

Full-Length Practice Test 3

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

Part 1: Individuals

1. For 2024, the standard deduction for married filing jointly taxpayers where both are under 65 is:
 - A. \$27,700
 - B. \$14,600
 - C. \$20,800
 - D. \$29,200
2. A dependent who is a full-time student can be claimed as a qualifying child until what age?
 - A. 19
 - B. 24
 - C. 21
 - D. 26
3. Which filing status generally provides the most favorable tax rates and standard deduction after married filing jointly?
 - A. Head of Household
 - B. Single
 - C. Qualifying Widow(er)
 - D. Married Filing Separately
4. Child support payments received are:
 - A. Fully taxable
 - B. 50% taxable
 - C. Not taxable
 - D. Taxable only above \$10,000
5. For 2024, the maximum combined contribution to traditional and Roth IRAs for a taxpayer under 50 is:
 - A. \$6,000
 - B. \$6,500
 - C. \$8,000
 - D. \$7,000

6. Health Savings Account distributions used for non-qualified expenses before age 65 are:
 - A. Tax-free
 - B. Subject to income tax plus 20% penalty
 - C. Subject only to regular income tax
 - D. Subject to 10% penalty only

7. The home office deduction using the simplified method allows:
 - A. \$10 per square foot up to 400 square feet
 - B. Actual expenses times business percentage
 - C. \$5 per square foot up to 300 square feet
 - D. \$7.50 per square foot up to 250 square feet

8. For 2024, what is the threshold for requiring 1099-NEC reporting to independent contractors?
 - A. \$600
 - B. \$1,000
 - C. \$500
 - D. \$2,500

9. The additional standard deduction for taxpayers who are 65 or older and single is:
 - A. \$1,500
 - B. \$1,950
 - C. \$2,000
 - D. \$1,850

10. Alimony payments under a divorce decree finalized in 2020 are:
 - A. Deductible and taxable under the old rules
 - B. 50% deductible
 - C. Taxable to recipient only
 - D. Neither deductible nor taxable

11. The maximum exclusion for employer-provided adoption assistance for 2024 is approximately:
 - A. \$16,810
 - B. \$13,810
 - C. \$10,000
 - D. \$20,000

12. Long-term capital gain tax rates are 0%, 15%, and:
 - A. 25%
 - B. 28%
 - C. 20%

D. 30%

13. A taxpayer sells stock at a loss and repurchases substantially identical stock 20 days later. This transaction is:

- A. Fully deductible
- B. A wash sale with loss disallowed
- C. Subject to 50% loss limitation
- D. Eligible for capital loss carryforward

14. Traditional IRA distributions before age 59½ for qualified higher education expenses are:

- A. Subject to 10% penalty
- B. Tax-free
- C. Subject to 20% penalty
- D. Exempt from the 10% penalty but taxable

15. The maximum Child and Dependent Care Credit percentage is:

- A. 35%
- B. 50%
- C. 30%
- D. 20%

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 claim Head of Household status, the taxpayer must:

- A. Have a qualifying person living with them for at least 6 months
- B. Be married but living apart
- C. Pay child support
- D. Pay over half the cost of maintaining the home

18. The Additional Child Tax Credit maximum refundable amount for 2024 is:

- A. \$2,000
- B. \$1,700
- C. \$1,500
- D. \$1,000

19. Contributions to a Coverdell Education Savings Account are limited to:

- A. \$5,000 per year
- B. \$3,000 per year
- C. \$2,000 per year
- D. \$1,000 per year

20. The American Opportunity Tax Credit provides a maximum credit of:

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

21. Which of the following increases an individual's basis in stock?

- A. Cash dividends received
- B. Stock dividends
- C. Return of capital
- D. Reinvested dividends

22. For 2024, the Social Security wage base is:

- A. \$147,000
- B. \$168,600
- C. \$160,200
- D. \$142,800

23. Self-employment income is calculated as:

- A. 92.35% of net profit
- B. 100% of net profit
- C. 85% of net profit
- D. 90% of net profit

24. The maximum contribution to a 401(k) for 2024 for those under 50 is:

- A. \$19,500
- B. \$22,500
- C. \$23,000
- D. \$20,500

25. SEP IRA contributions by an employer are limited to the lesser of 25% of compensation or:

- A. \$66,000
- B. \$69,000
- C. \$61,000
- D. \$58,000

26. SIMPLE IRA catch-up contributions for those 50 and older are:
- A. \$1,000
 - B. \$6,500
 - C. \$7,500
 - D. \$3,500
27. Roth IRA contributions for single filers in 2024 begin phasing out at:
- A. \$138,000
 - B. \$161,000
 - C. \$146,000
 - D. \$153,000
28. The Saver's Credit maximum contribution amount considered per person is:
- A. \$2,000
 - B. \$4,000
 - C. \$1,000
 - D. \$3,000
29. The Lifetime Learning Credit is calculated as 20% of qualified expenses up to:
- A. \$15,000
 - B. \$5,000
 - C. \$20,000
 - D. \$10,000
30. Qualified charitable distributions from IRAs can total up to:
- A. \$50,000
 - B. \$105,000
 - C. \$100,000
 - D. \$75,000
31. The Section 121 home sale exclusion for married filing jointly is:
- A. \$500,000
 - B. \$250,000
 - C. \$750,000
 - D. \$300,000
32. To qualify for the Section 121 exclusion, ownership and use requirements are:
- A. 1 of 5 years
 - B. 3 of 5 years

- C. 2 of 5 years
- D. 4 of 5 years

33. Net Investment Income Tax applies at a rate of:

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

34. NIIT applies to single filers with modified AGI exceeding:

- A. \$250,000
- B. \$200,000
- C. \$125,000
- D. \$150,000

35. Section 179 expensing for 2024 allows deductions up to:

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

36. The business mileage rate for 2024 is:

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

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

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

38. Residential rental property is depreciated over:

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

39. Nonresidential real property is depreciated over:

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

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

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

41. Contributions of appreciated capital gain property to public charities are limited to:

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

42. A contemporaneous written acknowledgment is required for charitable contributions of:

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

43. The state and local tax deduction is capped at:

- A. \$5,000
- B. Unlimited
- C. \$10,000
- D. \$20,000

44. Mortgage interest is deductible on acquisition debt up to what amount for post-2017 loans?

- A. \$750,000
- B. \$1,000,000
- C. \$500,000
- D. \$1,500,000

45. Medical expenses are deductible to the extent they exceed:

- A. 10% of AGI
- B. 7.5% of AGI
- C. 5% of AGI
- D. 2% of AGI

46. The kiddie tax applies to children under age:
- A. 17
 - B. 21
 - C. 19
 - D. 18 (or 19/24 if student)
47. The AMT exemption for single filers in 2024 is:
- A. \$85,700
 - B. \$75,900
 - C. \$133,300
 - D. \$118,100
48. AMT rates are:
- A. 25% and 30%
 - B. 20% and 25%
 - C. 26% and 28%
 - D. 24% and 32%
49. Collectibles held more than one year are taxed at a maximum rate of:
- A. 15%
 - B. 20%
 - C. 25%
 - D. 28%
50. Unrecaptured Section 1250 gain is taxed at a maximum rate of:
- A. 20%
 - B. 25%
 - C. 28%
 - D. 15%
51. The foreign earned income exclusion for 2024 is approximately:
- A. \$112,000
 - B. \$120,000
 - C. \$126,500
 - D. \$100,000
52. The physical presence test for foreign earned income exclusion requires:
- A. 330 days in a 12-month period
 - B. 365 days in a calendar year

- C. 11 months per year
- D. 300 days per year

53. Required minimum distributions from traditional IRAs must begin at age:

- A. 70½
- B. 73
- C. 72
- D. 75

54. A Roth IRA qualified distribution requires the account to be open for:

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

55. The early distribution penalty from IRAs is:

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

56. The first-time homebuyer IRA exception allows up to:

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

57. QCDs from IRAs can begin at age:

- A. 59½
- B. 65
- C. 73
- D. 70½

58. The Section 199A deduction allows up to:

- A. 25%
- B. 20%
- C. 15%
- D. 30%

59. For single filers, Section 199A SSTB phase-out begins at:

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

60. HSA contribution limits for self-only coverage in 2024 are:

- A. \$3,850
- B. \$7,000
- C. \$4,150
- D. \$5,000

61. HSA catch-up contributions for those 55 and older are:

- A. \$500
- B. \$1,000
- C. \$7,500
- D. \$2,000

62. The maximum student loan interest deduction is:

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

63. Student loan interest deduction phase-out for single filers begins at:

- A. \$95,000
- B. \$65,000
- C. \$80,000
- D. \$100,000

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

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

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

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

66. 529 plan distributions for K–12 tuition are limited to:
- A. \$5,000 per year
 - B. \$10,000 per year
 - C. \$15,000 per year
 - D. Unlimited
67. ABLE account contribution limits match the:
- A. Gift tax annual exclusion
 - B. IRA limits
 - C. 401(k) limits
 - D. HSA limits
68. The adoption credit for 2024 is approximately:
- A. \$10,000
 - B. \$20,000
 - C. \$16,810
 - D. \$13,810
69. Estimated tax payments are required when expected tax liability exceeds:
- A. \$500
 - B. \$1,000
 - C. \$5,000
 - D. \$100
70. The safe harbor percentage for avoiding estimated tax penalties using prior year tax is:
- A. 90%
 - B. 85%
 - C. 110%
 - D. 100%
71. For high-income taxpayers, the prior year safe harbor increases to:
- A. 100%
 - B. 90%
 - C. 110%
 - D. 120%
72. Form 1099-NEC must be provided to recipients by:
- A. January 31
 - B. February 15

- C. March 15
- D. April 15

73. Qualifying widow(er) status can be used for up to how many years after spouse's death?

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

74. The EITC is:

- A. Nonrefundable
- B. Refundable
- C. Partially refundable
- D. A tax credit against AMT

75. Investment income for EITC purposes is limited to approximately:

- A. \$11,600
- B. \$5,000
- C. \$20,000
- D. \$15,000

76. The maximum number of qualifying children for EITC is:

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

77. Social Security benefits become taxable for single filers when combined income exceeds:

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

78. Self-employment tax applies to net earnings of:

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

79. The self-employment tax deduction is:

- A. 25%
- B. 100%
- C. 50%
- D. 7.65%

80. Schedule C reports income from:

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

81. Schedule F reports:

- A. Foreign income
- B. Farm income
- C. Rental income
- D. Capital gains

82. NOL carryforwards are:

- A. Limited to 5 years
- B. Limited to 20 years
- C. Limited to 10 years
- D. Unlimited

83. NOL carryforwards can offset:

- A. 80% of taxable income
- B. 100% of taxable income
- C. 50% of taxable income
- D. 90% of taxable income

84. Luxury auto depreciation limits apply to vehicles weighing under:

- A. 10,000 pounds
- B. 14,000 pounds
- C. 6,000 pounds
- D. 8,000 pounds

85. Mid-quarter convention applies when more than what percentage is placed in service in Q4?

- A. 25%
- B. 50%
- C. 75%
- D. 40%

86. Qualified improvement property has a recovery period of:
- A. 39 years
 - B. 15 years
 - C. 27.5 years
 - D. 7 years
87. Section 1031 exchanges now apply only to:
- A. Real property
 - B. Personal property
 - C. Inventory
 - D. Securities
88. Replacement property in deferred exchanges must be identified within:
- A. 90 days
 - B. 180 days
 - C. 45 days
 - D. 365 days
89. Replacement property must be received within:
- A. 45 days
 - B. 90 days
 - C. 365 days
 - D. 180 days
90. Boot in a like-kind exchange is taxable to the extent of:
- A. Fair market value
 - B. Realized gain
 - C. Basis
 - D. Boot received
91. The wash sale rule applies to sales and repurchases within:
- A. 30 days before or after
 - B. 60 days
 - C. 61 days (30 before + 30 after + day of sale)
 - D. 90 days
92. Premium Tax Credit is reconciled on:
- A. Form 8962
 - B. Schedule A

- C. Form 8863
- D. Form 8995

93. To qualify for Premium Tax Credit, income must be between what percentage of poverty line?

- A. 50%–200%
- B. 100%–400%
- C. 138%–400%
- D. 80%–300%

94. The Saver's Credit maximum percentage is:

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

95. The Saver's Credit is available starting at age:

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

96. 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

97. Disaster loss deductions can be claimed:

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

98. Personal casualty losses require the loss to:

- A. Exceed 7.5% of AGI
- B. Occur in a federally declared disaster area
- C. Exceed \$5,000
- D. Be reported within 30 days

99. Each personal casualty loss is reduced by:

- A. 10% of AGI
- B. \$500
- C. \$100
- D. 7.5% of AGI

100. After the \$100 reduction, casualty losses must exceed:

- A. 10% of AGI
- B. 7.5% of AGI
- C. 2% of AGI
- D. 5% of AGI

Part 2: Businesses

1. A single-member LLC owned by an individual is treated by default as:

- A. An S corporation
- B. A partnership
- C. A disregarded entity
- D. A C corporation

2. Multi-member LLCs are treated by default as:

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

3. Partnerships file which form?

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

4. Partnership income is reported to partners on:

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

5. Guaranteed payments to partners are:

- A. Deductible by the partnership and taxable to partners
- B. Not taxable to partners

- C. Capital contributions
 - D. Distributions of profits
6. When property is contributed to a partnership, the partnership's basis is:
- A. Fair market value
 - B. Zero
 - C. Contributing partner's adjusted basis
 - D. Stepped-up basis
7. Partner basis increases for:
- A. Distributions received
 - B. Losses allocated
 - C. Capital withdrawals
 - D. Allocated income and share of liabilities
8. Partnership losses are limited to:
- A. \$3,000 per year
 - B. Partner's basis
 - C. 80% of income
 - D. Unlimited
9. Material participation requires more than:
- A. 100 hours
 - B. 750 hours
 - C. 500 hours
 - D. 1,000 hours
10. Section 1231 gain is generally treated as:
- A. Long-term capital gain
 - B. Ordinary income
 - C. Short-term capital gain
 - D. Tax-exempt
11. C corporations file:
- A. Form 1065
 - B. Schedule C
 - C. Form 1120-S
 - D. Form 1120
12. The C corporation tax rate is:

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

13. The dividends received deduction for less than 20% ownership is:

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

14. Corporate capital losses can only offset:

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

15. Corporate capital loss carryback period is:

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

16. Corporate charitable contributions are limited to:

- A. 60% of taxable income
- B. 10% of taxable income
- C. 30% of taxable income
- D. 50% of taxable income

17. Excess corporate charitable contributions carry forward:

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

18. S corporations file:

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

19. S corporations can have a maximum of:
- A. 75 shareholders
 - B. 50 shareholders
 - C. Unlimited shareholders
 - D. 100 shareholders
20. S corporation shareholders must be:
- A. Any entity
 - B. U.S. citizens or residents
 - C. Corporations or partnerships
 - D. Nonresident aliens allowed
21. S corporations can have:
- A. One class of stock
 - B. Two classes of stock
 - C. Unlimited classes
 - D. Common and preferred stock
22. The built-in gains tax applies for:
- A. 10 years
 - B. 7 years
 - C. 5 years
 - D. 3 years
23. The built-in gains tax rate is:
- A. 35%
 - B. 21%
 - C. 28%
 - D. 15%
24. S corporation distributions first come from:
- A. Earnings and profits
 - B. Paid-in capital
 - C. Retained earnings
 - D. Accumulated Adjustments Account
25. The S election requires consent from:
- A. Majority shareholders
 - B. 80% of shareholders

- C. All shareholders
- D. Officers only

26. S corporation shareholder basis increases by:

- A. Income allocated
- B. Distributions received
- C. Losses allocated
- D. Non-deductible expenses

27. S corporation losses are limited to:

- A. \$3,000 per year
- B. Unlimited
- C. 80% of income
- D. Stock basis plus debt basis

28. S election is made on:

- A. Form 1120-S
- B. Form 2553
- C. Form 8832
- D. Form SS-4

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

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

30. LIFO assumes:

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

31. Business interest expense is limited to 30% of ATI plus:

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

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

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

33. Section 179 cannot exceed:

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

34. Section 179 phases out when purchases exceed:

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

35. MACRS uses what convention for personal property?

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

36. Real property uses:

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

37. Nonresidential real property is depreciated over:

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

38. Qualified improvement property is depreciated over:

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

39. Startup costs up to \$5,000 can be deducted, but reduce when total costs exceed:
- A. \$10,000
 - B. \$25,000
 - C. \$50,000
 - D. \$100,000
40. Excess startup costs are amortized over:
- A. 60 months
 - B. 180 months
 - C. 15 years
 - D. 10 years
41. Organizational costs receive the same treatment as:
- A. Depreciation
 - B. Section 179
 - C. Bonus depreciation
 - D. Startup costs
42. Business meals are deductible at:
- A. 50%
 - B. 100%
 - C. 80%
 - D. 0%
43. Entertainment expenses are:
- A. 50% deductible
 - B. 100% deductible
 - C. Not deductible
 - D. 25% deductible
44. Employer FICA taxes are:
- A. Not deductible
 - B. Deductible
 - C. 50% deductible
 - D. Credited against income tax
45. FUTA tax applies to the first:
- A. \$7,000 of wages
 - B. \$42,000 of wages

- C. \$168,600 of wages
- D. \$10,000 of wages

46. The effective FUTA rate is:

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

47. Form W-2 must be provided by:

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

48. Form 941 is filed:

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

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

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

50. Form 940 reports:

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

51. Independent contractors receive:

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

52. Behavioral control examines:

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

53. The trust fund recovery penalty applies to:

- A. All employment taxes
- B. Only FUTA
- C. Only employer's portion
- D. Withheld income tax and employee FICA

54. 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

55. Rental real estate income is reported on:

- A. Schedule D
- B. Schedule E
- C. Form 4797
- D. Schedule C

56. Rental activities are passive unless the taxpayer is a:

- A. Corporation
- B. Partnership
- C. Real estate professional
- D. High-income earner

57. Real estate professional status requires more than:

- A. 750 hours
- B. 500 hours
- C. 1,000 hours
- D. 250 hours

58. The \$25,000 rental loss allowance requires:

- A. Material participation
- B. Passive participation
- C. Real estate professional status
- D. Active participation

59. The \$25,000 allowance phases out between:
- A. \$50,000–\$75,000
 - B. \$100,000–\$150,000
 - C. \$75,000–\$100,000
 - D. \$150,000–\$200,000
60. Security deposits that must be returned are:
- A. Taxable when received
 - B. 50% taxable
 - C. Not taxable when received
 - D. Deductible by landlord
61. Repairs to rental property are:
- A. Capitalized
 - B. Amortized over 15 years
 - C. Not deductible
 - D. Deductible when paid
62. Improvements to rental property must be:
- A. Capitalized and depreciated
 - B. Expensed immediately
 - C. Deducted over 5 years
 - D. Not deducted
63. Like-kind exchanges apply only to:
- A. Personal property
 - B. Real property
 - C. Inventory
 - D. Securities
64. Boot in a like-kind exchange is taxable to the extent of:
- A. Always fully taxable
 - B. Always tax-free
 - C. Realized gain
 - D. Not recognized
65. Replacement property must be identified within:
- A. 45 days
 - B. 90 days

- C. 180 days
- D. 365 days

66. Replacement property must be received within:

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

67. Section 704(c) requires tracking:

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

68. Special allocations must have:

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

69. Passive losses can offset:

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

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

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

71. Tax-exempt organizations apply for exemption using:

- A. Form 990
- B. Form 1024
- 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. UBIT applies when UBI exceeds:

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

74. For income to be UBI, it must be:

- A. Related to exempt purpose
- B. Occasional
- C. From volunteers
- D. Not substantially related to exempt purpose

75. Form 990 is filed by:

- A. C corporations
- B. Partnerships
- C. Most tax-exempt organizations
- D. S corporations

76. The accumulated earnings tax rate is:

- A. 21%
- B. 20%
- C. 35%
- D. 15%

77. Under cash method, income is recognized when:

- A. Earned
- B. Invoiced
- C. Paid
- D. Received

78. Under accrual method, expenses are deductible when:

- A. All events occurred and economic performance occurred
- B. Paid
- C. Invoiced
- D. Budgeted

79. Economic performance for services 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. Shareholder approval
 - B. IRS consent
 - C. State approval
 - D. No approval
81. Section 481 adjustments prevent:
- A. Duplication or omission of income
 - B. Tax evasion
 - C. Double taxation
 - D. Penalties
82. Farmers can use cash method:
- A. Never
 - B. Only if receipts under \$1 million
 - C. Only with IRS permission
 - D. Regardless of gross receipts
83. Farm income averaging is over:
- A. 2 years
 - B. 5 years
 - C. 3 years
 - D. 10 years
84. Prepaid farm supplies are deductible if they don't exceed:
- A. \$1,000
 - B. 50% of other farm expenses
 - C. \$10,000
 - D. 100% of farm income
85. Inventory must be capitalized for businesses exceeding:
- A. \$1 million
 - B. \$10 million

- C. \$50 million
- D. \$27 million

86. UNICAP rules require capitalizing:

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

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

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

88. Section 1245 recapture applies to:

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

89. Section 1250 recapture applies to:

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

90. Unrecaptured Section 1250 gain is taxed at:

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

91. Installment sale reporting applies to:

- A. Dealer sales
- B. Sales with inventory
- C. Sales where payments received after year of sale
- D. Real estate only

92. The gross profit percentage equals:

- 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

93. Related party installment sales have rules if property resold within:

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

94. Depreciation recapture on installment sales is recognized:

- A. In the year of sale
- B. Proportionately as payments received
- C. When final payment received
- D. Over 5 years

95. Partnership allocations must have:

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

96. Partner outside basis equals contributions plus income minus:

- A. All partnership liabilities
- B. Guaranteed payments
- C. Distributions and losses
- D. Draws only

97. S corporation debt basis is created by:

- A. Direct shareholder loans to corporation
- B. All corporate liabilities
- C. Guarantees
- D. Allocated liabilities

98. S corporation losses exceeding basis are:

- A. Lost permanently
- B. Deductible against other income
- C. Converted to capital losses
- D. Suspended and carried forward

99. One class of stock means identical rights to:
- A. Voting only
 - B. Management
 - C. Distribution and liquidation proceeds
 - D. Transfer
100. Additional Medicare Tax withholding begins when individual wages exceed:
- A. \$125,000
 - B. \$200,000
 - C. \$250,000
 - D. D. \$300,000

Part 3: Representation, Practices, And Procedures

1. Which of the following have unlimited practice rights?
 - A. Enrolled agents only
 - B. Enrolled agents, attorneys, and CPAs
 - C. Attorneys only
 - D. All tax preparers

2. Unenrolled preparers can represent clients:
 - A. Before Appeals
 - B. In Tax Court
 - C. For returns they prepared before revenue agents
 - D. In any IRS proceeding

3. Circular 230 requires practitioners to exercise:
 - A. Perfection in all work
 - B. Minimal effort
 - C. Reasonable care
 - D. Due diligence

4. Practitioners must inform clients of noncompliance and:
 - A. Immediately notify the IRS
 - B. Not required to notify IRS
 - C. Notify within 30 days
 - D. Notify within 60 days

5. Contingent fees are permitted for:

- A. Preparing original returns
 - B. All services
 - C. Services related to IRS examinations
 - D. Initial consultations only
6. Written tax advice must:
- A. Be at least 10 pages
 - B. Guarantee outcomes
 - C. Include disclaimers
 - D. Relate law to facts
7. Circular 230 sanctions include:
- A. Imprisonment
 - B. Censure, suspension, and disbarment
 - C. Fines only
 - D. License revocation only
8. Disbarment is:
- A. For 5 years
 - B. Temporary
 - C. Permanent unless reinstated
 - D. Automatically reversed after 10 years
9. Giving false information to the IRS is:
- A. Permitted if unintentional
 - B. Subject to warning only
 - C. Not addressed in Circular 230
 - D. Disreputable conduct
10. The tax practitioner privilege applies to:
- A. Tax advice communications
 - B. All communications
 - C. Return preparation
 - D. Criminal matters
11. The tax practitioner privilege does NOT apply in:
- A. IRS audits
 - B. Criminal proceedings
 - C. Appeals
 - D. Collection matters

12. Form 2848 authorizes:
 - A. Information access only
 - B. Return preparation only
 - C. Representation
 - D. Signing returns only

13. Form 8821 authorizes:
 - A. Information access only
 - B. Representation
 - C. Signing returns
 - D. Appeals representation

14. Form 2848 automatically revokes prior powers unless:
 - A. IRS approves
 - B. Both representatives agree
 - C. Taxpayer notifies all parties
 - D. Retention box is checked

15. Form 2848 must be signed within:
 - A. 90 days
 - B. 60 days
 - C. 30 days
 - D. 120 days

16. The Wage & Investment Division serves:
 - A. Large corporations
 - B. Small businesses
 - C. Individual taxpayers
 - D. Tax-exempt organizations

17. The SB/SE Division handles:
 - A. Large corporations
 - B. Individual returns only
 - C. International matters
 - D. Small businesses and self-employed

18. TAS assists taxpayers experiencing:
 - A. Economic hardship or systemic problems
 - B. Simple questions

- C. Routine processing
- D. Any tax issue

19. To request TAS assistance, file:

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

20. Correspondence audits are conducted through:

- A. Phone
- B. In-person meetings
- C. Mail
- D. Email

21. Office audits are conducted at:

- A. IRS offices
- B. Taxpayer's home
- C. Representative's office
- D. Tax Court

22. Field audits are conducted at:

- A. IRS offices
- B. Tax Court
- C. Appeals offices
- D. Taxpayer's place of business

23. The DIF system selects returns based on:

- A. Random selection
- B. Alphabetical order
- C. Statistical analysis
- D. State of residence

24. The general assessment statute is:

- A. 10 years
- B. 3 years
- C. 6 years
- D. 5 years

25. The assessment statute extends to 6 years when gross income omission exceeds:

- A. 10%
- B. 50%
- C. 75%
- D. 25%

26. There is no assessment statute when:

- A. No return is filed
- B. Return shows refund
- C. Taxpayer out of country
- D. Taxpayer has low income

27. The collection statute is:

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

28. Assessment statute can be extended by signing:

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

29. A notice of deficiency gives:

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

30. Small case appeals apply when amounts are:

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

31. Formal written protests are required exceeding:

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

32. CDP hearings must be requested within:
- A. 60 days
 - B. 30 days
 - C. 90 days
 - D. 15 days
33. CDP determinations can be appealed to:
- A. District Court
 - B. Claims Court
 - C. Appeals
 - D. Tax Court
34. Liens arise when tax is assessed and:
- A. Remains unpaid after notice and demand
 - B. IRS files notice
 - C. Collection begins
 - D. Taxpayer is notified
35. Lien withdrawal removes the notice:
- A. Temporarily
 - B. As if never filed
 - C. After 10 years
 - D. Only from credit reports
36. Levies require Final Notice at least:
- A. 10 days before
 - B. 60 days before
 - C. 30 days before
 - D. 90 days before
37. Bank levies require holding funds for:
- A. 21 days
 - B. 10 days
 - C. 30 days
 - D. 45 days
38. Guaranteed installment agreements are for balances up to:
- A. \$25,000
 - B. \$50,000

- C. \$100,000
- D. \$10,000

39. Streamlined installment agreements for individuals allow up to:

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

40. Offers in compromise are based on:

- A. Taxpayer request
- B. IRS discretion
- C. Reasonable collection potential
- D. Ability to pay

41. RCP equals assets plus:

- A. Current liabilities
- B. Gross income
- C. Total assets
- D. Future income

42. CNC status applies when:

- A. Collection creates economic hardship
- B. Taxpayer refuses to pay
- C. Liability is disputed
- D. Taxpayer files bankruptcy

43. Failure to file penalty is:

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

44. Maximum failure to file penalty is:

- A. 47.5%
- B. 25%
- C. 50%
- D. 10%

45. Failure to pay penalty is:

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

46. Minimum penalty for returns over 60 days late is lesser of \$485 or:

- A. \$1,000
- B. 25% of tax
- C. 50% of tax
- D. 100% of tax

47. Accuracy-related penalty is:

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

48. Substantial understatement for individuals exceeds the greater of 10% or:

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

49. Civil fraud penalty is:

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

50. Willful preparer penalty is greater of \$5,000 or:

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

51. Due diligence penalties are:

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

52. Interest on underpayments is federal short-term rate plus:
- A. 2 percentage points
 - B. 5 percentage points
 - C. 3 percentage points
 - D. 1 percentage point
53. Interest compounds:
- A. Monthly
 - B. Quarterly
 - C. Annually
 - D. Daily
54. Interest suspension applies to:
- A. Income tax only
 - B. All taxes
 - C. Employment taxes
 - D. Estate taxes
55. Refund claims must be filed within later of 3 years from filing or:
- A. 1 year from payment
 - B. 4 years from payment
 - C. 2 years from payment
 - D. 3 years from payment
56. Tax Court jurisdiction requires petition within:
- A. 60 days
 - B. 90 days of notice of deficiency
 - C. 30 days
 - D. 120 days
57. Enrolled agents can represent in Tax Court for amounts up to:
- A. \$50,000
 - B. \$25,000
 - C. \$100,000
 - D. Any amount
58. Small Tax Court cases involve amounts up to:
- A. \$25,000
 - B. \$100,000

- C. \$75,000
- D. \$50,000

59. Small Tax Court decisions are:

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

60. Unauthorized disclosure by IRS employees can result in imprisonment up to:

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

61. Innocent spouse relief must be requested within:

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

62. Traditional innocent spouse relief requires:

- A. Did not know of understatement
- B. Be divorced
- C. Have low income
- D. Be separated

63. Separation of liability is available to spouses who are:

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

64. The OPR administers:

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

65. Closing agreements can be reopened for:

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

66. Estate tax applies when gross estate exceeds:

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

67. The estate tax rate is:

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

68. The annual gift tax exclusion for 2024 is:

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

69. Form 8275 protects against:

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

70. The Taxpayer Bill of Rights includes:

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

71. Assessment for self-assessed tax occurs when:

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

72. Levy exemptions include:
- A. All property
 - B. Vacation homes
 - C. Certain wages for basic living
 - D. Investment accounts
73. Streamlined innocent spouse relief requires separation for:
- A. 6 months
 - B. 24 months
 - C. 18 months
 - D. 12 months
74. Enrolled agents must complete how many CPE hours every 3 years?
- A. 72 hours
 - B. 60 hours
 - C. 90 hours
 - D. 40 hours
75. Tax practitioner privilege does NOT apply to:
- A. Audit representation
 - B. Tax advice
 - C. Tax return preparation
 - D. Appeals
76. Fast Track Settlement is available during:
- A. Collection
 - B. Examination
 - C. Tax Court
 - D. Appeals
77. Form 1099-NEC must be provided by:
- A. February 15
 - B. March 15
 - C. April 15
 - D. January 31
78. Refund statute for returns filed before due date is deemed filed on:
- A. Original due date
 - B. Actual filing date

- C. Extended due date
- D. January 1

79. Amended returns must be filed within:

- A. 90 days
- B. Refund statute period
- C. 1 year
- D. 6 months

80. Tax practitioner privilege applies to:

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

81. Alternative dispute resolution includes:

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

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

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

83. Trust fund recovery penalty is assessed against:

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

84. Material participation requires exceeding:

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

85. Real estate professional status requires:

- A. A license
- B. Ownership of property
- C. Material participation
- D. More than 750 hours and 50% of services

86. The \$25,000 rental allowance phases out between:

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

87. Prepaid expenses under cash method can be deducted if benefit doesn't extend beyond:

- A. 6 months
- B. 24 months
- C. 12 months after first benefit date
- D. Current year

88. Section 481 adjustments for positive adjustments are over:

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

89. Hobby loss presumption applies with profit in 3 of last:

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

90. Work Opportunity Tax Credit is for hiring:

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

91. Research credit is based on increases in:

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

92. Section 1245 property includes:
- A. Buildings
 - B. Personal property
 - C. Land
 - D. Inventory
93. Section 1250 property includes:
- A. Personal property
 - B. Inventory
 - C. Securities
 - D. Real property
94. Wash sale rule applies within:
- A. 61 days
 - B. 30 days
 - C. 90 days
 - D. 180 days
95. Constructive receipt means income is:
- A. an received
 - B. Available without substantial restriction
 - C. Earned
 - D. Invoiced
96. All events test requires events occurred, amount determinable, and:
- A. Payment made
 - B. Invoice sent
 - C. Economic performance occurred
 - D. Contract signed
97. UBI must be regularly carried on and:
- A. Not substantially related to exempt purpose
 - B. Related to exempt purpose
 - C. Occasional
 - D. From volunteers
98. Form 990-N is for organizations with receipts of:
- A. \$1 million or less
 - B. \$200,000 or less

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

99. Private inurement means earnings inure to:

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

100. Section 6103 protects:

- A. Practitioner work papers
- B. IRS employee information
- C. Tax return information
- D. Court records

Answer Explanations - Practice Test 3

Part 1: Individuals

1. Correct Answer: D (\$29,200)

The standard deduction for married filing jointly taxpayers in 2024 where both spouses are under 65 is \$29,200. This amount increases by \$1,850 for each spouse who is 65 or older or blind. The standard deduction is adjusted annually for inflation and varies by filing status—single filers receive \$14,600, head of household \$21,900, and married filing separately \$14,600.

2. Correct Answer: B (24)

A dependent who is a full-time student can be claimed as a qualifying child until age 24. Non-students must be under age 19. Permanently and totally disabled individuals can be claimed as qualifying children at any age. The age test, combined with relationship, residency, support, and joint return tests, determines qualifying child status.

3. Correct Answer: A (Head of Household)

Head of Household filing status generally provides the most favorable tax rates and standard deduction after married filing jointly. For 2024, HOH standard deduction is \$21,900 compared to \$14,600 for single filers. HOH tax brackets are also more favorable than single or married filing separately. Qualifying widow(er) provides MFJ rates but is temporary.

4. Correct Answer: C (Not taxable)

Child support payments received are not taxable income to the recipient and are not deductible by the payer. This treatment applies regardless of the amount or when the divorce occurred. Child support is distinguished from alimony (which may be taxable/deductible depending on divorce date) and represents support for children, not the ex-spouse.

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

For 2024, the maximum combined contribution to traditional and Roth IRAs for taxpayers under age 50 is \$7,000 total across both account types. Taxpayers age 50 and older can contribute an additional \$1,000 catch-up contribution for a total of \$8,000. The limit applies to the combined total of all IRA contributions, not separately to each type.

6. Correct Answer: B (Subject to income tax plus 20% penalty)

HSA distributions used for non-qualified expenses before age 65 are subject to regular income tax plus a 20% penalty. After age 65, non-qualified distributions are subject only to income tax without penalty (similar to traditional IRA treatment). Qualified medical expense distributions are always tax-free regardless of age.

7. Correct Answer: C (\$5 per square foot up to 300 square feet)

The simplified home office deduction method allows \$5 per square foot up to a maximum of 300 square feet, providing a maximum deduction of \$1,500. This method is easier than calculating actual expenses but often produces a lower deduction. Taxpayers can choose either method each year to maximize their deduction.

8. Correct Answer: A (\$600)

For 2024, businesses must issue Form 1099-NEC to independent contractors for nonemployee compensation of \$600 or more during the year. This threshold has remained \$600 for many years. The form must be provided to recipients and filed with the IRS by January 31, helping the IRS track income for self-employed individuals.

9. Correct Answer: B (\$1,950)

The additional standard deduction for taxpayers who are 65 or older and single (or head of household) is \$1,950 for 2024. For married taxpayers, the additional amount is \$1,850 per qualifying spouse. Blind taxpayers receive the same additional amount as those 65 or older, and taxpayers who are both 65+ and blind receive double the additional amount.

10. Correct Answer: D (Neither deductible nor taxable)

Alimony payments under divorce decrees finalized in 2020 (after December 31, 2018) are neither deductible by the payer nor taxable to the recipient under the Tax Cuts and Jobs Act rules. Only divorces finalized before 2019 follow the old rules where alimony is deductible and taxable. The new rules significantly changed alimony taxation.

11. Correct Answer: A (\$16,810)

The maximum exclusion for employer-provided adoption assistance for 2024 is approximately \$16,810 per child. This amount is adjusted annually for inflation. The exclusion phases out for employees with modified AGI beginning around \$252,150. Employer-provided adoption assistance covers reasonable adoption fees, court costs, attorney fees, and travel expenses.

12. Correct Answer: C (20%)

Long-term capital gain tax rates are 0%, 15%, and 20% depending on the taxpayer's income level. The 0% rate applies to taxpayers in the 10%-12% ordinary income brackets, 15% for those in the 22%-35% brackets, and 20% for those in the 37% bracket. These preferential rates encourage long-term investment.

13. Correct Answer: B (A wash sale with loss disallowed)

When a taxpayer sells stock at a loss and repurchases substantially identical stock within 30 days before or after the sale (61-day window), the wash sale rule disallows the loss. The disallowed loss is added to the basis of the replacement stock, preserving it for future recognition. This rule prevents taxpayers from recognizing tax losses while maintaining investment positions.

14. Correct Answer: D (Exempt from the 10% penalty but taxable)

Traditional IRA distributions before age 59½ for qualified higher education expenses are exempt from the 10% early withdrawal penalty but remain subject to regular income tax. Other penalty exceptions include first-time home purchase (\$10,000 lifetime), medical expenses exceeding 7.5% of AGI, disability, death, and substantially equal periodic payments.

15. Correct Answer: A (35%)

The maximum Child and Dependent Care Credit percentage is 35% of qualifying expenses for taxpayers with the lowest AGI. The percentage decreases to 20% as AGI increases above \$43,000. For one qualifying individual, maximum expenses are \$3,000; for two or more, \$6,000. The credit helps offset childcare costs necessary for employment.

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

For 2024, the Child Tax Credit 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 married filing jointly taxpayers with AGI exceeding \$400,000 (\$200,000 for other filing statuses). Children who don't qualify may be eligible for the \$500 Credit for Other Dependents.

17. Correct Answer: D (Pay over half the cost of maintaining the home)

To claim Head of Household status, the taxpayer must pay over half the cost of maintaining a home for the year that is the principal residence of a qualifying person for more than half the year. The taxpayer must also be unmarried or considered unmarried. Qualifying persons typically include children, parents (who don't need to live with the taxpayer), or other qualifying relatives.

18. Correct Answer: B (\$1,700)

The Additional Child Tax Credit maximum refundable amount for 2024 is \$1,700 per qualifying child. This is the refundable portion of the \$2,000 Child Tax Credit. The refundable amount equals the lesser of unused CTC or 15% of earned income exceeding \$2,500. This refundability makes the credit valuable for lower-income working families.

19. Correct Answer: C (\$2,000 per year)

Contributions to a Coverdell Education Savings Account are limited to \$2,000 per year per beneficiary. Contributions are not deductible but grow tax-free, and distributions for qualified education expenses are tax-free. The contribution limit phases out at higher income levels. Unlike 529 plans, Coverdell ESAs can be used for K-12 expenses without limits.

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

The American Opportunity Tax Credit provides a maximum credit of \$2,500 per eligible student for qualified education expenses during the first four years of post-secondary education. The credit equals

100% of the first \$2,000 of expenses plus 25% of the next \$2,000. Up to \$1,000 (40%) is refundable, making AOTC particularly valuable.

21. Correct Answer: D (Reinvested dividends)

Reinvested dividends increase basis in stock because the taxpayer pays tax on the dividends and uses after-tax dollars to purchase additional shares. Cash dividends don't increase basis—they're taxable income. Stock dividends and stock splits generally don't increase basis because the same investment is divided into more shares. Return of capital reduces basis.

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

The Social Security wage base for 2024 is \$168,600. Social Security tax (6.2% employee + 6.2% employer = 12.4% total) applies only to wages up to this amount. Medicare tax (1.45% employee + 1.45% employer = 2.9% total) applies to all wages with no cap. The wage base is adjusted annually for wage inflation.

23. Correct Answer: A (92.35% of net profit)

Self-employment income subject to self-employment tax is calculated as 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 tax.

24. Correct Answer: C (\$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 contributions don't count toward this limit. Participants age 50 and older can contribute an additional \$7,500 catch-up contribution for a total of \$30,500.

25. Correct Answer: B (\$69,000)

SEP IRA contributions by an employer are limited to the lesser of 25% of compensation or \$69,000 for 2024. For self-employed individuals, the effective rate is about 20% of net self-employment income after the self-employment tax deduction. SEPs are employer-funded only—no employee contributions are permitted. SEPs provide simple retirement plan options for small businesses.

26. Correct Answer: D (\$3,500)

SIMPLE IRA catch-up contributions for those age 50 and older are \$3,500 for 2024. Combined with the regular \$16,000 limit, participants 50+ can contribute up to \$19,500. SIMPLE IRAs are available to employers with 100 or fewer employees and provide simplified administration compared to 401(k) plans.

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

Roth IRA contributions for single filers in 2024 begin phasing out at \$146,000 modified AGI, with complete phase-out at \$161,000. The \$15,000 phase-out range proportionally reduces the maximum

contribution. For married filing jointly, the phase-out range is \$230,000-\$240,000. Above the phase-out range, taxpayers cannot contribute directly to Roth IRAs.

28. Correct Answer: A (\$2,000)

The Saver's Credit maximum contribution amount considered per person is \$2,000. The credit equals 10%, 20%, or 50% of qualifying retirement contributions depending on AGI. The maximum credit is therefore \$1,000 (50% × \$2,000). The credit is available to taxpayers age 18+, not full-time students, and not claimed as dependents.

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

The Lifetime Learning Credit is calculated as 20% of qualified education expenses up to \$10,000, providing a maximum credit of \$2,000 per tax return (not per student). Unlike the American Opportunity Tax Credit, the LLC has no limit on years it can be claimed and applies to undergraduate, graduate, and professional degree courses.

30. Correct Answer: B (\$105,000)

Qualified charitable distributions from IRAs can total up to \$105,000 per year for 2024 (adjusted for inflation). QCDs allow taxpayers age 70½ or older to donate directly from IRAs to qualified charities, excluding the distribution from income while satisfying RMD requirements. Married couples can each make QCDs up to the limit.

31. Correct Answer: A (\$500,000)

The Section 121 home sale exclusion for married filing jointly is \$500,000 of gain. Single taxpayers can exclude up to \$250,000. To qualify, taxpayers must have owned and used the home as a principal residence for at least 2 of the 5 years before sale. The exclusion can generally be used every 2 years.

32. Correct Answer: C (2 of 5 years)

To qualify for the Section 121 exclusion, taxpayers must meet ownership and use requirements of at least 2 years during the 5-year period ending on the sale date. The 2 years don't need to be consecutive. Both ownership and use tests must be met. This "2-out-of-5" rule provides flexibility for taxpayers who move before selling.

33. Correct Answer: D (3.8%)

Net Investment Income Tax (NIIT) applies at a rate of 3.8% on the lesser of net investment income or modified AGI exceeding threshold amounts (\$200,000 single, \$250,000 MFJ, \$125,000 MFS). NIIT was enacted as part of the Affordable Care Act and applies to interest, dividends, capital gains, rents, royalties, and passive business income.

34. Correct Answer: B (\$200,000)

NIIT applies to single filers with modified AGI exceeding \$200,000. For married filing jointly, the threshold is \$250,000; for married filing separately, \$125,000. The tax equals 3.8% times the lesser of net investment income or the amount by which MAGI exceeds the threshold. This additional tax can significantly impact high-income investors.

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

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

36. Correct Answer: A (67 cents per mile)

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

37. Correct Answer: B (60%)

Bonus depreciation for property placed in service in 2024 is 60%. It was 100% through 2022, then began phasing down by 20% per year: 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 new and used qualifying property.

38. Correct Answer: D (27.5 years)

Residential rental property is depreciated over 27.5 years using the straight-line method and mid-month convention. This includes apartments, single-family rentals, and buildings where 80% or more of gross rental income comes from dwelling units. Only the building and improvements are depreciable—land is not depreciable.

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 (60%)

Cash contributions to public charities are limited to 60% of AGI for 2024. This limit applies to cash donations to churches, educational organizations, hospitals, and publicly supported charities.

Contributions exceeding the limit carry forward for 5 years. Appreciated capital gain property donated to public charities is limited to 30% of AGI.

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

Contributions of appreciated long-term capital gain property to public charities are limited to 30% of AGI. If the taxpayer takes the full fair market value deduction, the 30% limit applies. Alternatively, the taxpayer can elect to deduct basis only and use the 60% limit. Excess contributions carry forward 5 years.

42. 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 contribution amount, whether goods or services were provided in exchange, and estimated value of any benefits received. "Contemporaneous" means obtained by the tax return due date or filing date, whichever is earlier.

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

The state and local tax (SALT) deduction is capped at \$10,000 (\$5,000 if married filing separately). This limit includes state income taxes (or sales taxes if elected), real estate taxes, and personal property taxes combined. The TCJA limitation significantly reduced deductions for taxpayers in high-tax states and is scheduled to expire after 2025.

44. Correct Answer: A (\$750,000)

Mortgage interest is deductible on acquisition debt 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.

45. Correct Answer: B (7.5% of AGI)

Medical expenses are deductible 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%. Qualified medical expenses include diagnosis, treatment, prevention, and insurance premiums.

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

The kiddie tax applies to 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 of their support. The kiddie tax taxes unearned income over \$2,600 at the parent's marginal tax rate, preventing income-shifting strategies that could reduce family tax liability.

47. Correct Answer: A (\$85,700)

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

48. 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 that taxpayers with substantial deductions and preferences pay at least a minimum amount of tax.

49. Correct Answer: D (28%)

Collectibles (art, antiques, coins, gems, precious metals, stamps, alcoholic beverages) 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 and ensures collectibles don't receive the most favorable capital gains treatment.

50. Correct Answer: B (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.

51. Correct Answer: C (\$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 U.S.-source income.

52. Correct Answer: A (330 days in a 12-month period)

The physical presence test for foreign earned income exclusion 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.

53. Correct Answer: B (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.

54. Correct Answer: D (5 years)

A Roth IRA qualified distribution 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.

55. 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. Numerous exceptions exist including disability, death, first-time home purchase (\$10,000 lifetime), higher education expenses, medical expenses exceeding 7.5% of AGI, and substantially equal periodic payments.

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

The first-time homebuyer IRA exception allows 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.

57. Correct Answer: D (70½)

Qualified charitable distributions (QCDs) from IRAs can begin at age 70½. Taxpayers don't need to act 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.

58. Correct Answer: B (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.

59. Correct Answer: A (\$191,950)

For single filers, Section 199A SSTB (specified service trades or businesses) phase-out begins at \$191,950 taxable income for 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 reputation or skill of employees.

60. Correct Answer: C (\$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.

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

HSA catch-up contributions for those age 55 and older are \$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. Unlike retirement account catch-ups (which begin at 50), HSA catch-ups begin at 55.

62. Correct Answer: D (\$2,500)

The maximum student loan interest deduction is \$2,500 per year, regardless of how much interest is 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).

63. Correct Answer: C (\$80,000)

The student loan interest deduction phase-out for single filers begins at \$80,000 modified AGI and completes at \$95,000. For married filing jointly, the phase-out range is \$165,000-\$195,000. The phase-out is proportional over the range. Above the phase-out range, the deduction is not available.

64. Correct Answer: A (\$300)

The educator expense deduction allows eligible educators to deduct up to \$300 for unreimbursed classroom expenses in 2024. Qualified expenses include books, supplies, equipment, software, and professional development courses. An educator is a teacher, instructor, counselor, principal, or aide who works at least 900 hours during the school year in elementary or secondary education.

65. Correct Answer: D (\$600)

For married educators where both spouses qualify, 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 taxpayers itemize.

66. Correct Answer: B (\$10,000 per year)

529 plan distributions for K-12 tuition are limited to \$10,000 per year per student. This provision was added by the Tax Cuts and Jobs Act 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.

67. Correct Answer: A (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.

68. Correct Answer: C (\$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.

69. Correct Answer: B (\$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%/110% of prior year tax.

70. Correct Answer: D (100%)

The safe harbor percentage for avoiding estimated tax penalties using prior year tax is 100% of prior year tax (110% if prior year AGI exceeded \$150,000). Meeting this safe harbor avoids underpayment penalties even if the taxpayer owes tax when filing. The alternative safe harbor is 90% of current year tax.

71. 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 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 level.

72. 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 some 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.

73. Correct Answer: D (2 years)

Qualifying widow(er) status can be used 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. This status provides beneficial MFJ rates during the adjustment period.

74. Correct Answer: B (Refundable)

The Earned Income Tax Credit (EITC) 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 that supplements earnings for working families.

75. Correct Answer: A (\$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.

76. Correct Answer: C (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.

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

Social Security benefits become taxable for single filers when combined income (AGI + nontaxable interest + $\frac{1}{2}$ Social Security) exceeds \$25,000. Between \$25,000 and \$34,000, up to 50% of benefits are taxable. Above \$34,000, up to 85% are taxable. For married filing jointly, the thresholds are \$32,000 and \$44,000. These thresholds aren't indexed for inflation.

78. Correct Answer: B (\$400 or more)

Self-employment tax applies to net self-employment earnings of \$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.

79. Correct Answer: C (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.

80. Correct Answer: A (Sole proprietorships)

Schedule C reports income and expenses from sole proprietorships. Net profit or loss from Schedule C flows to Form 1040, Line 8. The net profit is also subject to self-employment tax calculated on Schedule SE. Schedule E reports rental and passive income, Schedule D reports capital gains, and Schedule F reports farm income.

81. Correct Answer: B (Farm income)

Schedule F, Profit or Loss from Farming, reports 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.

82. Correct Answer: D (Unlimited)

Net operating losses (NOLs) can be carried forward indefinitely under current law. The Tax Cuts and Jobs Act 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 carryforward years.

83. Correct Answer: A (80% of taxable income)

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.

84. Correct Answer: C (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.

85. Correct Answer: D (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.

86. Correct Answer: B (15 years)

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

87. Correct Answer: A (Real property)

Section 1031 like-kind exchanges 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.

88. Correct Answer: C (45 days)

In deferred like-kind exchanges, 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.

89. Correct Answer: D (180 days)

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.

90. Correct Answer: B (Realized gain)

Boot 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.

91. Correct Answer: C (61 days: 30 before + 30 after + day of sale)

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 replacement securities. This prevents taxpayers from recognizing tax losses while maintaining investment positions.

92. Correct Answer: A (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.

93. Correct Answer: B (100%-400%)

To qualify 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.

94. Correct Answer: D (50%)

The Saver's Credit maximum percentage is 50% of qualifying 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. The maximum credit is \$1,000 ($50\% \times \$2,000$).

95. Correct Answer: A (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.

96. Correct Answer: C (Qualified higher education expenses)

529 plans (qualified tuition programs) 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 TCJA added K-12 tuition (up to \$10,000 per year), and the SECURE Act added apprenticeship programs and student loan repayments.

97. Correct Answer: D (In year of disaster or 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.

98. Correct Answer: B (Occur in a federally declared disaster area)

Under the Tax Cuts and Jobs Act, personal casualty losses are deductible only if the loss occurs in a federally declared disaster area. Casualty losses for business or investment property remain fully deductible. The loss must exceed \$100 per casualty, and the total net casualty loss must exceed 10% of AGI.

99. Correct Answer: C (\$100)

Each personal casualty loss is reduced by \$100 before aggregating total casualty losses for the year. After applying the \$100 reduction to each casualty, the total net casualty loss is deductible only to the extent it exceeds 10% of AGI. These thresholds ensure that only significant losses result in deductions.

100. Correct Answer: A (10% of AGI)

After the \$100 per casualty reduction, personal casualty losses are deductible only to the extent the total exceeds 10% of AGI. For example, with a \$20,000 casualty loss and \$100,000 AGI: $\$20,000 - \$100 = \$19,900$; $\$19,900 - (10\% \times \$100,000) = \$19,900 - \$10,000 = \$9,900$ deductible.

Part 2: Businesses

1. Correct Answer: C (A disregarded entity)

A single-member LLC owned by an individual is treated by default as a disregarded entity for federal tax purposes unless it elects corporate treatment. The LLC's income and expenses are reported directly on the owner's Schedule C (if a business) or Schedule E (if rental property). The LLC provides liability protection but has no separate tax existence.

2. Correct Answer: A (Partnerships)

Multi-member LLCs are treated by default 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 appropriate forms.

3. Correct Answer: B (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 allocated share on their individual or entity tax returns.

4. 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. Partners use their K-1 to report partnership items on their own tax returns, maintaining the pass-through character of various income and deduction types.

5. Correct Answer: A (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 acquisitions) 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.

6. 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.

7. Correct Answer: D (Allocated income and share of liabilities)

Partner basis increases for allocated income (both separately stated and non-separately stated items), tax-exempt income, and increases in 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.

8. 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. Losses exceeding basis are suspended and carry forward indefinitely, becoming deductible when basis increases from future income or additional contributions.

9. Correct Answer: C (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.

10. Correct Answer: A (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.

11. 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.

12. Correct Answer: B (21%)

The C corporation tax rate 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.

13. Correct Answer: A (50%)

The dividends received deduction for corporations owning less than 20% of another corporation is 50%. For 20%-79% ownership, the DRD is 65%. For 80% or more ownership, the DRD is 100%. The DRD prevents triple or multiple taxation of corporate income as it passes through corporate chains.

14. Correct Answer: C (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.

15. Correct Answer: D (3 years)

Corporate capital loss carryback period is 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.

16. Correct Answer: B (10% of taxable income)

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 limitation prevents corporations from eliminating taxable income entirely through charitable contributions.

17. Correct Answer: C (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.

18. Correct Answer: A (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.

19. Correct Answer: D (100 shareholders)

S corporations can have a maximum of 100 shareholders. 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.

20. Correct Answer: B (U.S. citizens or residents)

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.

21. Correct Answer: A (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.

22. Correct Answer: C (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.

23. Correct Answer: B (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.

24. Correct Answer: D (Accumulated Adjustments Account)

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

25. Correct Answer: C (All shareholders)

The S corporation election requires consent from all shareholders. Unanimous consent ensures all shareholders agree to pass-through treatment. Even one shareholder's refusal prevents the election. The consent requirement protects minority shareholders from having pass-through treatment imposed on them without agreement.

26. Correct Answer: A (Income allocated)

S corporation shareholder basis increases by the shareholder's pro rata share of income (both separately stated and non-separately stated), tax-exempt income, and excess depletion. Basis decreases by distributions, losses, deductions, non-deductible expenses, and depletion. Unlike partnerships, S corporation liabilities generally don't increase shareholder basis unless shareholders make direct loans.

27. Correct Answer: D (Stock basis plus debt basis)

S corporation losses are deductible by shareholders only to the extent of their stock basis plus debt basis (for direct loans to the corporation). This is more restrictive than partnerships, where partners get basis from their share of all partnership liabilities. Losses exceeding basis are suspended and carry forward indefinitely.

28. Correct Answer: B (Form 2553)

The S election is made on Form 2553, Election by a Small Business Corporation. The form requires consent from all shareholders and must be filed by the 15th day of the third month of the tax year (March 15 for calendar-year corporations) to be effective for that year. Late elections are effective for the following year unless relief is granted.

29. 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.

30. Correct Answer: C (Most recent inventory sold first)

LIFO (Last-In, First-Out) 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.

31. 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.

32. 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.

33. Correct Answer: A (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.

34. Correct Answer: C (\$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.

35. Correct Answer: D (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 Q4.

36. Correct Answer: B (Mid-month convention)

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.

37. 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.

38. Correct Answer: D (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.

39. Correct Answer: C (\$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, and pre-opening activities.

40. Correct Answer: B (180 months)

Excess 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.

41. Correct Answer: D (Startup costs)

Organizational costs for forming a corporation or partnership receive the same treatment as startup costs: up to \$5,000 can be deducted in the first year (reduced when total organizational costs exceed \$50,000), with the excess amortized over 180 months. Organizational costs include legal fees, state incorporation fees, and other formation expenses.

42. Correct Answer: A (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.

43. Correct Answer: C (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.

44. 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.

45. Correct Answer: A (\$7,000 of wages)

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.

46. Correct Answer: D (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.

47. 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.

48. Correct Answer: B (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.

49. Correct Answer: A (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.

50. Correct Answer: D (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.

51. Correct Answer: C (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.

52. 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.

53. 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.

54. 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.

55. Correct Answer: B (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.

56. Correct Answer: C (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, material participation in specific rental activities is required.

57. Correct Answer: A (750 hours)

Real estate professional status requires more than 750 hours per year in real property trades or businesses AND more than half of 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.

58. Correct Answer: D (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.

59. Correct Answer: B (\$100,000-\$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.

60. Correct Answer: C (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.

61. 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.

62. Correct Answer: A (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.

63. Correct Answer: B (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.

64. Correct Answer: C (Realized gain)

Boot 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.

65. Correct Answer: A (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.

66. Correct Answer: D (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 strict requirements.

67. Correct Answer: C (Built-in gain or loss)

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 to allocate the built-in amounts.

68. Correct Answer: B (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.

69. Correct Answer: D (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: A (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.

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 political campaigns for or against candidates for public office. Any political campaign intervention jeopardizes exemption. Lobbying is permitted in insubstantial amounts (or under specific dollar limits if Section 501(h) is elected), but campaign intervention is completely prohibited.

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

Unrelated business income tax (UBIT) applies when unrelated business income exceeds \$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: D (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: C (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.

76. Correct Answer: B (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.

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.

78. Correct Answer: A (All events occurred and economic performance 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: B (IRS consent)

Changes in accounting methods generally require IRS consent under Section 446(e). Taxpayers must file Form 3115, Application for Change in Accounting Method, to request permission to change accounting methods. There are two types of changes: (1) automatic changes—certain specified changes that receive automatic consent if proper procedures are followed, and (2) non-automatic changes—which require specific IRS approval through the ruling process. Both types require IRS involvement and consent. The IRS consent requirement prevents taxpayers from manipulating income by arbitrarily changing accounting

methods to achieve favorable tax results. Section 481 adjustments may be required to prevent duplication or omission of income when methods change. Shareholder or state approval is not required for tax accounting method changes.

81. Correct Answer: A (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 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.

83. Correct Answer: C (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 to reduce the impact of progressive rates.

84. Correct Answer: B (50% of other 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 (\$27 million)

Inventory must be capitalized for businesses with average annual gross receipts exceeding \$27 million (averaged over the prior 3 years). Businesses below this threshold can treat inventory as non-incident materials and supplies. The \$27 million threshold is adjusted for inflation and provides significant relief for small businesses.

86. Correct Answer: A (Indirect costs into inventory)

UNICAP (Uniform Capitalization) rules require capitalizing both direct costs (materials, labor) and allocable indirect costs (overhead, utilities, depreciation, administrative costs, etc.) into inventory or self-constructed assets. This ensures all production costs are properly matched with revenue when inventory is sold.

87. 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.

88. Correct Answer: B (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 prevents taxpayers from converting ordinary deductions (depreciation) into capital gain.

89. Correct Answer: A (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.

90. Correct Answer: D (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.

91. Correct Answer: C (Sales where payments received after year of sale)

Installment sale reporting is automatic for sales where at least one payment is received after the year of sale, EXCEPT for dealer sales and inventory. Taxpayers can elect out of installment reporting. The method allows gain recognition to be deferred and matched with receipt of payments, improving cash flow for buyers and sellers.

92. 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.

93. 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.

94. 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.

95. Correct Answer: B (Substantial economic effect)

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 prevents tax-motivated allocations not reflecting economic reality.

96. Correct Answer: C (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.

97. Correct Answer: A (Direct shareholder loans to corporation)

S corporation debt basis 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.

98. Correct Answer: D (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.

99. Correct Answer: C (Distribution and liquidation proceeds)

The one class of stock requirement for S corporations means all outstanding shares must have identical rights to distribution and liquidation proceeds. Voting differences are permitted and don't create a second class. The requirement ensures all shareholders are taxed proportionately to their ownership interest.

100. Correct Answer: B (\$200,000)

Additional Medicare Tax withholding begins when individual employee wages exceed \$200,000, regardless of the employee's filing status. Employers must withhold the 0.9% additional tax when wages

exceed this threshold. This creates withholding complications for married couples where both work and combined income exceeds \$250,000 but neither individually exceeds \$200,000.

Part 3: Representation, Practices, And Procedures

1. Correct Answer: B (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.

2. Correct Answer: C (For returns they prepared before revenue agents)

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

3. 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.

4. Correct Answer: B (Not required to notify IRS)

Practitioners who discover noncompliance, errors, or omissions must inform the CLIENT promptly. They are NOT required to notify the IRS—the duty runs to the client only. The practitioner informs the client, who then decides whether to file amended returns or take other action. Practitioners don't report client issues to the IRS.

5. 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.

6. 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.

7. 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.

8. 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.

9. Correct Answer: D (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.

10. Correct Answer: A (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.

11. 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.

12. Correct Answer: C (Representation)

Form 2848, Power of Attorney and Declaration of Representative, authorizes the representative to represent the taxpayer before the IRS and perform acts specified on the form. This includes receiving confidential information, communicating with the IRS, advocating positions, and generally acting on the taxpayer's behalf for matters and periods specified.

13. Correct Answer: A (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.

14. Correct Answer: D (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.

15. 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.

16. 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.

17. Correct Answer: D (Small businesses and self-employed)

The Small Business/Self-Employed Division handles small businesses with assets under \$10 million, sole proprietorships, small corporations, partnerships, and self-employed individuals. SB/SE handles business return examinations, employment tax issues, estate and gift tax matters, and related collection activities for small business taxpayers.

18. Correct Answer: A (Economic hardship or systemic problems)

The Taxpayer Advocate Service assists taxpayers experiencing 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.

19. Correct Answer: B (Form 911)

To request TAS 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.

20. Correct Answer: C (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.

21. Correct Answer: A (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.

22. Correct Answer: D (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.

23. Correct Answer: C (Statistical analysis)

The DIF (Discriminant Function System) selects returns based on statistical analysis for potential tax changes. 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.

24. Correct Answer: B (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.

25. Correct Answer: D (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 for detecting significant underreporting.

26. Correct Answer: A (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.

27. Correct Answer: C (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 beyond 10 years.

28. Correct Answer: B (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.

29. Correct Answer: A (90 days to petition Tax Court)

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.

30. 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.

31. Correct Answer: C (\$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 detailed explanation of disagreements.

32. Correct Answer: B (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.

33. Correct Answer: D (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 don't include Tax Court review rights.

34. Correct Answer: A (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.

35. 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 and subordination.

36. Correct Answer: C (30 days before)

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.

37. Correct Answer: A (21 days)

Bank levies require banks 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.

38. Correct Answer: D (\$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.

39. 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.

40. Correct Answer: C (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.

41. Correct Answer: D (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.

42. Correct Answer: A (Collection creates economic hardship)

Currently Not Collectible (CNC) status applies 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.

43. Correct Answer: C (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.

44. Correct Answer: B (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.

45. Correct Answer: A (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 after notice of intent to levy.

46. Correct Answer: D (100% of tax)

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.

47. 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.

48. Correct Answer: C (\$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. The threshold ensures penalties apply only to significant understatements.

49. Correct Answer: A (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.

50. Correct Answer: D (75%)

The willful preparer penalty under Section 6694(b) is 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.

51. 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.

52. Correct Answer: C (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.

53. Correct Answer: D (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.

54. Correct Answer: A (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.

55. 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.

56. Correct Answer: B (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.

57. Correct Answer: A (\$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.

58. Correct Answer: D (\$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.

59. 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.

60. 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.

61. Correct Answer: D (2 years of 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.

62. Correct Answer: A (Did not 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.

63. Correct Answer: B (Divorced, 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 items with actual knowledge.

64. 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 and appeal.

65. 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.

66. Correct Answer: D (\$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.

67. Correct Answer: C (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.

68. Correct Answer: B (\$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.

69. Correct Answer: D (Negligence and substantial understatement penalties)

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.

70. Correct Answer: A (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.

71. Correct Answer: B (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 collection statute begins.

72. Correct Answer: C (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 based on filing status and dependents.

73. Correct Answer: D (12 months)

Revenue Procedure 2013-34 streamlined equitable innocent spouse relief requires separation for at least 12 months (or being no longer married or legally separated) AND the requesting spouse would face economic hardship if relief isn't granted. Streamlined procedures make equitable relief more accessible and predictable.

74. Correct Answer: A (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.

75. Correct Answer: C (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.

76. Correct Answer: B (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.

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 helps independent contractors receive their information on time to file tax returns. Late filing results in penalties ranging from \$60 to \$310 per form depending on lateness.

78. Correct Answer: A (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.

79. Correct Answer: B (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 for amended returns. The same statute that applies to original refund claims applies to amended return refund claims.

80. Correct Answer: C (Tax advice in civil matters)

The federally authorized tax practitioner privilege applies to tax advice communications in civil matters before the IRS and related federal court proceedings. It does NOT apply to all communications, return preparation, or criminal proceedings. The privilege is narrower than attorney-client privilege with significant limitations.

81. Correct Answer: A (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.

82. Correct Answer: D (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 employee copies.

83. Correct Answer: C (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.

84. Correct Answer: B (500 hours)

Material participation is established under Section 469 if the taxpayer meets any of seven tests. The most common bright-line test is participating in the activity for more than 500 hours during the year. Other tests include: substantially all participation in the activity, more than 100 hours if not less than anyone else's participation, significant participation activities totaling over 500 hours, material participation in 5 of the prior 10 years, personal service activity with material participation in any 3 prior years, or facts and circumstances showing regular, continuous, and substantial participation (more than 100 hours). The 500-hour test is the primary safe harbor for establishing material participation. Note that 750 hours is the requirement for real estate professional status (which is different from material participation), not for general material participation.

85. Correct Answer: D (More than 750 hours and 50% of services)

Real estate professional status requires more than 750 hours in real property trades/businesses AND more than 50% of personal services in such activities. Both requirements must be met. A license is NOT required. Real property trades or businesses include development, construction, acquisition, conversion, rental, management, leasing, or brokerage.

86. Correct Answer: A (\$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 face a \$0-\$50,000 range with \$12,500 maximum.

87. Correct Answer: C (12 months after first benefit date)

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.

88. Correct Answer: B (4 years)

Section 481 adjustments for positive adjustments (increasing income or decreasing deductions) are taken over 4 years. Negative adjustments (decreasing income or increasing deductions) are taken in 1 year. This spread prevents large one-time income impacts from method changes while allowing favorable adjustments to benefit taxpayers immediately.

89. Correct Answer: A (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.

90. Correct Answer: D (Targeted groups)

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.

91. Correct Answer: C (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 regular and alternative simplified credit options.

92. Correct Answer: B (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.

93. Correct Answer: D (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%.

94. Correct Answer: A (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 replacement securities.

95. Correct Answer: B (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.

96. Correct Answer: C (Economic performance occurred)

The all events test for accrual method requires: (1) all events fixing the liability have occurred, (2) the amount is determinable, and (3) economic performance has occurred. Economic performance (typically when services/property provided) is required, not payment. This three-part test prevents premature deductions.

97. Correct Answer: A (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.

98. Correct Answer: D (\$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.

99. 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.

100. Correct Answer: C (Tax return information)

Section 6103 protects tax return information from unauthorized disclosure. Return information includes returns, return data, and any information received or created by the IRS in connection with returns. Unauthorized disclosure by IRS employees or practitioners violates Section 6103 and can result in criminal penalties and civil damages.