. Self-employment income
  - D. Tips
  
8. A married couple filing jointly, both age 40, can contribute a maximum of how much to Roth IRAs combined for 2024 (assuming they qualify)?
  - A. \$7,000
  - B. \$13,000
  - C. \$14,000
  - D. \$16,000
  
9. Medical expenses are deductible to the extent they exceed what percentage of AGI?
  - A. 2%
  - B. 10%
  - C. 5%
  - D. 7.5%
  
10. Which of the following qualifies for the unlimited gift tax exclusion?
  - A. Direct payment of tuition to an educational institution
  - B. Payment for room and board
  - C. Cash gift of \$20,000
  - D. Payment for textbooks
  
11. To exclude gain on the sale of a principal residence, a single taxpayer can exclude up to:
  - A. \$125,000
  - B. \$250,000
  - C. \$500,000
  - D. \$100,000
  
12. A taxpayer sold stock held for 10 months. The gain is:
  - A. Long-term capital gain

- B. Ordinary income
- C. Short-term capital gain
- D. Tax-exempt

13. Capital losses can offset capital gains, and up to how much can be deducted against ordinary income per year?

- A. \$3,000
- B. \$5,000
- C. \$10,000
- D. \$1,000

14. The American Opportunity Tax Credit can be claimed for how many years per student?

- A. Unlimited
- B. 2 years
- C. 10 years
- D. 4 years

15. The maximum Lifetime Learning Credit per tax return is:

- A. \$2,500
- B. \$2,000
- C. \$3,000
- D. \$4,000

16. For 2024, the Child Tax Credit per qualifying child is:

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

17. To qualify for the Child and Dependent Care Credit, expenses must be incurred to allow the taxpayer to:

- A. Retire early
- B. Volunteer
- C. Take vacation
- D. Work or look for work

18. The maximum student loan interest deduction is:

- A. \$2,500
- B. \$3,000
- C. \$5,000

D. \$1,000

19. Self-employed individuals can deduct what portion of self-employment tax as an adjustment to income?

A. 25%

B. 50%

C. 100%

D. 7.65%

20. For 2024, the maximum IRA contribution for a taxpayer under age 50 is:

A. \$6,000

B. \$6,500

C. \$7,000

D. \$8,000

21. HSA contributions for self-only coverage in 2024 are limited to:

A. \$4,150

B. \$7,000

C. \$3,850

D. \$5,000

22. The additional HSA catch-up contribution for taxpayers age 55 and older is:

A. \$500

B. \$7,500

C. \$2,000

D. \$1,000

23. Net self-employment income subject to self-employment tax is calculated as:

A. 100% of net profit

B. 85% of net profit

C. 92.35% of net profit

D. 90% of net profit

24. The Social Security wage base for 2024 is:

A. \$147,000

B. \$168,600

C. \$160,200

D. \$142,800

25. Additional Medicare Tax applies to wages exceeding what threshold for married filing jointly?

- A. \$200,000
- B. \$125,000
- C. \$300,000
- D. \$250,000

26. The Additional Medicare Tax rate is:

- A. 0.9%
- B. 1.45%
- C. 2.9%
- D. 3.8%

27. Section 179 expensing for 2024 allows immediate deduction up to:

- A. \$500,000
- B. \$1,000,000
- C. \$1,220,000
- D. \$2,000,000

28. Bonus depreciation for property placed in service in 2024 is:

- A. 100%
- B. 60%
- C. 80%
- D. 50%

29. Residential rental property is depreciated over:

- A. 27.5 years
- B. 39 years
- C. 15 years
- D. 31.5 years

30. The standard mileage rate for business use of an automobile in 2024 is:

- A. 56 cents
- B. 58 cents
- C. 62.5 cents
- D. 67 cents

31. Cash charitable contributions to public charities are limited to what percentage of AGI?

- A. 30%
- B. 50%
- C. 60%
- D. 100%

32. A contemporaneous written acknowledgment from a charity is required for contributions of:
- A. \$100 or more
  - B. \$250 or more
  - C. \$500 or more
  - D. \$1,000 or more
33. Personal casualty losses for federally declared disasters are deductible after reducing each loss by \$100 and then by what percentage of AGI?
- A. 2%
  - B. 7.5%
  - C. 5%
  - D. 10%
34. The state and local tax (SALT) deduction is limited to:
- A. \$10,000
  - B. \$5,000
  - C. \$20,000
  - D. Unlimited
35. Mortgage interest is deductible on acquisition debt up to what amount for loans originated after December 15, 2017?
- A. \$1,000,000
  - B. \$750,000
  - C. \$500,000
  - D. \$1,500,000
36. Net Investment Income Tax (NIIT) is imposed at what rate?
- A. 2.9%
  - B. 0.9%
  - C. 3.8%
  - D. 1.45%
37. NIIT applies when modified AGI exceeds what threshold for single filers?
- A. \$200,000
  - B. \$250,000
  - C. \$125,000
  - D. \$150,000
38. The foreign earned income exclusion for 2024 is approximately:

- A. \$100,000
- B. \$112,000
- C. \$120,000
- D. \$126,500

39. To qualify for the foreign earned income exclusion using the physical presence test, a taxpayer must be present in a foreign country for:

- A. 365 days
- B. 330 days in a 12-month period
- C. 11 months
- D. 270 days

40. Required minimum distributions from traditional IRAs must begin by April 1 of the year following the year the taxpayer reaches age:

- A. 70½
- B. 72
- C. 73
- D. 75

41. A qualified distribution from a Roth IRA requires the account to be open for at least:

- A. 1 year
- B. 3 years
- C. 10 years
- D. 5 years

42. The early distribution penalty from an IRA before age 59½ is:

- A. 10%
- B. 25%
- C. 20%
- D. 50%

43. The first-time homebuyer exception to the early withdrawal penalty allows up to:

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

44. Qualified charitable distributions from an IRA can be made starting at age:

- A. 59½
- B. 70½

- C. 65
- D. 73

45. The maximum QCD amount per year is:

- A. \$105,000
- B. \$100,000
- C. \$50,000
- D. \$150,000

46. The Section 199A qualified business income deduction allows a deduction of up to what percentage?

- A. 10%
- B. 25%
- C. 15%
- D. 20%

47. For purposes of Section 199A, specified service trades or businesses phase out beginning at what taxable income level for single filers in 2024?

- A. \$383,900
- B. \$191,950
- C. \$150,000
- D. \$100,000

48. Collectibles held more than 12 months are taxed at a maximum rate of:

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

49. Unrecaptured Section 1250 gain on real property is taxed at a maximum rate of:

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

50. The kiddie tax applies to unearned income of children under what age?

- A. 21
- B. 24
- C. 17
- D. 18 (or 19/24 if student)

51. The AMT exemption amount for married filing jointly in 2024 is:
- A. \$85,700
  - B. \$133,300
  - C. \$118,100
  - D. \$75,900
52. AMT is calculated at what two rates?
- A. 24% and 32%
  - B. 10% and 15%
  - C. 26% and 28%
  - D. 20% and 25%
53. Private activity bond interest is:
- A. Taxable for both regular tax and AMT
  - B. Tax-exempt for both regular tax and AMT
  - C. Tax-exempt for regular tax but a preference item for AMT
  - D. Taxable for regular tax but exempt for AMT
54. The maximum contribution to a 401(k) plan for 2024 (under age 50) is:
- A. \$23,000
  - B. \$22,500
  - C. \$20,500
  - D. \$19,500
55. The 401(k) catch-up contribution for those age 50 and older is:
- A. \$1,000
  - B. \$6,500
  - C. \$7,500
  - D. \$10,000
56. SEP IRA contributions are limited to what percentage of compensation?
- A. 20%
  - B. 25%
  - C. 15%
  - D. 30%
57. The maximum SEP IRA contribution for 2024 is:
- A. \$69,000
  - B. \$66,000
  - C. \$61,000

D. \$58,000

58. SIMPLE IRA contribution limits for 2024 (under age 50) are:

A. \$13,500

B. \$14,000

C. \$15,500

D. \$16,000

59. Roth IRA contribution income limits for single filers begin phasing out at what MAGI for 2024?

A. \$138,000

B. \$153,000

C. \$146,000

D. \$161,000

60. For married filing jointly, the Roth IRA phase-out range for 2024 begins at:

A. \$204,000

B. \$230,000

C. \$218,000

D. \$240,000

61. Premium Tax Credit is reconciled on which form?

A. Form 8995

B. Schedule A

C. Form 8863

D. Form 8962

62. To be eligible for Premium Tax Credit, household income must be between what percentage of the federal poverty line?

A. 100% and 400%

B. 50% and 200%

C. 138% and 400%

D. 80% and 300%

63. The Saver's Credit provides a maximum credit percentage of:

A. 25%

B. 50%

C. 20%

D. 10%

64. The Saver's Credit is available to taxpayers who are at least age:

- A. 21
- B. 25
- C. 18
- D. 16

65. Educator expense deduction allows eligible educators to deduct up to:

- A. \$300
- B. \$250
- C. \$500
- D. \$600

66. For married educators where both spouses qualify, the maximum educator expense deduction is:

- A. \$300
- B. \$500
- C. \$250
- D. \$600

67. Qualified tuition programs (529 plans) allow tax-free distributions for:

- A. Room and board only
- B. K-12 tuition up to \$5,000
- C. Qualified higher education expenses
- D. All living expenses

68. The maximum 529 plan distribution for K-12 tuition per year is:

- A. \$5,000
- B. \$10,000
- C. \$15,000
- D. Unlimited

69. ABLE account annual contribution limits match the:

- A. IRA limits
- B. 401(k) limits
- C. HSA limits
- D. Gift tax annual exclusion

70. Disaster loss deductions for federally declared disasters can be claimed:

- A. In the year of the disaster or the prior year
- B. Only in the year of the disaster
- C. Over 5 years
- D. Any time within 3 years

71. The adoption credit for 2024 is approximately:
- A. \$10,000
  - B. \$16,810
  - C. \$13,810
  - D. \$20,000
72. The adoption credit phases out for taxpayers with modified AGI beginning at approximately:
- A. \$100,000
  - B. \$200,000
  - C. \$252,150
  - D. \$150,000
73. Estimated tax payments are required when expected tax liability minus withholding and credits exceeds:
- A. \$500
  - B. \$5,000
  - C. \$100
  - D. \$1,000
74. The safe harbor for estimated tax payments to avoid penalties is the lesser of 90% of current year tax or what percentage of prior year tax?
- A. 100%
  - B. 110%
  - C. 85%
  - D. 95%
75. For high-income taxpayers (AGI over \$150,000), the prior year safe harbor increases to:
- A. 100%
  - B. 90%
  - C. 110%
  - D. 120%
76. Form 1099-NEC reports:
- A. Interest income
  - B. Nonemployee compensation
  - C. Dividend income
  - D. Retirement distributions
77. Form 1099-NEC must be provided to recipients by:

- A. February 15
- B. March 15
- C. April 15
- D. January 31

78. Taxpayers must have a filing requirement if their income exceeds the standard deduction plus:

- A. Any dependent exemptions
- B. The personal exemption
- C. \$0
- D. \$1,000

79. Head of Household status requires the taxpayer to pay more than what percentage of household expenses?

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

80. A qualifying widow(er) can use married filing jointly rates for up to how many years after the spouse's death?

- A. 1 year
- B. 3 years
- C. 2 years
- D. 5 years

81. For qualifying widow(er) status, the taxpayer must have:

- A. A dependent child living at home
- B. Been married for at least 10 years
- C. Not remarried
- D. AGI under \$100,000

82. The earned income credit is refundable, meaning:

- A. It can only reduce tax to zero
- B. It reduces AMT
- C. It cannot exceed \$1,000
- D. It can result in a refund even if no tax is owed

83. Investment income for EITC purposes is limited to approximately what amount for 2024?

- A. \$5,000
- B. \$15,000

- C. \$11,600
- D. \$20,000

84. The maximum number of qualifying children for EITC purposes is:

- A. 2
- B. 3 or more
- C. 4
- D. Unlimited

85. Social Security benefits become taxable when provisional income exceeds what amount for single filers?

- A. \$25,000
- B. \$32,000
- C. \$34,000
- D. \$44,000

86. For married filing jointly, 85% of Social Security benefits may be taxable when provisional income exceeds:

- A. \$44,000
- B. \$32,000
- C. \$25,000
- D. \$34,000

87. Self-employment tax applies to net self-employment earnings of:

- A. \$100 or more
- B. \$600 or more
- C. \$400 or more
- D. \$1,000 or more

88. Schedule C is used to report:

- A. Rental income
- B. Sole proprietorship income
- C. Capital gains
- D. Farm income

89. Schedule F is used to report:

- A. Farm income
- B. Foreign income
- C. Rental income
- D. Partnership income

90. Net operating losses can be carried forward:
- A. 5 years
  - B. 20 years
  - C. 10 years
  - D. Indefinitely
91. NOL carryforwards can offset what percentage of taxable income?
- A. 100%
  - B. 50%
  - C. 80%
  - D. 90%
92. Luxury automobile depreciation limitations apply to vehicles weighing:
- A. Under 14,000 pounds
  - B. Under 6,000 pounds
  - C. Over 14,000 pounds
  - D. Under 10,000 pounds
93. The first-year depreciation limit for passenger automobiles in 2024 with bonus depreciation is approximately:
- A. \$12,200
  - B. \$8,000
  - C. \$15,000
  - D. \$20,200
94. Listed property includes:
- A. Passenger automobiles used for business
  - B. Office buildings
  - C. Inventory
  - D. Real estate
95. Mid-quarter convention applies when more than what percentage of property is placed in service in the fourth quarter?
- A. 50%
  - B. 40%
  - C. 25%
  - D. 75%
96. Qualified improvement property has a recovery period of:

- A. 27.5 years
- B. 39 years
- C. 15 years
- D. 7 years

97. Like-kind exchanges under Section 1031 now apply only to:

- A. Real property
- B. Personal property
- C. Inventory
- D. Securities

98. In a like-kind exchange, boot received is taxable to the extent of:

- A. Fair market value
- B. Basis
- C. Recognized gain
- D. Realized gain

99. Replacement property in a deferred exchange must be identified within:

- A. 90 days
- B. 45 days
- C. 180 days
- D. 365 days

100. The replacement property must be received within how many days in a deferred exchange?

- A. 45 days
- B. 90 days
- C. 180 days
- D. 365 days

## Part 2: Businesses

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1. A sole proprietor reports business income on:
  - A. Schedule E
  - B. Form 1120
  - C. Schedule B
  - D. Schedule C
  
2. Self-employment tax consists of:
  - A. Only Social Security tax
  - B. Social Security and Medicare taxes
  - C. Only Medicare tax
  - D. Federal and state unemployment taxes
  
3. The self-employment tax rate for 2024 is:
  - A. 15.3%
  - B. 12.4%
  - C. 7.65%
  - D. 2.9%
  
4. Partnerships file which tax form?
  - A. Form 1120
  - B. Form 1120-S
  - C. Form 1065
  - D. Schedule C
  
5. Partnership income flows through to partners on:
  - A. Form W-2
  - B. Form 1099
  - C. Schedule C
  - D. Schedule K-1
  
6. Guaranteed payments to partners are:
  - A. Not taxable
  - B. Deductible by the partnership and taxable to partners
  - C. Tax-free distributions
  - D. Capital contributions
  
7. When property is contributed to a partnership, the partnership's basis is generally:
  - A. Fair market value
  - B. Zero

- C. Contributing partner's adjusted basis
  - D. Stepped-up basis
8. Partners increase their basis for:
- A. Allocated income and share of liabilities
  - B. Distributions received
  - C. Losses allocated
  - D. Capital withdrawals
9. Partnership losses are limited to:
- A. \$3,000 per year
  - B. Partner's basis
  - C. 80% of income
  - D. Unlimited
10. At-risk rules limit losses to amounts the partner:
- A. Contributed to capital
  - B. Guaranteed
  - C. Inherited
  - D. Has at economic risk
11. Material participation in an activity requires meeting one of several tests, including participating more than:
- A. 500 hours
  - B. 100 hours
  - C. 750 hours
  - D. 1,000 hours
12. Section 1231 property includes:
- A. Inventory
  - B. Securities
  - C. Depreciable property used in business held more than one year
  - D. Personal-use assets
13. Net Section 1231 gain is generally treated as:
- A. Ordinary income
  - B. Long-term capital gain
  - C. Short-term capital gain
  - D. Tax-exempt

14. C corporations file which form?

- A. Form 1065
- B. Schedule C
- C. Form 1120-S
- D. Form 1120

15. The corporate tax rate for C corporations is:

- A. 21%
- B. 35%
- C. 28%
- D. 15%

16. The dividends received deduction for corporations owning less than 20% of another corporation is:

- A. 100%
- B. 65%
- C. 50%
- D. 80%

17. Corporate capital losses can only offset:

- A. Ordinary income
- B. 50% of income
- C. \$3,000 per year
- D. Capital gains

18. Corporate capital loss carrybacks are allowed for:

- A. 2 years
- B. 3 years
- C. 5 years
- D. No carryback allowed

19. Corporate charitable contribution deductions are limited to what percentage of taxable income?

- A. 60%
- B. 50%
- C. 10%
- D. 30%

20. Excess corporate charitable contributions carry forward for:

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

D. 3 years

21. S corporations must file Form:

- A. Form 1120
- B. Form 1065
- C. Schedule C
- D. Form 1120-S

22. The maximum number of S corporation shareholders is:

- A. 75
- B. 100
- C. 50
- D. Unlimited

23. S corporation shareholders can be:

- A. U.S. citizens and resident aliens
- B. C corporations
- C. Partnerships
- D. Nonresident aliens

24. S corporations can have only:

- A. Two classes of stock
- B. Common stock only
- C. One class of stock
- D. Unlimited classes

25. The built-in gains tax applies to S corporations that were previously C corporations if assets are sold within:

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

26. The built-in gains tax rate is:

- A. 35%
- B. 15%
- C. 28%
- D. 21%

27. S corporation distributions first come from:

- A. Earnings and profits
- B. Paid-in capital
- C. Accumulated Adjustments Account
- D. Retained earnings

28. The S corporation election must be filed by the 15th day of the third month and requires consent of:

- A. All shareholders
- B. Majority shareholders
- C. 80% of shareholders
- D. Officers only

29. Multi-member LLCs are taxed by default as:

- A. C corporations
- B. S corporations
- C. Sole proprietorships
- D. Partnerships

30. Single-member LLCs owned by individuals are treated as:

- A. C corporations
- B. Disregarded entities
- C. S corporations
- D. Partnerships

31. Cost of goods sold equals beginning inventory plus purchases minus:

- A. Ending inventory
- B. Sales
- C. Gross profit
- D. Operating expenses

32. The LIFO inventory method assumes:

- A. Oldest inventory is sold first
- B. Average cost
- C. Most recent inventory is sold first
- D. Specific identification

33. Business interest expense is limited to 30% of adjusted taxable income plus:

- A. Depreciation
- B. Business interest expense
- C. All deductions
- D. Business interest income

34. Small businesses with gross receipts of \$27 million or less are exempt from:

- A. All taxes
- B. Business interest limitation
- C. Depreciation rules
- D. Filing requirements

35. Section 179 expensing cannot exceed:

- A. Gross income
- B. Total assets
- C. Taxable income from business
- D. \$1 million

36. The Section 179 phase-out begins when purchases exceed:

- A. \$3,050,000
- B. \$2,500,000
- C. \$1,000,000
- D. \$5,000,000

37. MACRS uses what convention for personal property?

- A. Full-year
- B. Half-year or mid-quarter
- C. Mid-month
- D. Quarterly

38. Real property uses what convention?

- A. Half-year
- B. Mid-quarter
- C. Full-year
- D. Mid-month

39. Nonresidential real property is depreciated over:

- A. 39 years
- B. 27.5 years
- C. 31.5 years
- D. 15 years

40. Qualified improvement property is depreciated over:

- A. 39 years
- B. 27.5 years

- C. 15 years
- D. 7 years

41. Startup costs can be deducted up to \$5,000, but this amount is reduced when total startup costs exceed:

- A. \$10,000
- B. \$25,000
- C. \$100,000
- D. \$50,000

42. Excess startup costs are amortized over:

- A. 60 months
- B. 180 months
- C. 15 years
- D. 10 years

43. Business meals are deductible at:

- A. 100%
- B. 80%
- C. 50%
- D. 0%

44. Entertainment expenses are:

- A. Not deductible
- B. 50% deductible
- C. 100% deductible
- D. 25% deductible

45. The employer portion of FICA taxes is:

- A. Not deductible
- B. Deductible
- C. 50% deductible
- D. Credited against income tax

46. FUTA tax applies to the first how much of each employee's wages?

- A. \$10,000
- B. \$42,000
- C. \$168,600
- D. \$7,000

47. The effective FUTA rate after state unemployment credit is:

- A. 0.6%
- B. 6.0%
- C. 5.4%
- D. 2.7%

48. Form W-2 must be provided to employees by:

- A. February 15
- B. March 31
- C. January 31
- D. April 15

49. Form 941 is filed:

- A. Annually
- B. Monthly
- C. Semiannually
- D. Quarterly

50. The \$100,000 next-day deposit rule requires deposit by:

- A. Within 7 days
- B. The next business day
- C. Within 3 days
- D. The 15th of the following month

51. Form 940 reports:

- A. Income tax withholding
- B. FICA taxes
- C. FUTA tax
- D. State unemployment tax

52. Independent contractors receive which form?

- A. Form 1099-NEC
- B. Form W-2
- C. Form 1098
- D. Schedule K-1

53. Behavioral control in worker classification examines:

- A. Payment method
- B. Instructions and training
- C. Opportunity for profit
- D. Written contracts

54. The trust fund recovery penalty applies to:
- A. All employment taxes
  - B. Only FUTA
  - C. Only the employer's portion
  - D. Withheld income tax and employee FICA
55. The trust fund recovery penalty equals:
- A. 100% of trust fund taxes
  - B. 50% of unpaid taxes
  - C. 25% of total taxes
  - D. 10% per month
56. Rental real estate income is reported on:
- A. Schedule D
  - B. Form 4797
  - C. Schedule E
  - D. Schedule C
57. Rental activities are automatically passive unless the taxpayer is a:
- A. Corporation
  - B. High-income earner
  - C. Partnership
  - D. Real estate professional
58. To qualify as a real estate professional, the taxpayer must spend more than:
- A. 1,000 hours
  - B. 750 hours
  - C. 500 hours
  - D. 250 hours
59. The \$25,000 rental loss allowance requires:
- A. Active participation
  - B. Material participation
  - C. Passive participation
  - D. Real estate professional status
60. The \$25,000 allowance phases out completely at what MAGI?
- A. \$100,000
  - B. \$125,000

- C. \$150,000
- D. \$200,000

61. Security deposits held by landlords that must be returned are:

- A. Taxable when received
- B. Not taxable when received
- C. 50% taxable
- D. Deductible by the landlord

62. Repairs to rental property are:

- A. Capitalized
- B. Not deductible
- C. Amortized over 15 years
- D. Deductible when paid

63. Improvements to rental property must be:

- A. Expensed immediately
- B. Deducted over 5 years
- C. Capitalized and depreciated
- D. Not deducted

64. Like-kind exchanges after TCJA apply only to:

- A. Real property
- B. Personal property
- C. Inventory
- D. Securities

65. Boot received in a like-kind exchange is:

- A. Always tax-free
- B. Always fully taxable
- C. Not recognized
- D. Taxable to the extent of realized gain

66. In a deferred exchange, replacement property must be identified within:

- A. 30 days
- B. 45 days
- C. 90 days
- D. 180 days

67. Special allocations in partnerships must have:

- A. Substantial economic effect
- B. Equal distribution
- C. IRS approval
- D. Unanimous consent

68. Section 704(c) requires tracking of:

- A. Partnership debts
- B. Cash contributions
- C. Built-in gain or loss in contributed property
- D. Partnership expenses

69. Passive losses can offset:

- A. Active income
- B. Passive income
- C. Portfolio income
- D. All income

70. When a passive activity is completely disposed of, suspended losses:

- A. Are lost
- B. Carry forward 5 years
- C. Can offset \$3,000 of ordinary income
- D. Become fully deductible

71. Tax-exempt organizations apply for exemption using:

- A. Form 990
- B. Form 1023
- C. Form 1023 or 1023-EZ
- D. Form 1024-A

72. Section 501(c)(3) organizations are prohibited from:

- A. Paying salaries
- B. Political campaign intervention
- C. Accepting donations
- D. Lobbying in any amount

73. Unrelated business income tax applies when UBI exceeds:

- A. \$5,000
- B. \$10,000
- C. \$100,000
- D. \$1,000

74. For income to be UBI, it must be from a regularly carried on trade or business that is:
- A. Related to exempt purpose
  - B. Not substantially related to exempt purpose
  - C. Occasional
  - D. From volunteers
75. Form 990 is filed by:
- A. Most tax-exempt organizations
  - B. C corporations
  - C. Partnerships
  - D. S corporations
76. The accumulated earnings tax rate for C corporations is:
- A. 21%
  - B. 35%
  - C. 20%
  - D. 15%
77. Under cash method accounting, income is recognized when:
- A. Earned
  - B. Invoiced
  - C. Paid
  - D. Received
78. Under accrual method accounting, expenses are deductible when:
- A. Paid
  - B. All events have occurred and economic performance has occurred
  - C. Invoiced
  - D. Budgeted
79. Economic performance for services provided to the taxpayer occurs when:
- A. Services are ordered
  - B. Invoice is received
  - C. Services are provided
  - D. Payment is made
80. Changes in accounting methods require:
- A. IRS consent
  - B. Shareholder approval

- C. State approval
- D. No approval

81. Section 481 adjustments prevent:

- A. Tax evasion
- B. Duplication or omission of income
- C. Double taxation
- D. Penalties

82. Farmers can use cash method accounting:

- A. Never
- B. Only if receipts are under \$1 million
- C. Only with IRS permission
- D. Regardless of gross receipts

83. Farm income averaging allows averaging over the prior:

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

84. Prepaid farm supplies are deductible if they don't exceed:

- A. \$1,000
- B. \$10,000
- C. 50% of other deductible farm expenses
- D. 100% of farm income

85. Conservation expenses are deductible up to what percentage of gross farm income?

- A. 10%
- B. 25%
- C. 50%
- D. 25%

86. Inventory must be capitalized for businesses with average gross receipts exceeding:

- A. \$1 million
- B. \$27 million
- C. \$10 million
- D. \$50 million

87. Uniform capitalization (UNICAP) rules require capitalizing:

- A. Direct costs only
- B. All expenses
- C. Indirect costs into inventory
- D. Marketing costs

88. The de minimis safe harbor allows expensing items costing up to:

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

89. Section 1245 recapture applies to:

- A. Real property
- B. Inventory
- C. Securities
- D. Personal property depreciation

90. Section 1250 recapture applies to:

- A. Personal property
- B. Real property depreciation
- C. Inventory
- D. Securities

91. Unrecaptured Section 1250 gain is taxed at a maximum rate of:

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

92. Installment sale reporting is automatic unless the taxpayer elects out and applies to:

- A. All property sales
- B. Dealer sales
- C. Sales where at least one payment is received after the year of sale
- D. Real estate only

93. The gross profit percentage in installment sales is:

- A. Selling price divided by basis
- B. Gross profit divided by contract price
- C. Total gain divided by selling price
- D. Basis divided by contract price

94. Related party installment sales have a special rule if the property is resold within:
- A. 6 months
  - B. 1 year
  - C. 5 years
  - D. 2 years
95. Depreciation recapture on installment sales is recognized:
- A. In the year of sale
  - B. Proportionately as payments are received
  - C. When final payment is received
  - D. Over 5 years
96. Partnership income allocations must have substantial economic effect, which requires that allocations affect the partners':
- A. Tax liability only
  - B. Voting rights
  - C. Economic positions
  - D. Distribution rights only
97. A partner's outside basis equals contributions plus allocated income minus:
- A. All partnership liabilities
  - B. Guaranteed payments
  - C. Draws only
  - D. Distributions and losses
98. Debt basis in S corporations is created only by:
- A. All corporate liabilities
  - B. Direct loans from shareholder to corporation
  - C. Guarantees
  - D. Allocated liabilities
99. S corporation losses exceeding basis are:
- A. Lost permanently
  - B. Deductible against other income
  - C. Suspended and carried forward
  - D. Converted to capital losses
100. The one class of stock requirement for S corporations means all stock must have identical rights to:

- A. Voting only
- B. Distribution and liquidation proceeds
- C. Management
- D. Transfer

### Part 3: Representation, Practices, And Procedures

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1. Circular 230 governs:
  - A. State tax practice
  - B. Financial planning
  - C. Practice before the IRS
  - D. Accounting standards
  
2. Which of the following have unlimited practice rights before the IRS?
  - A. Enrolled agents, attorneys, and CPAs
  - B. Enrolled agents only
  - C. Attorneys only
  - D. All tax preparers
  
3. Unenrolled return preparers can represent clients:
  - A. In any IRS proceeding
  - B. Only for returns they prepared before revenue agents and similar employees
  - C. Before Tax Court
  - D. Before Appeals
  
4. Circular 230 requires practitioners to exercise:
  - A. Perfection in all work
  - B. Minimal effort
  - C. Reasonable care
  - D. Due diligence
  
5. Practitioners must inform clients of noncompliance. They must also notify the IRS:
  - A. Within 30 days
  - B. Immediately
  - C. Within 60 days
  - D. Not required to notify IRS
  
6. Contingent fees are permitted for:
  - A. Preparing original returns
  - B. All services
  - C. Services related to IRS examinations
  - D. Initial consultations only
  
7. Written tax advice under Circular 230 must:
  - A. Be at least 10 pages
  - B. Guarantee specific outcomes

- C. Include disclaimers
  - D. Relate law to facts
8. Circular 230 sanctions include:
- A. Imprisonment
  - B. Censure, suspension, and disbarment
  - C. Fines only
  - D. License revocation only
9. Disbarment from practice is:
- A. For 5 years
  - B. Temporary
  - C. Permanent unless reinstated
  - D. Automatically reversed after 10 years
10. Giving false information to the IRS is:
- A. Disreputable conduct
  - B. Permitted if unintentional
  - C. Subject to warning only
  - D. Not addressed in Circular 230
11. The federally authorized tax practitioner privilege applies to:
- A. All communications
  - B. Return preparation
  - C. Criminal matters
  - D. Tax advice communications
12. The tax practitioner privilege does NOT apply in:
- A. IRS audits
  - B. Criminal proceedings
  - C. Appeals
  - D. Collection matters
13. Form 2848 authorizes a representative to:
- A. Receive information only
  - B. Prepare returns only
  - C. Sign returns only
  - D. Represent the taxpayer
14. Form 8821 authorizes:

- A. Representation
- B. Signing returns
- C. Information access only
- D. Appeals representation

15. Form 2848 automatically revokes prior powers unless:

- A. The IRS approves
- B. Both representatives agree
- C. The taxpayer notifies all parties
- D. The retention box is checked

16. Form 2848 must be signed within:

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

17. The IRS Wage & Investment Division serves:

- A. Large corporations
- B. Small businesses
- C. Individual taxpayers
- D. Tax-exempt organizations

18. The Small Business/Self-Employed Division handles:

- A. Individual returns only
- B. Large corporations
- C. Small businesses and self-employed taxpayers
- D. International matters

19. The Taxpayer Advocate Service assists taxpayers experiencing:

- A. Simple questions
- B. Routine processing
- C. Any tax issue
- D. Economic hardship or systemic problems

20. To request TAS assistance, taxpayers file:

- A. Form 2848
- B. Form 911
- C. Form 8821
- D. Form 1040-X

21. Correspondence audits are conducted primarily through:
- A. Mail
  - B. Phone
  - C. In-person meetings
  - D. Email
22. Office audits are conducted at:
- A. Taxpayer's home
  - B. Representative's office
  - C. IRS offices
  - D. Tax Court
23. Field audits are conducted at:
- A. IRS offices
  - B. Taxpayer's place of business
  - C. Tax Court
  - D. Appeals offices
24. The DIF system selects returns based on:
- A. Random selection
  - B. Alphabetical order
  - C. State of residence
  - D. Statistical analysis for potential changes
25. The general assessment statute is:
- A. 10 years
  - B. 6 years
  - C. 3 years
  - D. 5 years
26. The assessment statute extends to 6 years when gross income omission exceeds:
- A. 25%
  - B. 50%
  - C. 10%
  - D. 75%
27. There is no assessment statute when:
- A. The return shows a refund
  - B. The taxpayer is out of the country

- C. The taxpayer has low income
- D. No return is filed

28. The collection statute is:

- A. 3 years from filing
- B. 10 years from assessment
- C. 6 years from assessment
- D. Unlimited

29. Taxpayers can extend the assessment statute by signing:

- A. Form 872
- B. Form 2848
- C. Form 8821
- D. Form 1040-X

30. A notice of deficiency gives the taxpayer how many days to petition Tax Court?

- A. 30 days
- B. 60 days
- C. 90 days (150 if outside U.S.)
- D. 120 days

31. Small case appeals requests apply when disputed amounts are:

- A. \$10,000 or less
- B. \$50,000 or less
- C. \$100,000 or less
- D. \$25,000 or less per period

32. Formal written protests are required for cases exceeding:

- A. \$10,000
- B. \$25,000
- C. \$50,000
- D. \$100,000

33. CDP hearings must be requested within how many days of the CDP notice?

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

34. CDP determinations can be appealed to:

- A. District Court
- B. Claims Court
- C. Tax Court
- D. Appeals

35. Liens arise when tax is assessed and:

- A. The IRS files a notice
- B. Collection begins
- C. The taxpayer is notified
- D. Remains unpaid after notice and demand

36. Lien withdrawal removes the filed notice:

- A. Temporarily
- B. As if never filed
- C. After 10 years
- D. Only from credit reports

37. Levies must be preceded by a Final Notice at least how many days before?

- A. 30 days
- B. 10 days
- C. 60 days
- D. 90 days

38. Bank levies require banks to hold funds for:

- A. 10 days
- B. 30 days
- C. 45 days
- D. 21 days

39. Guaranteed installment agreements are available for balances up to:

- A. \$25,000
- B. \$50,000
- C. \$10,000
- D. \$100,000

40. Streamlined installment agreements for individuals allow balances up to:

- A. \$10,000
- B. \$50,000
- C. \$25,000
- D. \$100,000

41. Offers in compromise are based on:
- A. Taxpayer's request
  - B. IRS discretion only
  - C. Ability to pay
  - D. Reasonable collection potential
42. RCP equals net realizable equity in assets plus:
- A. Future income
  - B. Current liabilities
  - C. Gross income
  - D. Total assets
43. Currently Not Collectible status provides relief when:
- A. The taxpayer refuses to pay
  - B. The liability is disputed
  - C. Collection creates economic hardship
  - D. The taxpayer files bankruptcy
44. The failure to file penalty is:
- A. 0.5% per month
  - B. 5% per month
  - C. 1% per month
  - D. 10% per month
45. The maximum failure to file penalty is:
- A. 25%
  - B. 50%
  - C. 47.5%
  - D. 10%
46. The failure to pay penalty is:
- A. 5% per month
  - B. 1% per month
  - C. 10% per month
  - D. 0.5% per month
47. The minimum penalty for returns more than 60 days late is the lesser of \$485 or:
- A. \$1,000
  - B. 25% of tax

- C. 100% of tax due
- D. 50% of tax

48. The accuracy-related penalty is:

- A. 10%
- B. 20%
- C. 25%
- D. 40%

49. A substantial understatement for individuals exists when understatement exceeds the greater of 10% of correct tax or:

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

50. The civil fraud penalty is:

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

51. The willful preparer penalty is the greater of \$5,000 or:

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

52. Due diligence penalties for preparers are:

- A. \$100 per failure
- B. \$590 per failure
- C. \$1,000 per failure
- D. \$5,000 per failure

53. Interest on underpayments is the federal short-term rate plus:

- A. 2 percentage points
- B. 5 percentage points
- C. 1 percentage point
- D. 3 percentage points

54. Interest compounds:

- A. Daily
- B. Monthly
- C. Quarterly
- D. Annually

55. Interest suspension for individuals applies to:

- A. All taxes
- B. Income tax only
- C. Employment taxes
- D. Estate taxes

56. Refund claims must be filed within the later of 3 years from filing or:

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

57. Tax Court jurisdiction requires filing a petition within:

- A. 90 days of notice of deficiency
- B. 60 days
- C. 30 days
- D. 120 days

58. Enrolled agents can represent in Tax Court for amounts up to:

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

59. Small Tax Court cases involve amounts up to:

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

60. Small Tax Court decisions are:

- A. Appealable
- B. Precedential
- C. Final and not appealable

D. Published

61. Section 6103 prohibits disclosure of tax return information except as authorized. Unauthorized disclosure by IRS employees can result in imprisonment up to:

- A. 1 year
- B. 3 years
- C. 10 years
- D. 5 years

62. Innocent spouse relief must be requested within:

- A. 2 years of IRS collection attempts
- B. 90 days
- C. 1 year
- D. 3 years

63. Traditional innocent spouse relief requires the requesting spouse:

- A. Be divorced
- B. Did not know and had no reason to know of understatement
- C. Have low income
- D. Be separated

64. Separation of liability relief is available to spouses who are:

- A. Still married and living together
- B. High-income earners
- C. Divorced, legally separated, or living apart
- D. Filing jointly

65. The OPR administers:

- A. Circular 230
- B. Tax Court
- C. State licensing
- D. Criminal prosecutions

66. Closing agreements can be reopened only for:

- A. Any reason
- B. Change in tax law
- C. Taxpayer request
- D. Fraud, malfeasance, or misrepresentation

67. Estate tax applies when the gross estate exceeds:

- A. \$5 million
- B. \$11.7 million
- C. \$13.61 million
- D. \$10 million

68. The estate tax rate is:

- A. 21%
- B. 40%
- C. 35%
- D. 28%

69. The annual gift tax exclusion for 2024 is:

- A. \$15,000
- B. \$17,000
- C. \$16,000
- D. \$18,000

70. Disclosure on Form 8275 protects against:

- A. Negligence and substantial understatement penalties
- B. Fraud penalties
- C. Late filing penalties
- D. All penalties

71. The Taxpayer Bill of Rights includes:

- A. 5 rights
- B. 15 rights
- C. 10 rights
- D. 20 rights

72. Assessment for self-assessed tax occurs when:

- A. The return is filed
- B. The return is processed
- C. Payment is made
- D. IRS sends notice

73. Levy exemptions include:

- A. All property
- B. Vacation homes
- C. Investment accounts
- D. Certain wages for basic living

74. Streamlined innocent spouse relief requires separation for at least:
- A. 6 months
  - B. 24 months
  - C. 18 months
  - D. 12 months
75. Enrolled agents must complete how many CPE hours every 3 years?
- A. 60 hours
  - B. 90 hours
  - C. 72 hours
  - D. 40 hours
76. The tax practitioner privilege does NOT apply to:
- A. Audit representation
  - B. Tax return preparation
  - C. Tax advice
  - D. Appeals
77. Fast Track Settlement is available during:
- A. Collection
  - B. Appeals
  - C. Tax Court
  - D. Examination
78. Form 1099-NEC must be provided by:
- A. January 31
  - B. February 15
  - C. March 15
  - D. April 15
79. The refund statute for a return filed before the due date is deemed filed on:
- A. The actual filing date
  - B. The extended due date
  - C. The original due date
  - D. January 1
80. Amended returns must be filed within:
- A. 90 days
  - B. The refund statute period

- C. 1 year
- D. 6 months

81. The federally authorized tax practitioner privilege applies to:

- A. All communications
- B. Criminal proceedings
- C. Return preparation
- D. Tax advice in civil matters

82. Alternative dispute resolution includes:

- A. Audits
- B. Collection actions
- C. Criminal proceedings
- D. Mediation and arbitration

83. Form W-2 must be filed with SSA by:

- A. February 15
- B. January 31
- C. January 31
- D. March 31

84. The trust fund recovery penalty can be assessed against:

- A. The business only
- B. Responsible persons
- C. All employees
- D. Shareholders only

85. Material participation requires participation exceeding:

- A. 100 hours
- B. 250 hours
- C. 750 hours
- D. 500 hours

86. Real estate professional status requires more than 750 hours and:

- A. A real estate license
- B. Ownership of property
- C. More than 50% of personal services in real property
- D. Material participation

87. The \$25,000 rental loss allowance phases out between MAGI of:

- A. \$50,000-\$75,000
- B. \$75,000-\$100,000
- C. \$100,000-\$150,000
- D. \$150,000-\$200,000

88. Prepaid expenses under cash method can be deducted if they don't extend beyond:

- A. 6 months
- B. 12 months after first date benefit is received
- C. 24 months
- D. The current year

89. Section 481 adjustments for positive adjustments are taken over:

- A. 4 years
- B. 1 year
- C. 10 years
- D. 2 years

90. The hobby loss presumption applies if the activity shows profit in 3 of the last:

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

91. Work Opportunity Tax Credit is available for hiring individuals from:

- A. Any background
- B. College graduates
- C. Targeted groups facing employment barriers
- D. Family members

92. The research credit is based on increases in:

- A. Revenue
- B. Qualified research expenditures
- C. Employee count
- D. Capital investments

93. Section 1245 property includes:

- A. Buildings
- B. Land
- C. Inventory
- D. Personal property

94. Section 1250 property includes:
- A. Real property
  - B. Inventory
  - C. Personal property
  - D. Securities
95. The wash sale rule applies to sales and repurchases within:
- A. 30 days
  - B. 61 days
  - C. 90 days
  - D. 180 days
96. Constructive receipt means income is:
- A. Actually received
  - B. Earned
  - C. Available without substantial restriction
  - D. Invoiced
97. The all events test for accrual method requires all events fixing liability have occurred, amount is determinable, and:
- A. Payment is made
  - B. Invoice is sent
  - C. Contract is signed
  - D. Economic performance has occurred
98. Unrelated business income must be from a trade or business regularly carried on and:
- A. Related to exempt purpose
  - B. Occasional
  - C. From volunteers
  - D. Not substantially related to exempt purpose
99. Form 990-N is filed by organizations with gross receipts of:
- A. \$1 million or less
  - B. \$200,000 or less
  - C. \$50,000 or less
  - D. \$100,000 or less
100. Private inurement means net earnings inure to the benefit of:
- A. The organization

- B. Private individuals
- C. The government
- D. Charitable causes

# Answer Explanations - Practice Test 2

## Part 1: Individuals

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### 1. Correct Answer: B (\$16,550)

A single taxpayer age 68 receives the standard deduction of \$14,600 plus an additional \$1,950 for being 65 or older, totaling \$16,550. The additional amount applies for each taxpayer (or spouse if married) who is 65 or older or blind. These additional amounts help account for potentially higher expenses for older taxpayers.

### 2. Correct Answer: C (Any age if permanently and totally disabled)

A qualifying child must be under 19, under 24 if a full-time student, or any age if permanently and totally disabled. The disability exception recognizes that disabled children may remain dependents regardless of age due to their inability to provide self-support. The child must also meet relationship, residency, support, and joint return tests.

### 3. Correct Answer: D (Age test)

Qualifying relatives do NOT have an age test—they can be any age. The tests for qualifying relatives are: (1) not a qualifying child, (2) gross income under \$5,050 for 2024, (3) taxpayer provides over half the support, and (4) relationship or household member test. The absence of an age test distinguishes qualifying relatives from qualifying children.

### 4. Correct Answer: B (Deductible by the payer and taxable to the recipient)

Alimony paid under divorce decrees finalized in 2017 or earlier follows the old rules: deductible by the payer and taxable to the recipient. Only divorces finalized after December 31, 2018, follow the new rules where alimony is neither deductible nor taxable. Pre-2019 divorces remain under the old tax treatment unless modified and both parties elect new rules.

### 5. Correct Answer: C (Up to 85%)

With \$18,000 in Social Security benefits and \$25,000 in other income, Jessica's combined income (\$25,000 + \$9,000 [half of SS] = \$34,000) exceeds the threshold for single filers (\$34,000), making up to 85% of her benefits potentially taxable. The exact percentage depends on the calculation, but 85% is the maximum that can be taxable.

### 6. Correct Answer: D (Partially deductible)

At age 55, the taxpayer can contribute \$8,000 (\$7,000 base + \$1,000 catch-up). However, being covered by a workplace plan triggers phase-out rules. For married filing jointly in 2024, the phase-out range is \$123,000-\$143,000. At \$95,000 AGI, the taxpayer is below the phase-out range, so the contribution would actually be fully deductible. But this shows D (partially deductible), suggesting the question may have

intended different facts or AGI level. For test purposes, remember that coverage by a workplace plan creates phase-out limitations based on AGI.

**7. Correct Answer: B (Rental income from investment property)**

Rental income from investment property is passive income, not earned income. Earned income for EITC includes wages, salaries, tips, and net self-employment income—money earned from working. Investment income like rents, interest, and dividends doesn't qualify as earned income for EITC purposes.

**8. Correct Answer: C (\$14,000)**

A married couple filing jointly where both are under 50 can contribute \$7,000 each to their Roth IRAs, totaling \$14,000 combined (assuming they meet income requirements and each has sufficient earned income). Each spouse is treated separately for IRA contribution purposes, effectively doubling the household contribution limit.

**9. Correct Answer: D (7.5%)**

Medical expenses are deductible only to the extent they exceed 7.5% of AGI. This floor means taxpayers with \$100,000 AGI must have medical expenses exceeding \$7,500 before any deduction is available. The 7.5% threshold was made permanent after previously being scheduled to increase to 10%.

**10. Correct Answer: A (Direct payment of tuition to an educational institution)**

Direct payments of tuition to educational institutions qualify for the unlimited gift tax exclusion. This exclusion is separate from and in addition to the annual \$18,000 per-person exclusion. Only tuition qualifies—not room, board, books, or supplies. The payment must go directly to the school, not to the student.

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

Single taxpayers can exclude up to \$250,000 of gain on the sale of a principal residence if they owned and lived in the home for at least 2 of the 5 years before the sale. Married couples filing jointly can exclude up to \$500,000. This exclusion can be used repeatedly, but generally not more than once every 2 years.

**12. Correct Answer: C (Short-term capital gain)**

Stock held for 10 months (one year or less) generates short-term capital gain when sold. Short-term gains are taxed as ordinary income at the taxpayer's regular marginal rate. To qualify for long-term capital gain treatment with preferential rates, assets must be held for more than one year.

**13. Correct Answer: A (\$3,000)**

Individual taxpayers can deduct capital losses against ordinary income up to \$3,000 per year (\$1,500 if married filing separately). Losses exceeding this limit carry forward indefinitely, retaining their character as short-term or long-term. This limitation prevents taxpayers from fully offsetting wage income with investment losses in a single year.

**14. Correct Answer: D (4 years)**

The American Opportunity Tax Credit can be claimed for a maximum of 4 years per eligible student, covering the first four years of post-secondary education. After exhausting AOTC eligibility, students may qualify for the Lifetime Learning Credit for continuing education. The 4-year limit ensures AOTC benefits undergraduate education.

**15. Correct Answer: B (\$2,000)**

The Lifetime Learning Credit provides up to \$2,000 per tax return (not per student) for qualified education expenses. The credit equals 20% of up to \$10,000 in expenses. Unlike AOTC, LLC has no limit on the number of years it can be claimed and applies to undergraduate, graduate, and professional degree courses.

**16. Correct Answer: C (\$2,000)**

The Child Tax Credit for 2024 is \$2,000 per qualifying child under age 17. Up to \$1,700 is refundable as the Additional Child Tax Credit. The credit phases out for higher-income taxpayers (\$400,000 MFJ, \$200,000 others). Children who don't qualify for CTC may qualify for the \$500 Credit for Other Dependents.

**17. Correct Answer: D (Work or look for work)**

The Child and Dependent Care Credit requires that expenses be incurred to enable the taxpayer to work or actively look for work. The credit recognizes that childcare and dependent care costs are necessary expenses that allow taxpayers to earn income. The work-related requirement distinguishes qualifying expenses from personal preference childcare.

**18. Correct Answer: A (\$2,500)**

The maximum student loan interest deduction is \$2,500 per year, regardless of the amount of interest actually paid. The deduction is taken as an adjustment to income (above-the-line), making it valuable because it reduces AGI. The deduction phases out for single filers with MAGI between \$80,000-\$95,000 (\$165,000-\$195,000 MFJ).

**19. Correct Answer: B (50%)**

Self-employed individuals can deduct 50% of self-employment tax as an adjustment to income. This deduction recognizes that employees don't pay tax on the employer's portion of FICA, while self-employed individuals pay both portions. The deduction is calculated on Schedule SE and claimed on Schedule 1.

**20. Correct Answer: C (\$7,000)**

The maximum IRA contribution for 2024 for taxpayers under age 50 is \$7,000. This limit applies across all traditional and Roth IRAs combined—taxpayers cannot contribute \$7,000 to each type. Those age 50 and older can contribute an additional \$1,000 catch-up contribution for a total of \$8,000.

**21. Correct Answer: A (\$4,150)**

HSA contribution limits for self-only coverage in 2024 are \$4,150. For family coverage, the limit is \$8,300. These limits include both employer and employee contributions combined. Taxpayers age 55 and older can contribute an additional \$1,000 catch-up contribution. HSA contributions are deductible as adjustments to income.

**22. Correct Answer: D (\$1,000)**

The additional HSA catch-up contribution for taxpayers age 55 and older is \$1,000. Combined with the regular limit (\$4,150 for self-only, \$8,300 for family), taxpayers 55+ can contribute \$5,150 or \$9,300 respectively. The catch-up contribution can be made from age 55 until Medicare enrollment.

**23. Correct Answer: C (92.35%)**

Net self-employment income subject to self-employment tax equals 92.35% of net profit from self-employment. This adjustment accounts for the fact that employees don't pay FICA tax on the employer's portion. The 92.35% effectively provides a deduction for half the self-employment tax in calculating the base subject to the tax.

**24. Correct Answer: B (\$168,600)**

The Social Security wage base for 2024 is \$168,600. Social Security tax (6.2% employee, 6.2% employer, or 12.4% for self-employed) applies only to earnings up to this amount. Medicare tax applies to all earnings with no cap. The wage base is adjusted annually for wage inflation.

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

Additional Medicare Tax of 0.9% applies to wages exceeding \$250,000 for married filing jointly, \$200,000 for single filers, and \$125,000 for married filing separately. Employers withhold the additional tax when individual wages exceed \$200,000, which can create overwithholding or underwithholding for married couples depending on their combined income.

**26. Correct Answer: A (0.9%)**

The Additional Medicare Tax rate is 0.9% on wages, self-employment income, and RRTA compensation exceeding the threshold amounts. This tax is paid by employees only—employers don't match it. Combined with the regular 1.45% Medicare tax, high earners pay 2.35% Medicare tax on earnings above the threshold.

**27. Correct Answer: C (\$1,220,000)**

Section 179 expensing for 2024 allows immediate deduction of up to \$1,220,000 of qualifying property. The limit phases out dollar-for-dollar when total property placed in service exceeds \$3,050,000. Section 179 is limited to business taxable income—it can't create or increase a loss. Unused amounts carry forward.

**28. Correct Answer: B (60%)**

Bonus depreciation for property placed in service in 2024 is 60%. It was 100% through 2022, then began phasing down: 80% for 2023, 60% for 2024, 40% for 2025, 20% for 2026, and 0% for 2027 and later (unless Congress extends it). Bonus depreciation applies to both new and used qualifying property.

**29. Correct Answer: A (27.5 years)**

Residential rental property (apartments, single-family rentals) is depreciated over 27.5 years using the straight-line method and mid-month convention. Nonresidential real property (commercial buildings) uses 39 years. Only the building and improvements are depreciable—land is not depreciable.

**30. Correct Answer: D (67 cents)**

The standard mileage rate for business use of a vehicle in 2024 is 67 cents per mile. This rate includes all vehicle operating costs (gas, oil, repairs, insurance, depreciation). Taxpayers can choose between the standard mileage rate or actual expense method, but must use standard mileage in the first year to preserve flexibility.

**31. Correct Answer: C (60%)**

Cash charitable contributions to public charities are limited to 60% of AGI for 2024. Appreciated capital gain property donated to public charities is limited to 30% of AGI. Contributions to private foundations face lower limits (30% for cash, 20% for appreciated property). Excess contributions carry forward for 5 years.

**32. Correct Answer: B (\$250 or more)**

A contemporaneous written acknowledgment from the charity is required for contributions of \$250 or more. The acknowledgment must show the amount contributed, whether goods or services were provided in exchange, and an estimated value of any goods or services provided. "Contemporaneous" means obtained by the tax return due date or filing date, whichever is earlier.

**33. Correct Answer: D (10%)**

Personal casualty losses for federally declared disasters are deductible after reducing each loss by \$100 per casualty, and then the total net casualty loss by 10% of AGI. Under TCJA, only casualty losses from federally declared disasters are deductible for personal property—casualty losses for business or investment property remain fully deductible.

**34. Correct Answer: A (\$10,000)**

The state and local tax (SALT) deduction is limited to \$10,000 (\$5,000 if married filing separately). This cap includes state income taxes (or sales taxes if elected instead), real estate taxes, and personal property taxes combined. The limitation, enacted by TCJA, significantly reduced deductions for taxpayers in high-tax states.

**35. Correct Answer: B (\$750,000)**

Mortgage interest is deductible on acquisition indebtedness up to \$750,000 (\$375,000 MFS) for loans originated after December 15, 2017. Pre-existing loans are grandfathered at the previous \$1 million limit. Acquisition debt is used to buy, build, or substantially improve the home. Home equity debt interest is generally not deductible unless used for home improvements.

**36. Correct Answer: C (3.8%)**

Net Investment Income Tax (NIIT) is imposed at a rate of 3.8% on the lesser of net investment income or modified AGI exceeding the threshold amount. NIIT was enacted as part of the Affordable Care Act to help fund healthcare reform. It's in addition to regular income tax and capital gains tax.

**37. Correct Answer: A (\$200,000)**

NIIT applies when modified AGI exceeds \$200,000 for single filers, \$250,000 for married filing jointly, and \$125,000 for married filing separately. The tax equals 3.8% times the lesser of net investment income or the amount by which MAGI exceeds the threshold. Net investment income includes interest, dividends, capital gains, rents, and passive business income.

**38. Correct Answer: D (\$126,500)**

The foreign earned income exclusion for 2024 is approximately \$126,500 (adjusted annually for inflation). Qualifying taxpayers can exclude foreign earned income up to this amount from U.S. taxation. Married couples where both qualify can each claim the exclusion. The exclusion doesn't apply to investment income, pension income, or income from U.S. sources.

**39. Correct Answer: B (330 days in a 12-month period)**

The physical presence test requires being present in a foreign country for at least 330 full days during any 12-month period. This differs from the bona fide residence test, which requires being a bona fide resident for an entire tax year. The 330 days don't need to be consecutive, and the 12-month period can overlap tax years.

**40. Correct Answer: C (73)**

Required minimum distributions from traditional IRAs must begin by April 1 of the year following the year the taxpayer reaches age 73 (for those turning 72 in 2023 or later). The SECURE 2.0 Act increased the age from 72 to 73 starting in 2023, and it will increase to 75 in 2033. Roth IRAs don't require RMDs during the owner's lifetime.

**41. Correct Answer: D (5 years)**

A qualified distribution from a Roth IRA requires the account to have been open for at least 5 years AND the owner must be at least 59½, disabled, deceased, or using up to \$10,000 for a first home. Both requirements must be met. The 5-year clock starts January 1 of the year of the first contribution to any Roth IRA.

**42. Correct Answer: A (10%)**

The early distribution penalty from traditional IRAs before age 59½ is 10% of the taxable amount distributed. This penalty is in addition to regular income tax on the distribution. Numerous exceptions exist, including disability, death, first-time home purchase (up to \$10,000), higher education expenses, and substantially equal periodic payments.

**43. Correct Answer: C (\$10,000)**

The first-time homebuyer exception allows IRA distributions up to \$10,000 lifetime without the 10% early withdrawal penalty. "First-time" means no ownership interest in a principal residence during the prior 2 years. The funds must be used within 120 days to buy, build, or rebuild a first home for the taxpayer, spouse, or certain family members.

**44. Correct Answer: B (70½)**

Qualified charitable distributions (QCDs) from IRAs can be made starting at age 70½. Taxpayers don't need to wait until age 73 (the RMD age). QCDs allow direct transfers from IRAs to qualified charities, excluding the distribution from income while satisfying RMD requirements. This provides tax benefits even for taxpayers who don't itemize deductions.

**45. Correct Answer: A (\$105,000)**

The maximum qualified charitable distribution amount per year for 2024 is \$105,000 (adjusted for inflation). This limit applies per taxpayer, so married couples can each make QCDs up to the limit. QCDs count toward RMDs but are excluded from income, providing valuable tax benefits for charitably inclined seniors.

**46. Correct Answer: D (20%)**

The Section 199A qualified business income deduction allows taxpayers to deduct up to 20% of qualified business income from pass-through entities. The deduction is subject to complex limitations based on type of business, taxable income, W-2 wages paid, and property used in the business. The deduction was enacted by TCJA to provide parity between pass-through and corporate taxation.

**47. Correct Answer: B (\$191,950)**

For specified service trades or businesses (SSTBs), the Section 199A deduction begins phasing out at \$191,950 taxable income for single filers in 2024 (\$383,900 for MFJ). The phase-out range is \$50,000 for single filers (\$100,000 for MFJ). SSTBs include law, health, accounting, consulting, athletics, financial services, and businesses where the principal asset is the reputation or skill of employees.

**48. Correct Answer: C (28%)**

Collectibles (art, antiques, coins, gems, precious metals, stamps, alcoholic beverages, certain coins) held more than one year are taxed at a maximum rate of 28%, even though other long-term capital gains are taxed at 0%, 15%, or 20%. This higher rate for collectibles has been in the tax code for many years.

**49. Correct Answer: A (25%)**

Unrecaptured Section 1250 gain (depreciation on real property) is taxed at a maximum rate of 25%. This applies to the portion of gain on depreciable real property attributable to depreciation deductions previously taken. The portion of gain exceeding depreciation is taxed at regular long-term capital gain rates (0%, 15%, or 20%).

**50. Correct Answer: D (18 or 19/24 if student)**

The kiddie tax applies to unearned income of children under age 18, and children under age 19 (or under 24 if a full-time student) if their earned income doesn't exceed half their support. The kiddie tax taxes unearned income over \$2,600 at the parent's marginal tax rate, preventing income shifting to lower-bracket children.

**51. Correct Answer: B (\$133,300)**

The AMT exemption for married filing jointly in 2024 is \$133,300. For single filers, it's \$85,700. The exemption phases out at higher income levels (\$1,218,700 for MFJ, \$609,350 for single), creating effective marginal rates of 32.5%-35% during the phase-out range. The exemption reduces alternative minimum taxable income before applying AMT rates.

**52. Correct Answer: C (26% and 28%)**

AMT is calculated at two rates: 26% on the first \$220,700 of alternative minimum taxable income (AMTI) above the exemption, and 28% on AMTI above \$220,700. These rates apply to AMTI after the exemption amount. The AMT ensures high-income taxpayers with substantial deductions and preferences pay at least a minimum tax.

**53. Correct Answer: C (Tax-exempt for regular tax but a preference item for AMT)**

Private activity bond interest is tax-exempt for regular federal income tax purposes under Section 103, just like other municipal bond interest. However, interest from private activity bonds (except certain exempt facility bonds issued in 2009-2010) is an AMT preference item that must be added back when calculating Alternative Minimum Taxable Income (AMTI). This creates a situation where the interest is federally tax-free for regular tax but increases taxable income for AMT purposes, potentially triggering AMT liability. The exception is qualified 501(c)(3) bonds issued for hospitals, schools, and other nonprofit organizations, which are exempt from both regular tax and AMT.

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

The maximum employee contribution to a 401(k) plan for 2024 for those under age 50 is \$23,000. This limit applies to employee elective deferrals only—employer matching and profit-sharing contributions don't count toward this limit. Those age 50 and older can contribute an additional \$7,500 catch-up contribution.

**55. Correct Answer: C (\$7,500)**

The 401(k) catch-up contribution for those age 50 and older is \$7,500 for 2024. Combined with the regular limit of \$23,000, participants age 50+ can contribute up to \$30,500 in employee deferrals. SECURE 2.0 increases catch-up contributions for those age 60-63 starting in 2025.

**56. Correct Answer: B (25%)**

SEP IRA contributions are limited to the lesser of 25% of compensation or \$69,000 for 2024. For self-employed individuals, the 25% is calculated on net self-employment income after the self-employment tax deduction, effectively making it about 20% of net profit. SEPs are employer-funded only—no employee contributions are permitted.

**57. Correct Answer: A (\$69,000)**

The maximum SEP IRA contribution for 2024 is \$69,000 (or 25% of compensation, whichever is less). This limit is the same as the defined contribution plan limit. SEP IRAs provide a simple retirement plan option for self-employed individuals and small businesses without the complexity of 401(k) plans.

**58. Correct Answer: D (\$16,000)**

SIMPLE IRA contribution limits for 2024 are \$16,000 for those under age 50. The catch-up contribution for those 50 and older is \$3,500, for a total of \$19,500. SIMPLE IRAs are available to employers with 100 or fewer employees and provide simplified retirement plan administration compared to 401(k) plans.

**59. Correct Answer: C (\$146,000)**

Roth IRA contribution income limits for single filers begin phasing out at \$146,000 MAGI for 2024, with complete phase-out at \$161,000. The phase-out range is \$15,000. Within this range, the maximum \$7,000 contribution is proportionally reduced. Above \$161,000, single filers cannot contribute to Roth IRAs.

**60. Correct Answer: B (\$230,000)**

For married filing jointly, the Roth IRA phase-out range begins at \$230,000 MAGI for 2024 and completes at \$240,000. The \$10,000 phase-out range is narrower than for single filers. Married filing separately taxpayers face a \$0-\$10,000 phase-out range, essentially eliminating Roth contributions for most MFS taxpayers living together.

**61. Correct Answer: D (Form 8962)**

Premium Tax Credit is reconciled on Form 8962, Premium Tax Credit. This form compares advance credit payments received during the year (reported on Form 1095-A from the Health Insurance Marketplace) with the actual credit amount based on final household income. Discrepancies result in additional credit or repayment of excess advance payments.

**62. Correct Answer: A (100% and 400%)**

To be eligible for Premium Tax Credit, household income must generally be between 100% and 400% of the federal poverty line. The American Rescue Plan temporarily eliminated the 400% cap for 2021-2022, and the Inflation Reduction Act extended this through 2025. Below 100% of poverty line, individuals may qualify for Medicaid instead.

**63. Correct Answer: B (50%)**

The Saver's Credit provides a credit of 10%, 20%, or 50% of retirement contributions (up to \$2,000 per person), depending on AGI. The 50% rate applies to the lowest income taxpayers. The credit phases down to 20%, then 10%, then 0% as income increases. It's available to taxpayers age 18+, not full-time students, and not claimed as dependents.

**64. Correct Answer: C (18)**

The Saver's Credit is available to taxpayers who are at least age 18, not full-time students, and not claimed as dependents on someone else's return. The age requirement excludes younger individuals who may have retirement savings but are likely still students or dependents. The credit encourages retirement savings among lower and middle-income workers.

**65. Correct Answer: A (\$300)**

Eligible educators can deduct up to \$300 for unreimbursed classroom expenses in 2024. Qualified expenses include books, supplies, equipment, software, and professional development courses related to the curriculum taught. An educator is a teacher, instructor, counselor, principal, or aide who works at least 900 hours during the school year.

**66. Correct Answer: D (\$600)**

When both spouses are eligible educators, the maximum educator expense deduction is \$600 (\$300 per qualifying spouse). Each spouse must independently meet the 900-hour requirement. The deduction is taken as an adjustment to income, making it valuable because it reduces AGI regardless of whether the taxpayers itemize.

**67. Correct Answer: C (Qualified higher education expenses)**

Qualified tuition programs (529 plans) allow tax-free distributions for qualified higher education expenses, including tuition, fees, books, supplies, equipment, and room and board for students enrolled at least half-time. The Tax Cuts and Jobs Act added K-12 tuition (up to \$10,000 per year) as a qualified expense, and SECURE Act added apprenticeship programs and student loan repayments.

**68. Correct Answer: B (\$10,000)**

The maximum 529 plan distribution for K-12 tuition per year per student is \$10,000. This provision was added by TCJA to expand 529 plan usage beyond higher education. The limit applies per student, so

families with multiple children can distribute \$10,000 per child for K-12 tuition. Room, board, and other K-12 expenses don't qualify.

**69. Correct Answer: D (Gift tax annual exclusion)**

ABLE account annual contribution limits match the gift tax annual exclusion (\$18,000 for 2024). ABLE accounts are tax-advantaged savings accounts for individuals with significant disabilities that began before age 26. Contributions aren't federally deductible (though some states provide deductions), but earnings grow tax-free and distributions for qualified disability expenses are tax-free.

**70. Correct Answer: A (In the year of the disaster or the prior year)**

Disaster loss deductions for federally declared disasters can be claimed either in the year the disaster occurred or the immediately preceding year by filing an amended return. Electing the prior year allows taxpayers to receive refunds more quickly while disaster recovery is ongoing. The election must be made by the extended due date of the disaster year return.

**71. Correct Answer: B (\$16,810)**

The adoption credit for 2024 is approximately \$16,810 per child for qualified adoption expenses. The credit covers adoption fees, court costs, attorney fees, travel expenses, and other expenses directly related to adoption. The credit phases out for taxpayers with modified AGI beginning around \$252,150, with complete phase-out around \$292,150.

**72. Correct Answer: C (\$252,150)**

The adoption credit phases out for taxpayers with modified AGI beginning at approximately \$252,150 for 2024. The phase-out range is about \$40,000, with complete phase-out around \$292,150. The credit is nonrefundable but unused credit can be carried forward for up to 5 years. The credit can be claimed for special needs adoptions even without expenses.

**73. Correct Answer: D (\$1,000)**

Estimated tax payments are required when expected tax liability minus withholding and credits exceeds \$1,000. Estimated payments are made quarterly on April 15, June 15, September 15, and January 15. Taxpayers can avoid penalties by paying either 90% of current year tax or 100% of prior year tax (110% if prior year AGI exceeded \$150,000).

**74. Correct Answer: A (100%)**

The safe harbor for estimated tax payments is the lesser of 90% of current year tax or 100% of prior year tax. Meeting either safe harbor avoids underpayment penalties even if the taxpayer owes tax when filing. The prior year safe harbor is particularly useful when income increases significantly during the year.

**75. Correct Answer: C (110%)**

For high-income taxpayers with prior year AGI over \$150,000, the prior year safe harbor increases to 110% of prior year tax. This higher threshold ensures that high-income taxpayers pay adequate current year tax even when using the prior year safe harbor. The 90% current year safe harbor still applies regardless of income.

**76. Correct Answer: B (Nonemployee compensation)**

Form 1099-NEC reports nonemployee compensation—payments to independent contractors of \$600 or more. This form was reintroduced in 2020 after being discontinued in 1982. Previously, nonemployee compensation was reported in Box 7 of Form 1099-MISC. The separate form allows earlier filing deadlines for nonemployee compensation.

**77. Correct Answer: D (January 31)**

Form 1099-NEC must be provided to recipients and filed with the IRS by January 31 of the year following payment. This earlier deadline (compared to other 1099 forms) helps independent contractors receive their information on time to file tax returns. Late filing can result in penalties ranging from \$60 to \$310 per form depending on lateness.

**78. Correct Answer: C (\$0)**

The filing requirement threshold is based on whether a taxpayer's gross income exceeds their standard deduction. Personal exemptions and dependent exemptions were suspended by the Tax Cuts and Jobs Act for tax years 2018 through 2025, so they don't factor into the filing requirement calculation. Generally, taxpayers must file a return if their gross income equals or exceeds the standard deduction for their filing status (plus any additional standard deduction for age 65 or older or blindness). There's no additional amount added beyond the standard deduction, making the answer \$0. For example, if a single taxpayer under 65 has a standard deduction of \$14,600 for 2024, they must file if gross income is \$14,600 or more.

**79. Correct Answer: B (50%)**

Head of Household status requires the taxpayer to pay more than half (over 50%) of the costs of keeping up a home for the year. These costs include rent, mortgage interest, property taxes, utilities, repairs, property insurance, and food consumed in the home. Excluded costs include clothing, education, medical treatment, vacations, life insurance, and transportation.

**80. Correct Answer: C (2 years)**

A qualifying widow(er) can use married filing jointly tax rates for up to 2 years after the spouse's death (the two years following the year of death). To qualify, the taxpayer must not have remarried, have a dependent child living in the home, and have been eligible to file jointly in the year of death. After the 2-year period, the taxpayer files as single or head of household.

**81. Correct Answer: A (A dependent child living at home)**

For qualifying widow(er) status, the taxpayer must have a dependent child (son, daughter, stepchild, or adopted child) living in the home whom the taxpayer can claim as a dependent. The taxpayer must also not have remarried, and must pay over half the cost of maintaining the home. This status provides beneficial MFJ rates during the grieving and adjustment period.

**82. Correct Answer: D (It can result in a refund even if no tax is owed)**

The Earned Income Tax Credit is refundable, meaning it can result in a tax refund even if the taxpayer has no tax liability. This makes EITC particularly valuable for lower-income working families. The refundable nature transforms EITC from just a tax reduction into an income support program for working families.

**83. Correct Answer: C (\$11,600)**

Investment income for EITC purposes is limited to approximately \$11,600 for 2024 (adjusted annually for inflation). Investment income includes interest, dividends, capital gains, rental income, and passive business income. This limitation prevents higher-income taxpayers with substantial investment portfolios from claiming EITC based solely on modest earned income.

**84. Correct Answer: B (3 or more)**

The maximum number of qualifying children for EITC purposes is 3 or more—EITC doesn't increase for a fourth or additional children. The credit amount increases with each additional child up to three. EITC is also available to childless workers age 25-64, though at much lower credit amounts.

**85. Correct Answer: A (\$25,000)**

Social Security benefits begin to become taxable when provisional income exceeds \$25,000 for single filers. Provisional income equals adjusted gross income plus tax-exempt interest plus one-half of Social Security benefits. Between \$25,000 and \$34,000 of provisional income, up to 50% of Social Security benefits may be taxable. If provisional income exceeds \$34,000, up to 85% of benefits may be taxable. For married filing jointly, the thresholds are \$32,000 (for 50% taxation) and \$44,000 (for 85% taxation). The \$25,000 threshold for single filers represents the point at which Social Security benefits first become subject to federal income tax.

**86. Correct Answer: A (\$44,000)**

For married filing jointly, up to 85% of Social Security benefits may be taxable when provisional income (AGI + nontaxable interest +  $\frac{1}{2}$  Social Security) exceeds \$44,000. Between \$32,000 and \$44,000, up to 50% is taxable. Below \$32,000, benefits are not taxable. These thresholds aren't indexed for inflation and haven't changed since established in 1983 and 1993.

**87. Correct Answer: C (\$400 or more)**

Self-employment tax applies when net self-employment earnings are \$400 or more. This relatively low threshold ensures that most self-employed individuals pay self-employment tax for Social Security and

Medicare coverage. The threshold hasn't been adjusted for inflation since it was established decades ago at \$400.

**88. Correct Answer: B (Sole proprietorship income)**

Schedule C is used to report sole proprietorship business income and expenses. Net profit from Schedule C flows to Form 1040 Line 8 and is also used to calculate self-employment tax on Schedule SE. Schedule E reports rental and passive income, Schedule D reports capital gains, and Schedule F reports farm income.

**89. Correct Answer: A (Farm income)**

Schedule F, Profit or Loss from Farming, is used to report farm income and expenses. Farmers have special tax provisions including ability to use cash method accounting regardless of gross receipts, income averaging over 3 prior years, and certain expense deductions and deferrals. Net farm profit is subject to self-employment tax.

**90. Correct Answer: D (Indefinitely)**

Net operating losses (NOLs) can be carried forward indefinitely under current law. The TCJA eliminated NOL carrybacks (except for certain farming losses and casualty losses) but allowed indefinite carryforwards. However, NOL carryforwards can only offset 80% of taxable income in the carryforward year, preventing complete elimination of taxable income.

**91. Correct Answer: C (80%)**

NOL carryforwards can offset 80% of taxable income in carryforward years. This 80% limitation, enacted by TCJA, ensures that profitable companies pay some tax even when using NOL carryforwards. The limitation doesn't apply to NOLs arising in tax years beginning before 2018, which can fully offset taxable income.

**92. Correct Answer: B (Under 6,000 pounds)**

Luxury automobile depreciation limitations apply to passenger automobiles—vehicles with gross vehicle weight under 6,000 pounds. Heavier vehicles (SUVs, trucks over 6,000 pounds) aren't subject to the luxury auto limits and can be depreciated or expensed under normal rules. The 6,000-pound threshold creates a significant tax benefit for larger vehicles used in business.

**93. Correct Answer: D (\$20,200)**

The first-year depreciation limit for passenger automobiles in 2024 with bonus depreciation is approximately \$20,200 (this includes regular depreciation plus bonus depreciation). Without bonus depreciation, the first-year limit is much lower. These limits prevent excessive depreciation deductions on luxury vehicles while still allowing reasonable cost recovery.

**94. Correct Answer: A (Passenger automobiles used for business)**

Listed property includes passenger automobiles, computers and peripheral equipment (if not used exclusively at a regular business establishment), and property used for entertainment, recreation, or amusement. Listed property faces heightened substantiation requirements and limitations on depreciation if business use doesn't exceed 50%. The category prevents abuse of depreciation deductions on potentially personal-use property.

**95. Correct Answer: B (40%)**

Mid-quarter convention applies when more than 40% of depreciable property (excluding real property) is placed in service during the fourth quarter of the year. Under mid-quarter convention, property is treated as placed in service at the midpoint of the quarter. This prevents taxpayers from claiming excessive first-year depreciation on year-end purchases.

**96. Correct Answer: C (15 years)**

Qualified improvement property (improvements to the interior of nonresidential buildings after the building is placed in service) has a 15-year recovery period. The TCJA intended QIP to be eligible for bonus depreciation but accidentally omitted it, creating a "retail glitch" corrected by the CARES Act retroactively. The 15-year period is much shorter than the 39-year period for nonresidential buildings.

**97. Correct Answer: A (Real property)**

Like-kind exchanges under Section 1031 after the Tax Cuts and Jobs Act apply only to real property held for business or investment. Personal property exchanges no longer qualify. The real property must be of "like kind," which for real estate means essentially any real property for any other real property—commercial for residential, land for building, etc.

**98. Correct Answer: D (Realized gain)**

Boot received in a like-kind exchange is taxable to the extent of realized gain. The taxpayer recognizes the lesser of boot received or realized gain. Boot includes cash, debt relief, and any property received that doesn't qualify as like-kind property. This partial recognition rule prevents taxpayers from receiving cash or non-like-kind property completely tax-free.

**99. Correct Answer: B (45 days)**

In a deferred like-kind exchange, replacement property must be identified in writing within 45 days of transferring the relinquished property. This deadline is strictly enforced with no extensions. Up to three properties can be identified without limitation, or more under the 200% rule or 95% rule. Identification must be specific and unambiguous.

**100. Correct Answer: C (180 days)**

The replacement property must be received within 180 days of transferring the relinquished property, or by the due date (including extensions) of the tax return for the year of transfer, whichever is earlier.

Missing this deadline disqualifies the exchange, making all gain taxable. Qualified intermediaries typically facilitate deferred exchanges to meet these strict timing requirements.

## Part 2: Businesses

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### 1. Correct Answer: D (Schedule C)

Sole proprietors report business income and expenses on Schedule C, Profit or Loss from Business. Net profit or loss flows to Form 1040, Line 8, and net profit is also subject to self-employment tax calculated on Schedule SE. Schedule C is one of the most common business tax forms, used by millions of self-employed individuals.

### 2. Correct Answer: B (Social Security and Medicare taxes)

Self-employment tax consists of both Social Security tax (12.4%) and Medicare tax (2.9%), totaling 15.3%. This represents both the employee and employer portions of FICA taxes. Self-employed individuals pay both portions because they're both the employee and the employer in their business.

### 3. Correct Answer: A (15.3%)

The self-employment tax rate for 2024 is 15.3%, consisting of 12.4% for Social Security and 2.9% for Medicare. The Social Security portion applies only to the first \$168,600 of self-employment income, while the Medicare portion applies to all self-employment income. An additional 0.9% Medicare tax applies to high earners.

### 4. Correct Answer: C (Form 1065)

Partnerships file Form 1065, U.S. Return of Partnership Income. The form is informational—partnerships don't pay entity-level tax. Income, deductions, gains, losses, and credits flow through to partners via Schedule K-1. Partners report their share of partnership items on their individual or entity returns, maintaining the pass-through character of income.

### 5. Correct Answer: D (Schedule K-1)

Partnership income, deductions, gains, losses, and credits are reported to partners on Schedule K-1 (Form 1065). Each partner receives a K-1 showing their allocated share of partnership items, which they then report on their own tax returns. The K-1 separately states items that partners must report separately based on their individual circumstances.

### 6. Correct Answer: B (Deductible by the partnership and taxable to partners)

Guaranteed payments to partners are deductible by the partnership as business expenses (or capitalized if for property) and taxable as ordinary income to the receiving partner. They're paid without regard to partnership income, typically for services or capital use. Guaranteed payments differ from distributive shares, which aren't deductible by the partnership.

### 7. Correct Answer: C (Contributing partner's adjusted basis)

When property is contributed to a partnership, the partnership's basis (inside basis) generally equals the contributing partner's adjusted basis in the property. This carryover basis preserves built-in gain or loss in

contributed property. The partner's outside basis in their partnership interest also equals the contributed property's basis, creating parallel inside and outside basis tracking.

**8. Correct Answer: A (Allocated income and share of liabilities)**

Partners increase their basis for their share of partnership income (both separately stated and non-separately stated items), tax-exempt income, and increases in their share of partnership liabilities. Basis decreases for distributions received, losses and deductions allocated, non-deductible expenses, and decreases in share of liabilities. Proper basis tracking is essential for determining loss limitations and gain/loss on distributions.

**9. Correct Answer: B (Partner's basis)**

Partnership losses are deductible by partners only to the extent of their basis in the partnership. This basis limitation prevents partners from deducting more than their economic investment in the partnership. Losses exceeding basis are suspended and carry forward indefinitely, becoming deductible when basis increases from future income or additional contributions.

**10. Correct Answer: D (Has at economic risk)**

At-risk rules limit losses to amounts for which taxpayers have economic risk of loss. Taxpayers are at risk for cash contributed, property contributed (at adjusted basis), amounts borrowed for which they're personally liable, and their share of qualified nonrecourse financing (for real estate). They're not at risk for nonrecourse debt (except real estate) or amounts protected by guarantees or insurance.

**11. Correct Answer: A (500 hours)**

Material participation in an activity can be proven through several tests, the most common being participation for more than 500 hours during the year. Other tests include: substantially all participation hours, more than 100 hours if no one else participates more, certain prior year participation, or facts and circumstances showing regular, continuous, substantial involvement. Material participation makes activity income nonpassive.

**12. Correct Answer: C (Depreciable property used in business held more than one year)**

Section 1231 property includes depreciable property and real property used in a trade or business held more than one year. It also includes livestock, unharvested crops, timber, coal, and iron ore. Section 1231 property is distinguished from inventory (ordinary income), securities (capital assets), and personal-use property (not business property).

**13. Correct Answer: B (Long-term capital gain)**

Net Section 1231 gain (after offsetting 1231 gains and losses) is generally treated as long-term capital gain, benefiting from preferential capital gains rates. This favorable treatment provides the best of both worlds—ordinary loss treatment for net losses but capital gain treatment for net gains. However, prior year Section 1231 losses can cause recapture as ordinary income.

**14. Correct Answer: D (Form 1120)**

C corporations file Form 1120, U.S. Corporation Income Tax Return. The form calculates corporate taxable income and tax liability. Unlike S corporations and partnerships, C corporations pay entity-level tax. Shareholders later pay tax on dividends, creating potential double taxation of corporate profits.

**15. Correct Answer: A (21%)**

The corporate tax rate for C corporations is a flat 21%, established by the Tax Cuts and Jobs Act for tax years beginning after 2017. This replaced the previous graduated rate structure that topped out at 35%. The flat rate simplified corporate taxation and brought the U.S. rate closer to international norms, though it creates potential double taxation with shareholder-level dividend taxation.

**16. Correct Answer: C (50%)**

Corporations receiving dividends from other U.S. corporations can deduct 50% of those dividends if they own less than 20% of the distributing corporation. For 20%-79% ownership, the dividends received deduction is 65%. For 80% or more ownership, the DRD is 100%. The DRD prevents triple or multiple taxation of corporate income.

**17. Correct Answer: D (Capital gains)**

Corporate capital losses can only offset capital gains—they cannot offset ordinary income at all. This differs from individual treatment where \$3,000 of capital losses can offset ordinary income annually. The limitation makes capital losses less valuable for corporations. Unused corporate capital losses carry back 3 years and forward 5 years.

**18. Correct Answer: B (3 years)**

Corporate capital loss carrybacks are allowed for 3 years, meaning corporations can claim refunds for taxes paid in the 3 prior years by carrying back capital losses. If not fully used in the carryback period, capital losses carry forward 5 years. This gives corporations an 8-year window (3 back + current + 5 forward) to use capital losses.

**19. Correct Answer: C (10%)**

Corporate charitable contribution deductions are limited to 10% of taxable income (computed before the charitable deduction, dividends received deduction, and certain other items). This is more restrictive than the individual limit of 60% for cash contributions. The lower percentage reflects the different nature of corporate giving.

**20. Correct Answer: A (5 years)**

Excess corporate charitable contributions carry forward for 5 years. They retain their character and remain subject to the 10% limitation in carryforward years. Contributions don't carry back. If not used within 5 years, they expire. This carryforward allows corporations to benefit from contributions made in high-income years.

**21. Correct Answer: D (Form 1120-S)**

S corporations file Form 1120-S, U.S. Income Tax Return for an S Corporation. The form calculates the corporation's income, deductions, and credits, then allocates items to shareholders via Schedule K-1. Form 1120-S is informational like Form 1065—S corporations don't pay entity-level tax except for built-in gains tax and certain other limited situations.

**22. Correct Answer: B (100)**

The maximum number of S corporation shareholders is 100. Married couples count as one shareholder, and family members (up to 6 generations) can elect to be treated as one shareholder. This limitation distinguishes S corporations from C corporations (unlimited shareholders) and maintains their character as closely-held small businesses.

**23. Correct Answer: A (U.S. citizens and resident aliens)**

S corporation shareholders must be U.S. citizens or resident aliens, certain trusts, estates, or certain tax-exempt organizations. Corporations, partnerships, and nonresident aliens cannot be shareholders. These restrictions ensure S corporation income flows through to U.S. taxpayers and maintains the small, closely-held nature of S corporations.

**24. Correct Answer: C (One class of stock)**

S corporations can have only one class of stock, meaning all outstanding shares must have identical rights to distribution and liquidation proceeds. Differences in voting rights are permitted and don't create a second class. The one class of stock requirement ensures all shareholders are taxed proportionately to their ownership interest.

**25. Correct Answer: B (5 years)**

The built-in gains tax applies to S corporations that were formerly C corporations if appreciated assets are sold within 5 years of the S election. The tax prevents C corporations from converting to S status solely to avoid corporate-level tax on built-in appreciation. The 5-year recognition period was shortened from 10 years by the Protecting Americans from Tax Hikes Act.

**26. Correct Answer: D (21%)**

The built-in gains tax rate equals the highest corporate tax rate, which is currently 21%. This entity-level tax is imposed on recognized built-in gains from assets held when the corporation converted to S status. The tax only applies to gain existing at conversion, not appreciation occurring after the S election.

**27. Correct Answer: C (Accumulated Adjustments Account)**

S corporation distributions are deemed to come first from the Accumulated Adjustments Account (AAA), which represents undistributed income taxed to shareholders. Distributions from AAA are tax-free and reduce stock basis. Only after AAA is exhausted do distributions come from accumulated earnings and profits (creating dividends) or reduce stock basis further (potentially creating capital gain).

**28. Correct Answer: A (All shareholders)**

The S corporation election must be filed by the 15th day of the third month of the tax year (March 15 for calendar year corporations) and requires consent from all shareholders. Unanimous consent ensures all shareholders agree to pass-through treatment. Even one shareholder's refusal prevents the election. Late elections are effective the following year unless relief is granted.

**29. Correct Answer: D (Partnerships)**

Multi-member LLCs are automatically taxed as partnerships for federal tax purposes unless they elect corporate treatment. The LLC files Form 1065 and issues K-1s to members. This default classification provides liability protection with pass-through taxation. LLCs can elect to be taxed as C or S corporations by filing the appropriate forms.

**30. Correct Answer: B (Disregarded entities)**

Single-member LLCs owned by individuals are automatically treated as disregarded entities for federal tax purposes unless they elect corporate treatment. The LLC's income and expenses are reported directly on the owner's Schedule C (business) or Schedule E (rental). The LLC provides liability protection but has no separate tax existence.

**31. Correct Answer: A (Ending inventory)**

Cost of goods sold equals beginning inventory plus purchases (or costs of production) minus ending inventory. This formula determines the cost of inventory actually sold during the year. COGS is subtracted from gross receipts to calculate gross income, which is then reduced by other business expenses to determine net profit or loss.

**32. Correct Answer: C (Most recent inventory is sold first)**

The LIFO (Last-In, First-Out) inventory method assumes the most recently purchased or produced items are sold first. FIFO (First-In, First-Out) assumes the oldest items are sold first. LIFO generally produces higher COGS and lower taxable income during inflationary periods, but requires IRS approval to adopt and complex record-keeping.

**33. Correct Answer: D (Business interest income)**

Business interest expense is limited to the sum of business interest income plus 30% of adjusted taxable income plus floor plan financing interest. This limitation prevents highly leveraged businesses from eliminating taxable income through interest deductions. Disallowed interest carries forward indefinitely. Small businesses with gross receipts of \$27 million or less are exempt.

**34. Correct Answer: B (Business interest limitation)**

Small businesses with average annual gross receipts of \$27 million or less over the prior 3 years are exempt from the Section 163(j) business interest expense limitation. They're also exempt from certain inventory

capitalization rules and can use the cash method of accounting. The \$27 million threshold (adjusted for inflation) provides significant regulatory relief for small businesses.

**35. Correct Answer: C (Taxable income from business)**

Section 179 expensing cannot exceed taxable income from the active conduct of business. This prevents businesses from creating or increasing losses through Section 179 deductions. Disallowed amounts (due to the taxable income limitation) carry forward indefinitely and can be deducted when sufficient business income exists. The deduction is also limited to \$1,220,000 for 2024, phasing out above \$3,050,000 of purchases.

**36. Correct Answer: A (\$3,050,000)**

The Section 179 deduction begins phasing out dollar-for-dollar when total qualifying property placed in service during the year exceeds \$3,050,000. When purchases reach \$4,270,000 (\$3,050,000 + \$1,220,000 deduction limit), the Section 179 deduction is completely eliminated. This phase-out limits Section 179 benefits to small and medium-sized businesses.

**37. Correct Answer: B (Half-year or mid-quarter)**

MACRS uses either the half-year convention or mid-quarter convention for personal property (tangible property other than buildings). The half-year convention treats all property as placed in service at the midpoint of the year. Mid-quarter convention applies when more than 40% of property is placed in service in the fourth quarter, treating property as placed in service at the midpoint of each quarter.

**38. Correct Answer: D (Mid-month)**

Real property (buildings) uses the mid-month convention, treating property as placed in service at the midpoint of the month regardless of the actual date. This applies to residential rental property (27.5 years) and nonresidential real property (39 years). The mid-month convention spreads depreciation more evenly over the year compared to personal property conventions.

**39. Correct Answer: A (39 years)**

Nonresidential real property (commercial buildings, office buildings, warehouses) is depreciated over 39 years using the straight-line method and mid-month convention. Earlier nonresidential property placed in service before May 13, 1993, uses 31.5 years. The extended recovery period reflects the long useful life of commercial buildings.

**40. Correct Answer: C (15 years)**

Qualified improvement property (QIP) has a 15-year recovery period. QIP includes improvements to the interior of nonresidential buildings placed in service after the building was placed in service. The TCJA intended QIP to be eligible for bonus depreciation but accidentally omitted it, creating a "retail glitch" that the CARES Act corrected retroactively.

**41. Correct Answer: D (\$50,000)**

Startup costs can be deducted up to \$5,000 in the year business begins, but this amount is reduced dollar-for-dollar when total startup costs exceed \$50,000. If startup costs exceed \$55,000, no first-year deduction is available—all costs must be amortized over 180 months. Startup costs include investigating creating or acquiring a business, creating the business, and pre-opening activities.

**42. Correct Answer: B (180 months)**

Startup costs exceeding the \$5,000 first-year deduction must be amortized over 180 months (15 years) beginning when the business starts. This lengthy amortization period reflects the indefinite benefit period of startup expenditures. The same treatment applies to organizational costs for forming corporations and partnerships.

**43. Correct Answer: C (50%)**

Business meals with clients are 50% deductible when they're ordinary and necessary business expenses, not lavish or extravagant, and the taxpayer (or an employee) is present. The 50% limitation has applied for many years and prevents full deduction of what could be partially personal expenses. Meals provided to employees for the employer's convenience have different rules.

**44. Correct Answer: A (Not deductible)**

Entertainment expenses are not deductible under the Tax Cuts and Jobs Act, effective for amounts incurred after 2017. Even business-related entertainment with clients is nondeductible. This change simplified compliance by eliminating questions about business purpose, though business meals remain 50% deductible.

**45. Correct Answer: B (Deductible)**

The employer portion of FICA taxes (6.2% Social Security + 1.45% Medicare on each employee's wages) is fully deductible as a business expense. This is payroll tax expense reported on the employer's tax return. Employee portions are withheld from wages and remitted to the government, reducing take-home pay but not creating additional employer deductions.

**46. Correct Answer: D (\$7,000)**

FUTA (Federal Unemployment Tax Act) tax applies to the first \$7,000 of each employee's wages per year. The FUTA tax rate is 6.0%, but employers receive a credit of up to 5.4% for state unemployment taxes paid, reducing the effective rate to 0.6%. The \$7,000 wage base hasn't been adjusted since the 1980s.

**47. Correct Answer: A (0.6%)**

The effective FUTA rate after the state unemployment tax credit is 0.6% (6.0% statutory rate minus 5.4% credit). This creates a maximum FUTA tax of \$42 per employee per year ( $\$7,000 \times 0.6\%$ ). Credit reduction states (those with outstanding federal unemployment loans) face reduced credits, increasing employers' FUTA liability.

**48. Correct Answer: C (January 31)**

Form W-2 must be provided to employees by January 31 of the year following the year being reported. The same deadline applies to filing Copy A with the Social Security Administration. This uniform deadline simplifies compliance and ensures employees receive wage information before the typical tax filing season begins.

**49. Correct Answer: D (Quarterly)**

Form 941, Employer's Quarterly Federal Tax Return, is filed quarterly reporting wages paid, federal income tax withheld, and Social Security and Medicare wages and taxes. Filing deadlines are April 30, July 31, October 31, and January 31 (for Q4 of the prior year). The form reconciles tax liability to deposits made during the quarter.

**50. Correct Answer: B (The next business day)**

The \$100,000 next-day deposit rule requires deposit by the next business day regardless of the employer's regular deposit schedule (monthly or semiweekly). This rule applies to all employers when accumulated employment tax liability reaches \$100,000 on any day. Missing a next-day deposit generates significant penalties due to the large liability amount.

**51. Correct Answer: C (FUTA tax)**

Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, is filed annually by January 31 (or February 10 if all deposits were timely). The form reports FUTA tax liability on the first \$7,000 of each employee's wages at the effective rate of 0.6% after the state unemployment tax credit.

**52. Correct Answer: A (Form 1099-NEC)**

Independent contractors receive Form 1099-NEC showing nonemployee compensation of \$600 or more paid during the year. The form is filed with the IRS and furnished to the recipient by January 31. The distinction between employees (W-2) and independent contractors (1099-NEC) has significant tax implications for withholding, employment taxes, and deductibility of expenses.

**53. Correct Answer: B (Instructions and training)**

Behavioral control examines the right to control how work is performed, including what instructions are given, what training is provided, and how extensively the company directs the methods and details of work. If the company controls or has the right to control how work is done, this indicates an employee relationship rather than independent contractor status.

**54. Correct Answer: D (Withheld income tax and employee FICA)**

The trust fund recovery penalty applies to withheld income tax and the employee's share of FICA taxes—the amounts the employer held "in trust" for the government. It doesn't apply to the employer's share of FICA or FUTA taxes. The penalty equals 100% of the unpaid trust fund taxes and can be assessed personally against responsible persons who willfully failed to pay.

**55. Correct Answer: A (100% of trust fund taxes)**

The trust fund recovery penalty equals 100% of the unpaid trust fund taxes (withheld income tax plus employee FICA). This severe penalty can be assessed personally against officers, directors, shareholders, or employees with authority to pay taxes or determine which creditors to pay. The IRS can assess multiple responsible persons but can only collect 100% total.

**56. Correct Answer: C (Schedule E)**

Rental real estate income and expenses are reported on Schedule E, Supplemental Income and Loss. Schedule E also reports income from partnerships, S corporations, estates, trusts, and REMICs. Rental income is generally passive, subject to passive activity loss limitations unless the taxpayer qualifies as a real estate professional.

**57. Correct Answer: D (Real estate professional)**

Rental real estate activities are automatically passive regardless of participation level, unless the taxpayer qualifies as a real estate professional. To qualify, the taxpayer must spend more than 750 hours in real property trades or businesses and more than half of personal services in such activities. Even after qualifying as a real estate professional, the taxpayer must materially participate in specific rental activities.

**58. Correct Answer: B (750 hours)**

To qualify as a real estate professional, the taxpayer must spend more than 750 hours per year in real property trades or businesses AND more than half of their personal services must be in real property trades or businesses. Both requirements must be met. Real property trades or businesses include development, construction, acquisition, conversion, rental, management, leasing, or brokerage.

**59. Correct Answer: A (Active participation)**

The \$25,000 special allowance for rental real estate losses requires active participation, not material participation or real estate professional status. Active participation means making management decisions about tenants, repairs, lease terms, and capital expenditures in a significant manner. The taxpayer can hire a property manager but must be involved in important decisions.

**60. Correct Answer: C (\$150,000)**

The \$25,000 rental loss allowance phases out ratably between modified AGI of \$100,000 and \$150,000 for both single and married filing jointly taxpayers. The phase-out is \$1 for every \$2 above \$100,000, completely eliminating the allowance at \$150,000. Married filing separately taxpayers face a \$0-\$50,000 range with a \$12,500 maximum allowance.

**61. Correct Answer: B (Not taxable when received)**

Security deposits that must be returned to tenants are not taxable income when received because the landlord holds them as a liability, not as income. If the landlord later applies the deposit to rent or keeps

it for damages, it becomes taxable at that time. Last month's rent received in advance is taxable when received because it's rent, not a refundable deposit.

**62. Correct Answer: D (Deductible when paid)**

Repairs to rental property that maintain the property in its current condition are deductible as operating expenses in the year paid (or incurred for accrual method taxpayers). Repairs restore property to working order without adding value or extending useful life. Examples include painting, fixing leaks, replacing broken windows. Improvements must be capitalized and depreciated.

**63. Correct Answer: C (Capitalized and depreciated)**

Improvements to rental property must be capitalized and depreciated over their recovery periods. Improvements add value, prolong useful life, or adapt property to new uses. Examples include adding a room, replacing a roof, installing new HVAC system. Residential rental improvements are depreciated over 27.5 years; qualified improvement property uses 15 years.

**64. Correct Answer: A (Real property)**

Like-kind exchanges under Section 1031 after the Tax Cuts and Jobs Act apply only to real property held for business or investment. Personal property exchanges no longer qualify for like-kind treatment. The real property must be of like kind (essentially any real property for any other real property) and held for productive use in trade/business or investment.

**65. Correct Answer: D (Taxable to the extent of realized gain)**

Boot received in a like-kind exchange is taxable to the extent of realized gain. The taxpayer recognizes the lesser of boot received or realized gain. Boot includes cash, debt relief, and any non-like-kind property received. This partial recognition rule prevents taxpayers from receiving cash or non-qualifying property completely tax-free.

**66. Correct Answer: B (45 days)**

In a deferred like-kind exchange, replacement property must be identified in writing within 45 days of transferring the relinquished property. This deadline is strictly enforced with no extensions. Up to three properties can be identified without limitation (three-property rule), or more under the 200% rule or 95% rule. Identification must be specific and unambiguous.

**67. Correct Answer: A (Substantial economic effect)**

Special allocations in partnerships must have substantial economic effect, meaning they must affect the partners' economic positions in a manner consistent with the allocations. Tax allocations must follow the economic deal—partners receiving allocated income must receive economic benefits, and partners allocated losses must bear economic burdens. This prevents tax-motivated allocations divorced from economic reality.

**68. Correct Answer: C (Built-in gain or loss in contributed property)**

Section 704(c) requires partnerships to track built-in gain or loss in property contributed to the partnership and allocate that built-in amount to the contributing partner when the property is sold. This prevents partners from shifting built-in gains or losses through contributions. The partnership must use reasonable methods (traditional, traditional with curative allocations, or remedial) to allocate built-in amounts.

**69. Correct Answer: B (Passive income)**

Passive activity losses can only offset passive income—they cannot offset active income (wages, business income from material participation) or portfolio income (interest, dividends, capital gains from investments). This limitation prevents high-income taxpayers from using tax shelter losses to eliminate tax on wages and investment income. Suspended passive losses carry forward indefinitely.

**70. Correct Answer: D (Become fully deductible)**

When a taxpayer completely disposes of a passive activity in a fully taxable transaction to an unrelated party, suspended passive losses are fully deductible against any income in the year of disposition. This complete disposition rule allows taxpayers to finally use accumulated suspended losses when they truly exit the activity. The disposition must be of the taxpayer's entire interest to qualify.

**71. Correct Answer: C (Form 1023 or 1023-EZ)**

Organizations seeking Section 501(c)(3) tax-exempt status apply using Form 1023 (Application for Recognition of Exemption) or Form 1023-EZ (Streamlined Application for smaller organizations). Form 990 is the annual information return filed after exemption. Churches are automatically exempt and don't need to apply, though they can for certainty.

**72. Correct Answer: B (Political campaign intervention)**

Section 501(c)(3) organizations are absolutely prohibited from participating in or intervening in any political campaign on behalf of or in opposition to any candidate for public office. This is a complete prohibition—even minimal campaign intervention can jeopardize tax-exempt status. In contrast, 501(c)(3) organizations CAN pay reasonable salaries, accept tax-deductible donations, and engage in limited lobbying (as long as it's not substantial). The political campaign prohibition ensures tax-deductible charitable contributions don't subsidize political campaigns.

**73. Correct Answer: D (\$1,000)**

Tax-exempt organizations must pay unrelated business income tax (UBIT) on unrelated business income exceeding \$1,000. The first \$1,000 is effectively exempt. UBI is reported on Form 990-T, and the organization pays tax at corporate rates. This prevents unfair competition with taxable businesses while allowing limited business activities.

**74. Correct Answer: B (Not substantially related to exempt purpose)**

For income to be unrelated business income, it must be from a trade or business that is regularly carried on AND is not substantially related to the organization's exempt purpose. All three requirements must be met. Income substantially related to the exempt purpose is not UBI even if from business activities. Various specific exemptions also apply.

**75. Correct Answer: A (Most tax-exempt organizations)**

Form 990, Return of Organization Exempt From Income Tax, is filed by most tax-exempt organizations annually. Organizations with gross receipts under \$200,000 and assets under \$500,000 can file Form 990-EZ. Those with gross receipts of \$50,000 or less can file Form 990-N (e-Postcard). Failure to file for three consecutive years results in automatic revocation of exemption.

**76. Correct Answer: C (20%)**

The accumulated earnings tax is imposed at 20% on accumulated taxable income. The tax applies when C corporations accumulate earnings beyond reasonable business needs to avoid shareholder dividend tax. Demonstrating reasonable business needs (expansion plans, working capital requirements, debt retirement) avoids the tax. Most closely-held corporations don't face this tax if they can justify retention.

**77. Correct Answer: D (Received)**

Under the cash method of accounting, income is recognized when received (actually or constructively). Constructive receipt occurs when income is credited to the taxpayer's account, set apart, or made available without substantial restrictions. The cash method is simpler than accrual and generally matches cash flow better, but can be manipulated through timing.

**78. Correct Answer: B (All events have occurred and economic performance has occurred)**

Under the accrual method, expenses are deductible when (1) all events have occurred that fix the liability, (2) the amount can be determined with reasonable accuracy, and (3) economic performance has occurred. Economic performance generally occurs when services or property are provided to or by the taxpayer. This three-part test prevents premature deductions.

**79. Correct Answer: C (Services are provided)**

For accrual method taxpayers, economic performance for services provided to the taxpayer occurs when the services are actually provided, not when ordered, invoiced, or paid. This requirement ensures deductions match the period when benefits are received. The recurring item exception allows limited accrual before economic performance when certain conditions are met.

**80. Correct Answer: A (IRS consent)**

Changes in accounting methods generally require IRS consent obtained by filing Form 3115, Application for Change in Accounting Method. Some changes qualify for automatic consent with simplified filing

requirements. Other changes require advance IRS approval through non-automatic procedures. Section 481 adjustments prevent duplication or omission of income or deductions when methods change.

**81. Correct Answer: B (Duplication or omission of income)**

Section 481 adjustments prevent duplication or omission of income and deductions when taxpayers change accounting methods. The adjustment catches items that would be missed or double-counted due to the method change. Positive adjustments (increasing income) are taken into account over 4 years; negative adjustments (decreasing income) are taken in 1 year.

**82. Correct Answer: D (Regardless of gross receipts)**

Farmers can use the cash method of accounting regardless of their gross receipts level. This is an exception to the general rule requiring accrual method for businesses with inventory or businesses exceeding \$27 million average gross receipts. The farming exception recognizes agriculture's unique characteristics including income volatility and commodity price fluctuations.

**83. Correct Answer: A (3 years)**

Farm income averaging allows farmers to average current year farm income over the prior 3 years using Schedule J. This helps farmers whose income fluctuates significantly due to weather, commodity prices, and production cycles. Income is allocated equally among the current year and 3 prior years, and tax is calculated as if income were earned evenly, reducing the impact of progressive rates.

**84. Correct Answer: C (50% of other deductible farm expenses)**

Prepaid farm supplies (feed, seed, fertilizer, etc.) are currently deductible under the cash method if they don't exceed 50% of other deductible farm expenses for the year. This prevents farmers from accelerating excessive deductions by prepaying supplies. Amounts exceeding 50% must be capitalized and deducted when consumed.

**85. Correct Answer: D (25%)**

Actually, the answer appears to be a duplicate—both options B and D show 25%. Conservation expenses (soil and water conservation, endangered species recovery) are deductible up to 25% of gross farm income. The expenses must be consistent with an approved conservation plan. This limitation prevents excessive deductions while encouraging conservation practices.

**86. Correct Answer: B (\$27 million)**

The small business taxpayer exception for inventory accounting applies when average annual gross receipts for the three preceding tax years don't exceed approximately \$29 million (adjusted for inflation, approximately \$27 million in earlier years). Businesses below this threshold can avoid complex inventory accounting requirements and use the cash method. This exception was significantly expanded by the Tax Cuts and Jobs Act to reduce compliance burdens for small and medium-sized businesses.

**87. Correct Answer: C (Indirect costs into inventory)**

Uniform capitalization (UNICAP) rules under Section 263A require capitalizing both direct costs AND allocable indirect costs into inventory or self-constructed assets. Direct costs (materials, direct labor) must be capitalized by all businesses. The key feature of UNICAP is that it also requires capitalizing indirect costs such as utilities, repairs, maintenance, rent, depreciation, storage, and purchasing costs. Marketing, selling, and advertising costs are specifically excluded from UNICAP. This ensures proper matching of all production costs with revenue when inventory is sold.

**88. Correct Answer: C (\$2,500)**

The de minimis safe harbor allows immediate expensing of amounts paid for tangible property if the amount doesn't exceed \$2,500 per invoice or item (or \$5,000 with applicable financial statements). This simplifies accounting by allowing expensing of routine items without depreciation. The safe harbor must be elected annually and applies to amounts below the threshold.

**89. Correct Answer: D (Personal property depreciation)**

Section 1245 recapture applies to gain on the disposition of depreciable personal property (equipment, machinery, vehicles, furniture). The recapture amount equals the lesser of gain realized or total depreciation taken, and is taxed as ordinary income. This recapture prevents taxpayers from converting ordinary deductions (depreciation) into capital gain through property appreciation.

**90. Correct Answer: B (Real property depreciation)**

Section 1250 recapture applies to gain on disposition of depreciable real property. For property placed in service after 1986, only "additional depreciation" (accelerated over straight-line) is recaptured as ordinary income. Since post-1986 property must use straight-line, there's typically no Section 1250 recapture, but the 25% rate on unrecaptured Section 1250 gain applies.

**91. Correct Answer: C (25%)**

Unrecaptured Section 1250 gain (the portion of gain on depreciable real property attributable to straight-line depreciation) is taxed at a maximum rate of 25%. This is higher than the 0%, 15%, or 20% rates for other long-term capital gains but lower than ordinary income rates. It represents a middle ground between capital gain and ordinary income treatment.

**92. Correct Answer: C (Sales where at least one payment is received after the year of sale)**

The installment method under Section 453 is automatic (no election required) for sales where at least one payment is received after the year of sale. The taxpayer can elect OUT of installment reporting if desired. The method does NOT apply to dealer sales (inventory sales), sales of publicly traded securities, or certain other transactions. It applies to both real property and personal property sales, not just real estate. Under installment reporting, gain is recognized proportionately as payments are received based on the gross profit percentage, allowing taxpayers to defer tax until cash is collected.

**93. Correct Answer: B (Gross profit divided by contract price)**

The gross profit percentage in installment sales equals gross profit (selling price minus adjusted basis) divided by the contract price (selling price minus liabilities assumed by buyer, with adjustments). This percentage is applied to each payment received to determine the taxable gain portion. The formula ensures gain is recognized proportionally as payments are received.

**94. Correct Answer: D (2 years)**

Related party installment sales face a special acceleration rule if the property is resold within 2 years. If the related buyer resells within 2 years, the original seller recognizes remaining gain from the installment sale. This prevents families from deferring gain recognition by selling to related parties on installment, who then immediately resell for cash.

**95. Correct Answer: A (In the year of sale)**

Depreciation recapture (Section 1245 and 1250) on installment sales is recognized in full in the year of sale, not proportionately with payments. This recapture is ordinary income. Only the gain exceeding recapture qualifies for installment reporting. This ensures recapture income can't be deferred through installment sales.

**96. Correct Answer: C (Economic positions)**

Partnership income allocations must have substantial economic effect, requiring that allocations affect partners' economic positions in a manner consistent with the allocations. Partners receiving income allocations must receive corresponding economic benefits; partners allocated losses must bear corresponding economic burdens. This standard prevents tax-motivated allocations not reflecting economic reality.

**97. Correct Answer: D (Distributions and losses)**

A partner's outside basis (basis in their partnership interest) equals contributions plus allocated income and their share of partnership liabilities, minus distributions received, allocated losses and deductions, and decreases in their share of partnership liabilities. Proper basis tracking is essential for determining loss limitations and gain/loss on distributions.

**98. Correct Answer: B (Direct loans from shareholder to corporation)**

Debt basis in S corporations is created only by direct loans from shareholders to the corporation. Unlike partnerships where all entity liabilities increase partner basis, S corporation liabilities don't increase shareholder basis. Guarantees of corporate debt don't create basis. This more restrictive basis rule limits S corporation loss deductions compared to partnerships.

**99. Correct Answer: C (Suspended and carried forward)**

S corporation losses exceeding basis (stock basis plus debt basis) are suspended and carry forward indefinitely. They become deductible when basis increases from future income, additional contributions,

or additional loans. Suspended losses aren't lost—they're merely deferred until basis is restored. This is more favorable than capital loss treatment.

**100. Correct Answer: B (Distribution and liquidation proceeds)**

S corporations can have only one class of stock, which means all outstanding shares must have identical rights to distribution and liquidation proceeds. This ensures all shareholders share proportionately in corporate earnings and assets. However, differences in voting rights ARE permitted—S corporations can issue voting and non-voting common stock without violating the one-class-of-stock requirement. The restriction focuses on economic rights (distributions and liquidation), not control rights (voting). This rule maintains the pass-through simplicity of S corporations while allowing some flexibility for voting control arrangements.

## Part 3: Representation, Practices, And Procedures

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### 1. Correct Answer: C (Practice before the IRS)

Circular 230 governs practice before the IRS, establishing rules for who may represent taxpayers, standards of practice, and sanctions for violations. It's issued by the Treasury Department and applies to all practitioners representing taxpayers in IRS matters. Circular 230 doesn't govern state tax practice, financial planning (unless tax-related), or general accounting standards.

### 2. Correct Answer: A (Enrolled agents, attorneys, and CPAs)

Enrolled agents, attorneys licensed in any U.S. jurisdiction, and CPAs licensed by state boards all have unlimited practice rights before the IRS. They can represent any taxpayer on any matter before any IRS office. These three categories are collectively referred to as "practitioners" in Circular 230 and have equal authority for tax representation.

### 3. Correct Answer: B (Only for returns they prepared before revenue agents and similar employees)

Unenrolled return preparers have extremely limited representation rights. They can represent taxpayers only before revenue agents, customer service representatives, and similar IRS employees at the examination level, and only for returns they personally prepared and signed. They cannot represent taxpayers before appeals officers, revenue officers, counsel, or in any other proceedings.

### 4. Correct Answer: D (Due diligence)

Circular 230 requires practitioners to exercise due diligence in preparing returns, determining the correctness of representations, and ascertaining facts. Due diligence means making reasonable inquiries when information appears incorrect or incomplete, but doesn't require auditing client records or verifying every fact. The standard is reasonable care and competence.

### 5. Correct Answer: D (Not required to notify IRS)

When practitioners discover client noncompliance or errors, Circular 230 requires them to promptly advise the client of the noncompliance and the consequences of the noncompliance. However, practitioners are NOT required to notify the IRS—the duty runs to the client, not to the government. The practitioner should also advise the client on corrective measures, but the client decides whether to correct the noncompliance. Notifying the IRS would violate client confidentiality. If the client refuses to correct significant issues, the practitioner may need to consider withdrawing from the engagement, but there's no obligation to report the client to the IRS.

### 6. Correct Answer: C (Services related to IRS examinations)

Circular 230 generally prohibits contingent fees, but exceptions include services rendered in connection with IRS examination of an original return, services for refund claims filed solely for credit or refund of interest or penalties, and services in judicial proceedings. Preparing original returns cannot be done for contingent fees.

**7. Correct Answer: D (Relate law to facts)**

Written tax advice under Circular 230 must be based on reasonable factual and legal assumptions, reasonably consider all relevant facts, use reasonable efforts to identify facts, and relate applicable law and authorities to facts. Relating law to facts means explaining how legal rules apply to the client's specific situation, not just stating general principles.

**8. Correct Answer: B (Censure, suspension, and disbarment)**

Circular 230 sanctions include censure (public reprimand), suspension from practice for a specified period, and disbarment (permanent prohibition from practice unless reinstated). Monetary penalties can also be imposed for certain violations. These are administrative sanctions—criminal penalties may apply separately for serious misconduct. The Office of Professional Responsibility administers Circular 230 discipline.

**9. Correct Answer: C (Permanent unless reinstated)**

Disbarment from practice before the IRS is permanent unless the practitioner successfully petitions for reinstatement. Reinstatement requires demonstrating rehabilitation and fitness to practice after a minimum period (typically 5 years). Disbarment is reserved for serious violations and is difficult to reverse.

**10. Correct Answer: A (Disreputable conduct)**

Giving false or misleading information to the Treasury Department or IRS, or participating in such conduct, is disreputable conduct under Circular 230. Intentional misrepresentation violates professional standards regardless of materiality. Practitioners must provide truthful, accurate information in all IRS dealings. Even unintentional false information can lead to discipline if it results from negligence.

**11. Correct Answer: D (Tax advice communications)**

The federally authorized tax practitioner privilege extends limited attorney-client privilege to communications between taxpayers and enrolled agents or CPAs regarding tax advice. The privilege applies in matters before the IRS and related federal court proceedings. It does NOT apply to criminal proceedings, return preparation, or state tax matters, making it narrower than attorney-client privilege.

**12. Correct Answer: B (Criminal proceedings)**

The tax practitioner privilege does NOT apply in criminal tax proceedings, communications regarding tax shelters, or state tax matters. The privilege only applies to communications regarding tax advice (not return preparation) in non-criminal matters before the IRS or related federal court proceedings. These limitations significantly narrow the privilege compared to attorney-client privilege.

**13. Correct Answer: D (Represent the taxpayer)**

Form 2848, Power of Attorney and Declaration of Representative, authorizes the representative to represent the taxpayer before the IRS, receive confidential tax information, and advocate on the taxpayer's behalf for specified matters and years. This includes negotiating with the IRS, proposing settlements, and

signing certain agreements within the scope of authority granted. Form 2848 provides full representation rights, unlike Form 8821 (Tax Information Authorization), which only authorizes receiving information without representation authority. The representative must be an authorized practitioner (attorney, CPA, enrolled agent, or other qualifying individual).

**14. Correct Answer: C (Information access only)**

Form 8821, Tax Information Authorization, authorizes the designee to inspect and receive confidential tax information. It does NOT grant representation authority—the designee cannot represent the taxpayer, advocate positions, or negotiate. Form 8821 is purely an information access authorization, useful when third parties need tax information without representation.

**15. Correct Answer: D (The retention box is checked)**

Form 2848 automatically revokes all prior powers of attorney for the same tax matters unless the retention box is checked. This automatic revocation prevents confusion about who represents the taxpayer. If the taxpayer wants to add a new representative without revoking prior ones, the retention box must be checked on the new Form 2848.

**16. Correct Answer: B (60 days)**

Form 2848 must be signed by the taxpayer, and the signature must be current—generally within 60 days of when the form is submitted to the IRS. This recency requirement ensures authorizations represent current intentions and prevents old forms from being misused. The taxpayer signs under penalties of perjury, declaring the information is correct.

**17. Correct Answer: C (Individual taxpayers)**

The IRS Wage & Investment Division serves individual taxpayers who file Form 1040 and receive wages or investment income—the typical individual taxpayer. W&I is the largest division by number of taxpayers served, handling over 100 million returns annually. It operates toll-free help lines, processes individual returns, and handles correspondence.

**18. Correct Answer: C (Small businesses and self-employed taxpayers)**

The Small Business/Self-Employed Division (SB/SE) is one of the IRS's operating divisions that serves small businesses, self-employed taxpayers, and individuals who file Form 1040 with schedules for business income. This includes sole proprietorships (Schedule C), small partnerships, small corporations (S corporations and small C corporations), farmers, and self-employed individuals. Large corporations are handled by the Large Business & International Division (LB&I), while individual wage earners without business income are handled by the Wage & Investment Division. The SB/SE Division conducts most field examinations and handles the majority of small business tax administration.

**19. Correct Answer: D (Economic hardship or systemic problems)**

The Taxpayer Advocate Service provides assistance when taxpayers experience economic hardship (immediate threat of adverse action, inability to meet basic living expenses), systemic problems (IRS procedures causing widespread issues), or when issues haven't been resolved through normal channels. TAS doesn't handle routine processing or simple questions—it's for serious situations requiring intervention.

**20. Correct Answer: B (Form 911)**

To request Taxpayer Advocate Service assistance, taxpayers or representatives file Form 911, Request for Taxpayer Advocate Service Assistance. This form describes the tax issue, explains why it creates hardship, and details efforts already made to resolve it. TAS reviews requests and accepts cases meeting their criteria for hardship or systemic problems.

**21. Correct Answer: A (Mail)**

Correspondence audits (examinations) are conducted primarily through mail communication. The IRS sends letters requesting documentation or clarification, taxpayers respond by mail or fax with requested information, and the IRS reviews submissions. No face-to-face meetings occur. Correspondence audits are the most common type, handling straightforward issues like charitable contributions, credits, and business expenses.

**22. Correct Answer: C (IRS offices)**

Office audits (examinations) are conducted at IRS offices. Taxpayers or their representatives meet with revenue agents at IRS facilities to present documentation and answer questions. Office audits handle more complex issues than correspondence audits but less complex than field audits. The IRS provides at least 10 days' notice of scheduled appointments.

**23. Correct Answer: B (Taxpayer's place of business)**

Field audits (examinations) are conducted at the taxpayer's place of business or representative's office. Revenue agents come to the taxpayer's location rather than requiring travel to IRS offices. Field audits handle the most complex returns and issues, often spanning multiple months with extensive document reviews and business observation.

**24. Correct Answer: D (Statistical analysis for potential changes)**

The Discriminant Function System (DIF) uses computer scoring to identify returns with potential for tax changes based on statistical analysis. Returns are scored by comparing reported amounts to statistical norms for similar taxpayers. High DIF scores indicate significant deviation from typical returns, making them more likely to be selected for examination.

**25. Correct Answer: C (3 years)**

The general statute of limitations on assessment is 3 years from the later of the return due date or the date the return was filed. This gives the IRS 3 years to examine returns and assess additional tax. Once the statute expires, the IRS generally cannot assess additional tax. Extensions to 6 years apply for substantial income omissions; unlimited statute applies for fraud or failure to file.

**26. Correct Answer: A (25%)**

The assessment statute extends to 6 years when there is substantial omission of gross income exceeding 25% of the gross income shown on the return. For businesses, gross income means gross receipts minus cost of goods sold, not net profit. The 25% threshold triggers the extended period, giving the IRS additional time to detect and examine returns with significant underreporting.

**27. Correct Answer: D (No return is filed)**

There is NO statute of limitations on assessment when no return is filed or when fraudulent returns with intent to evade tax are filed. Taxpayers who don't file required returns face assessment at any time, creating permanent exposure. This harsh rule provides powerful incentive to file returns even when unable to pay, since filing starts the statute running.

**28. Correct Answer: B (10 years from assessment)**

The collection statute of limitations is 10 years from the date of assessment. The IRS must complete collection activities before expiration or the debt becomes permanently uncollectible. Numerous events suspend the statute (installment agreements, offers in compromise, bankruptcy, CDP hearings), often extending the effective collection period well beyond 10 years.

**29. Correct Answer: A (Form 872)**

Taxpayers can extend the statute of limitations on assessment by signing Form 872, Consent to Extend the Time to Assess Tax. The IRS requests extensions when examinations aren't complete before statutes expire. Extensions can be for any agreed period and can be extended multiple times. Limited extensions (Form 872-I) restrict extensions to specific issues.

**30. Correct Answer: C (90 days (150 if outside U.S.))**

A notice of deficiency (90-day letter) gives taxpayers 90 days to petition Tax Court (150 days if the notice is addressed to a person outside the United States). This period is jurisdictional—Tax Court has no authority to hear cases unless petitions are filed within the deadline. The period begins when the notice is mailed, not when received.

**31. Correct Answer: D (\$25,000 or less per period)**

Small case appeals requests apply when disputed amounts are \$25,000 or less per tax period and require only a brief written statement explaining disagreement with examination findings. No formal written

protest, extensive legal citations, or attorney representation is required. Small cases use simplified procedures compared to cases exceeding \$25,000.

**32. Correct Answer: B (\$25,000)**

Formal written protests are required for cases exceeding \$25,000 per tax period. The protest must include disputed issues, facts supporting the taxpayer's position, law or authority supporting the position, and the taxpayer's signature under penalties of perjury. The protest provides Appeals with the taxpayer's detailed explanation of disagreements.

**33. Correct Answer: A (30 days)**

Collection Due Process (CDP) hearings must be requested within 30 days of the CDP notice. The 30-day period is strictly enforced—late requests receive equivalent hearings without Tax Court judicial review rights. Timely CDP requests trigger hearings before Appeals and preserve the right to appeal unfavorable determinations to Tax Court.

**34. Correct Answer: C (Tax Court)**

CDP determinations can be appealed to Tax Court if CDP requests were filed timely. The appeal must be filed within 30 days of the determination. Tax Court reviews determinations for abuse of discretion. This judicial review ensures determinations are legally correct and not arbitrary. Equivalent hearings (late requests) don't include Tax Court review rights.

**35. Correct Answer: D (Remains unpaid after notice and demand)**

Federal tax liens arise automatically when tax is assessed and remains unpaid after notice and demand for payment. The lien attaches to all the taxpayer's property and rights to property. Filing a Notice of Federal Tax Lien with local authorities makes the lien public record, establishing the IRS's priority against other creditors.

**36. Correct Answer: B (As if never filed)**

Lien withdrawal removes the filed Notice of Federal Tax Lien as if it was never filed, improving creditworthiness. Withdrawal can occur when the liability is paid, when assessment was made in error, when doing so facilitates collection, or when taxpayers enter qualifying installment agreements. Withdrawal differs from release (lien satisfied) and subordination (allowing other creditors ahead).

**37. Correct Answer: A (30 days)**

Before issuing a levy, the IRS must issue a Final Notice of Intent to Levy at least 30 days before the levy action. This notice gives taxpayers time to request a CDP hearing, make payment arrangements, or otherwise resolve the matter before assets are seized. The 30-day period is strictly observed and triggers CDP hearing rights.

**38. Correct Answer: D (21 days)**

Bank levies freeze accounts and require the bank to hold funds for 21 days before surrendering them to the IRS. This 21-day holding period gives taxpayers time to establish hardship, negotiate arrangements, or otherwise resolve the issue before funds are permanently transferred. During this period, the account is frozen but funds haven't been seized yet.

**39. Correct Answer: C (\$10,000)**

Guaranteed installment agreements are available for balances of \$10,000 or less if taxpayers meet certain requirements (filed all required returns, no other installment agreements, compliant for past 5 years) and agree to pay within 3 years. The IRS must accept these agreements if requirements are met—there's no discretion to reject them.

**40. Correct Answer: B (\$50,000)**

Streamlined installment agreements for individuals allow balances up to \$50,000 with payment within 72 months (6 years) without requiring financial statements. Direct debit payment is required. The streamlined process avoids intrusive financial disclosure while providing extended payment terms. Businesses can use streamlined agreements for balances up to \$25,000 with 24-month terms.

**41. Correct Answer: D (Reasonable collection potential)**

Offers in compromise are based on reasonable collection potential (RCP)—the amount the IRS can reasonably expect to collect within the collection statute period. RCP equals net realizable equity in assets plus future income collectible during the remaining statute. Offers are accepted when the offered amount equals or exceeds RCP and acceptance is in the government's best interest.

**42. Correct Answer: A (Future income)**

Reasonable collection potential equals net realizable equity in assets (fair market value minus liens minus selling costs times 80%) plus future income. Future income is monthly disposable income (income minus allowed expenses) times either 12 or 24 months depending on payment terms. This calculation determines the minimum acceptable offer amount.

**43. Correct Answer: C (Collection creates economic hardship)**

Currently Not Collectible (CNC) status provides relief when collection would create economic hardship—inability to meet basic living expenses. The IRS places accounts in CNC when taxpayers have no assets or income available for payment. While in CNC, collection activities cease but the liability remains and the statute continues running. The IRS reviews CNC accounts periodically.

**44. Correct Answer: B (5% per month)**

The failure to file penalty is 5% of the tax required to be shown on the return for each month or part of a month the return is late, up to a maximum of 25% (5 months). The penalty accrues monthly, so even one

day late triggers a full month's penalty. The 5% rate makes late filing significantly more expensive than late payment (0.5% per month).

**45. Correct Answer: A (25%)**

The maximum failure to file penalty is 25%, reached after 5 months of delinquency. Returns filed extremely late don't face penalties exceeding 25% of the unpaid tax (except the minimum penalty for returns more than 60 days late, which can exceed 25% for small balances). The maximum cap prevents penalties from overwhelming the underlying tax liability.

**46. Correct Answer: D (0.5% per month)**

The failure to pay penalty is 0.5% of the unpaid tax for each month or part of a month the tax remains unpaid, up to a maximum of 25% (50 months). The penalty continues accruing until the tax is paid or the 25% cap is reached. The rate increases to 1% per month if tax remains unpaid more than 10 days after a notice of intent to levy.

**47. Correct Answer: C (100% of tax due)**

The minimum penalty for returns filed more than 60 days late is the lesser of \$485 or 100% of the tax required to be shown on the return. This minimum ensures meaningful penalties for extremely late filing regardless of balance. For small balances, the minimum can exceed the calculated percentage-based penalty.

**48. Correct Answer: B (20%)**

The accuracy-related penalty under Section 6662 is 20% of the underpayment attributable to negligence, substantial understatement, or other specified causes. The penalty can be avoided through reasonable cause and good faith, substantial authority for positions, or adequate disclosure with reasonable basis. The 20% rate is substantial, making accuracy-related penalties costly.

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

A substantial understatement for individuals exists when the understatement exceeds the greater of 10% of the correct tax or \$5,000. For corporations, the threshold is 10% of correct tax or \$10 million. Positions with substantial authority or adequate disclosure with reasonable basis avoid the penalty even if incorrect. The threshold ensures penalties apply only to significant understatements.

**50. Correct Answer: D (75%)**

The civil fraud penalty is 75% of the underpayment attributable to fraud. This severe penalty reflects fraud's serious nature. The IRS must prove fraud by clear and convincing evidence, a high burden. Once any fraud is proven, the 75% penalty applies to the entire underpayment. Fraud is intentional wrongdoing with specific intent to evade tax.

**51. Correct Answer: C (75%)**

The willful or reckless conduct preparer penalty under Section 6694(b) equals the greater of \$5,000 or 75% of the income from preparing the return. This higher penalty (compared to the unreasonable position penalty of \$1,000 or 50%) reflects greater culpability. It applies when preparers willfully attempt to understate tax or recklessly/intentionally disregard rules.

**52. Correct Answer: B (\$590 per failure)**

Due diligence penalties for preparers are \$590 per failure per return for 2024. These penalties apply to failures to comply with due diligence requirements for Earned Income Tax Credit, Child Tax Credit, Additional Child Tax Credit, Credit for Other Dependents, American Opportunity Tax Credit, and Head of Household filing status. Preparers must complete Form 8867 documenting due diligence.

**53. Correct Answer: D (3 percentage points)**

Interest on underpayments accrues at the federal short-term rate plus 3 percentage points, determined quarterly. This market-based rate ensures the government is compensated for the time value of money. Interest compounds daily, accumulating faster than simple interest. Interest accrues separately on tax, penalties, and previously accrued unpaid interest.

**54. Correct Answer: A (Daily)**

Interest compounds daily, meaning it accrues on both the unpaid tax and previously accrued unpaid interest. Daily compounding causes interest to accumulate faster than simple interest or less frequent compounding. The formula uses 365 days per year with interest calculated daily based on the annual interest rate.

**55. Correct Answer: B (Income tax only)**

Interest suspension under Section 6404(g) applies only to income tax—not employment taxes, estate taxes, or other taxes. The suspension stops interest from accruing after 36 months if the IRS fails to provide notice of the liability within that period. The suspension affects interest only, not penalties, and only when the IRS has not contacted the taxpayer about the specific liability.

**56. Correct Answer: C (2 years from payment)**

Refund claims must be filed within the later of 3 years from the date the return was filed or 2 years from the date the tax was paid. This dual limitation creates different periods depending on filing and payment timing. Returns filed before the due date are deemed filed on the due date. Payments made before the due date are deemed made on the due date.

**57. Correct Answer: A (90 days of notice of deficiency)**

Tax Court jurisdiction requires filing a petition within 90 days of the notice of deficiency (150 days if the notice is addressed to a person outside the United States). This period is jurisdictional—Tax Court has no

authority without timely petitions. Tax Court allows taxpayers to dispute tax liabilities without first paying, making it the preferred forum for most taxpayers.

**58. Correct Answer: D (\$50,000)**

Enrolled agents can represent taxpayers in Tax Court for deficiency cases involving \$50,000 or less per tax year. This includes both small cases (which use simplified procedures and aren't appealable) and regular cases within the \$50,000 limit. Cases exceeding \$50,000 require attorney representation. This limited practice right allows EAs to handle many cases without needing attorneys.

**59. Correct Answer: B (\$50,000)**

Small Tax Court cases involve disputed amounts of \$50,000 or less per tax year and use simplified procedures with relaxed evidentiary rules. Decisions in small cases are final and not appealable to courts of appeals—this is the trade-off for simplified procedures. Taxpayers must elect small case procedures, and both parties must agree or the IRS must consent.

**60. Correct Answer: C (Final and not appealable)**

Small Tax Court case decisions are final and not appealable to courts of appeals or any other court. This finality is the trade-off for simplified procedures that make cases easier and faster. Neither the taxpayer nor the IRS can appeal small case decisions. Once the decision is entered, the matter is concluded.

**61. Correct Answer: D (5 years)**

Section 6103 protects tax return information from unauthorized disclosure. IRS employees who willfully disclose return information face criminal penalties including fines up to \$5,000 and imprisonment up to 5 years. Civil damages of \$1,000 per unauthorized disclosure plus attorneys' fees can also be assessed. These severe penalties ensure confidentiality rules are taken seriously.

**62. Correct Answer: A (2 years of IRS collection attempts)**

Innocent spouse relief must be requested within 2 years after the IRS first attempts collection against the requesting spouse. This limitation ensures timely relief requests while the IRS can still verify circumstances and notify the non-requesting spouse. Form 8857 is used to request relief. Three types exist: traditional innocent spouse relief, separation of liability, and equitable relief.

**63. Correct Answer: B (Did not know and had no reason to know of understatement)**

Traditional innocent spouse relief under Section 6015(b) requires that the requesting spouse did not know and had no reason to know of the understatement at the time the return was signed. Knowledge is central—the requesting spouse must have been unaware of the error. Taking all facts and circumstances, it must be inequitable to hold the requesting spouse liable.

**64. Correct Answer: C (Divorced, legally separated, or living apart)**

Separation of liability relief under Section 6015(c) is available to spouses who are divorced, legally separated, or living apart for at least 12 months. It allocates liability between spouses as if they filed separately. The requesting spouse is relieved of liability for items allocable to the other spouse, except for items the requesting spouse had actual knowledge of.

**65. Correct Answer: A (Circular 230)**

The Office of Professional Responsibility (OPR) administers Circular 230 and has authority to investigate and pursue discipline against practitioners. OPR operates independently within the IRS and can impose censure, suspension, disbarment, and monetary penalties. Practitioners have procedural protections including rights to respond, request conferences, and appeal determinations.

**66. Correct Answer: D (Fraud, malfeasance, or misrepresentation)**

Closing agreements under Section 7121 can be reopened only for fraud, malfeasance, or misrepresentation of material fact. They cannot be reopened for changes in tax law, changed circumstances, or simply because a party wants to reconsider. Closing agreements provide finality and are binding like contracts, enforceable in court.

**67. Correct Answer: C (\$13.61 million)**

Estate tax applies when the gross estate exceeds the basic exclusion amount of \$13,610,000 for 2024 (adjusted annually for inflation). The estate tax return (Form 706) is required when the gross estate exceeds this amount. Portability allows surviving spouses to use the deceased spouse's unused exclusion, effectively doubling the exclusion for married couples.

**68. Correct Answer: B (40%)**

The estate tax rate is 40% on amounts exceeding the basic exclusion amount. This is the top marginal rate and applies to taxable estates (gross estate minus deductions) above the exclusion. The unified estate and gift tax system uses the same rate structure and lifetime exemption for both estate and gift taxes.

**69. Correct Answer: D (\$18,000)**

The annual gift tax exclusion for 2024 is \$18,000 per donor per recipient per year. This amount is adjusted periodically for inflation. Gifts within the annual exclusion don't require gift tax returns and don't reduce the lifetime exemption. Married couples can elect gift splitting to effectively double the annual exclusion per recipient.

**70. Correct Answer: A (Negligence and substantial understatement penalties)**

Adequate disclosure on Form 8275 (or Form 8275-R for positions contrary to regulations) protects against negligence and substantial understatement penalties for positions with at least reasonable basis. Disclosure alerts the IRS to positions that might be questioned. It doesn't protect against fraud penalties or other penalties requiring bad faith or intentional misconduct.

**71. Correct Answer: C (10 rights)**

The Taxpayer Bill of Rights consists of 10 fundamental rights: the right to be informed, to quality service, to pay no more than the correct amount, to challenge the IRS's position and be heard, to appeal in an independent forum, to finality, to privacy, to confidentiality, to retain representation, and to a fair and just tax system.

**72. Correct Answer: B (The return is processed)**

For self-assessed tax shown on a return, assessment occurs when the return is processed by the IRS, not when filed, paid, or when notice is sent. For deficiencies after examination, assessment occurs after the statutory notice period expires or after Tax Court proceedings conclude. The assessment date determines when the 10-year collection statute begins.

**73. Correct Answer: D (Certain wages for basic living)**

Levy exemptions protect certain property to ensure taxpayers retain minimal survival means. Exempt property includes wearing apparel, household items up to limits, tools of trade up to limits, unemployment benefits, certain disability payments, workers' compensation, and portions of wages for basic living expenses. The wage exemption is based on filing status and dependents.

**74. Correct Answer: D (12 months)**

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 date relief is requested. This 12-month separation period (or formal legal separation or divorce) is a key requirement for this type of innocent spouse relief. The relief allocates the joint tax liability between spouses as if they had filed separately, limiting each spouse's liability to their own items. Traditional innocent spouse relief under Section 6015(b) and equitable relief under Section 6015(f) don't have this specific 12-month separation requirement.

**75. Correct Answer: C (72 hours)**

Enrolled agents must complete 72 hours of continuing professional education every 3 years to maintain enrollment, including a minimum of 16 hours per year with at least 2 hours in ethics annually. This CPE requirement ensures EAs maintain competence in constantly changing tax law and stay current on professional standards. Failing to complete CPE results in loss of enrollment.

**76. Correct Answer: B (Tax return preparation)**

The federally authorized tax practitioner privilege does NOT apply to communications regarding tax return preparation—only communications regarding tax advice. The privilege also doesn't apply in criminal proceedings, regarding tax shelters, or in state tax matters. These limitations make the privilege narrower than attorney-client privilege, which applies to all communications in all proceedings.

**77. Correct Answer: D (Examination)**

Fast Track Settlement is available while cases are still in examination. FTS involves Appeals personnel acting as mediators while the case remains in the examination function, accelerating dispute resolution. The goal is quick settlement—typically within 60-120 days—avoiding the delay of formal appeals while examination can still develop facts.

**78. Correct Answer: A (January 31)**

Form 1099-NEC must be provided to recipients and filed with the IRS by January 31 of the year following payment. This earlier deadline (compared to most other 1099 forms which are due February 28/March 31) helps independent contractors receive their information on time to file tax returns. Late filing results in penalties.

**79. Correct Answer: C (The original due date)**

For refund statute purposes, returns filed before the due date are deemed filed ON the due date. A return filed March 1 with an April 15 due date is treated as filed April 15 for calculating the 3-year refund claim statute. This prevents taxpayers from shortening their refund claim period by filing early.

**80. Correct Answer: B (The refund statute period)**

Amended returns claiming refunds must be filed within the refund statute period—the later of 3 years from filing or 2 years from payment. There's no separate shorter deadline like 90 days or 1 year for amended returns. The same statute that applies to original refund claims applies to amended return refund claims.

**81. Correct Answer: D (Tax advice in civil matters)**

The federally authorized tax practitioner privilege under Section 7525 applies to confidential communications between taxpayers and federally authorized practitioners (attorneys, CPAs, enrolled agents) regarding tax advice in noncriminal tax matters before the IRS or in federal court proceedings. The privilege does NOT apply to criminal proceedings, return preparation, state proceedings, or written communications regarding tax shelters. This is narrower than attorney-client privilege, which applies more broadly. The privilege protects only tax advice (planning, consulting), not the mechanical preparation of tax returns. The limitation to civil matters recognizes the government's strong interest in prosecuting tax crimes.

**82. Correct Answer: D (Mediation and arbitration)**

Alternative dispute resolution includes mediation (neutral facilitator helping reach agreement), arbitration (neutral arbitrator making binding determinations on factual issues), and Fast Track Settlement (expedited resolution during examination). These options provide alternatives to traditional appeals and litigation, potentially saving time and costs.

**83. Correct Answer: C (January 31)**

Form W-2 must be filed with the Social Security Administration by January 31 of the year following the year being reported. The same deadline applies to providing copies to employees. This uniform deadline ensures coordination between employer reporting and employee tax filing. Extensions are available for filing with SSA but not for providing copies to employees.

**84. Correct Answer: B (Responsible persons)**

The trust fund recovery penalty can be assessed personally against any responsible person who willfully failed to pay the trust fund taxes. Responsible persons include officers, directors, shareholders, or employees with authority to pay taxes or determine which creditors to pay. The IRS can assess multiple responsible persons but can only collect 100% total.

**85. Correct Answer: D (500 hours)**

Material participation can be proven through several tests, the most common being participation for more than 500 hours during the year. Other tests include substantially all participation hours, more than 100 hours if no one else participates more, certain prior year participation, or facts and circumstances showing regular, continuous, substantial involvement.

**86. Correct Answer: C (More than 50% of personal services in real property)**

Real estate professional status under Section 469(c)(7) requires meeting BOTH tests: (1) more than 750 hours of services during the year in real property trades or businesses in which the taxpayer materially participates, AND (2) more than 50% of the taxpayer's personal services in all trades or businesses are performed in real property trades or businesses in which the taxpayer materially participates. Real property trades or businesses include development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage. No real estate license or property ownership is required. Qualifying as a real estate professional allows rental real estate activities to be treated as non-passive, enabling rental losses to offset other income without passive loss limitations.

**87. Correct Answer: C (\$100,000-\$150,000)**

The \$25,000 rental loss allowance phases out between modified AGI of \$100,000 and \$150,000 for both single and married filing jointly. The phase-out is \$1 for every \$2 above \$100,000, completely eliminating the allowance at \$150,000. Married filing separately taxpayers face a \$0-\$50,000 range with a \$12,500 maximum allowance (unless living apart all year).

**88. Correct Answer: B (12 months after first date benefit is received)**

The 12-month rule for prepaid expenses under the cash method allows current deduction if the benefit doesn't extend beyond 12 months after the first date on which the taxpayer realizes the benefit (or the end of the tax year following payment, if later). This simplifies accounting for routine prepayments like insurance, rent, or subscriptions.

**89. Correct Answer: A (4 years)**

Section 481 adjustments for positive adjustments (increasing income or decreasing deductions) are taken into account over 4 years. Negative adjustments (decreasing income or increasing deductions) are taken in 1 year. This spread for positive adjustments prevents large one-time income impacts from method changes, while allowing favorable adjustments to benefit taxpayers immediately.

**90. Correct Answer: D (5 years)**

The hobby loss presumption applies if the activity shows profit in 3 of the last 5 years (2 of 7 for horse activities). This creates a presumption that the activity is engaged in for profit, not as a hobby. Without the presumption, taxpayers must prove profit motive through the 9-factor test. Meeting the presumption shifts the burden to the IRS.

**91. Correct Answer: C (Targeted groups facing employment barriers)**

The Work Opportunity Tax Credit is available for hiring individuals from targeted groups facing employment barriers, including veterans, ex-felons, long-term unemployment recipients, TANF/SNAP recipients, vocational rehabilitation referrals, summer youth employees from empowerment zones, and others. The credit encourages hiring disadvantaged workers.

**92. Correct Answer: B (Qualified research expenditures)**

The research credit is based on increases in qualified research expenditures compared to a base amount. The credit encourages innovation by providing tax benefits for research activities. QREs include wages for research, supplies consumed in research, and contract research expenses. The credit has both a regular credit and an alternative simplified credit.

**93. Correct Answer: D (Personal property)**

Section 1245 property includes depreciable tangible personal property (equipment, machinery, vehicles, furniture) and certain other property. Gain on disposition is recaptured as ordinary income to the extent of depreciation taken. This prevents converting ordinary deductions (depreciation) into capital gain through appreciation.

**94. Correct Answer: A (Real property)**

Section 1250 property includes depreciable real property (buildings). Gain attributable to "additional depreciation" (accelerated over straight-line) is recaptured as ordinary income. Since post-1986 property must use straight-line, there's typically no recapture, but unrecaptured Section 1250 gain (the depreciation portion) is taxed at 25%.

**95. Correct Answer: B (61 days)**

The wash sale rule applies when substantially identical securities are purchased within 30 days before or after the sale, creating a 61-day window (30 days before + day of sale + 30 days after). Losses from wash

sales are disallowed and added to the basis of the replacement securities. This prevents taxpayers from recognizing losses while maintaining investment positions.

**96. Correct Answer: C (Available without substantial restriction)**

Constructive receipt means income is credited to the taxpayer's account, set apart, or made available without substantial restrictions, even if not physically received. This doctrine prevents taxpayers from deferring income by simply not collecting amounts readily available. The income must be available without significant conditions or limitations.

**97. Correct Answer: D (Economic performance has occurred)**

The all events test for accrual method deductions requires three elements: (1) all events have occurred that fix the liability, (2) the amount is determinable with reasonable accuracy, AND (3) economic performance has occurred. Economic performance rules were added to Section 461(h) to prevent premature deductions before obligations are actually satisfied. For services or property provided TO the taxpayer, economic performance occurs when the services or property are actually provided. For services or property the taxpayer provides, economic performance occurs when the taxpayer provides them. Simply signing a contract, sending an invoice, or making payment doesn't satisfy the test—the underlying economic activity must occur for accrual method deduction.

**98. Correct Answer: D (Not substantially related to exempt purpose)**

Unrelated business income must be from a trade or business that is regularly carried on AND not substantially related to the organization's exempt purpose. All three requirements (trade/business, regularly carried on, not substantially related) must be met. Income substantially related to the exempt purpose is not UBI even if from business activities.

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

Form 990-N (e-Postcard) is filed by tax-exempt organizations with gross receipts of \$50,000 or less. This simple electronic notice requires basic information but no detailed financial reporting. Organizations with higher receipts must file Form 990-EZ (under \$200,000) or Form 990. Three consecutive years of non-filing results in automatic revocation of exemption.

**100. Correct Answer: B (Private individuals)**

Private inurement means that part of the organization's net earnings inures to the benefit of private individuals (insiders like founders, directors, officers). This violates Section 501(c)(3) requirements. Reasonable compensation for services is allowed, but payments exceeding reasonable compensation constitute private inurement. The prohibition prevents tax-exempt organizations from benefiting insiders.