

Full-Length Practice Test 5

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

Part 1: Individuals

1. A taxpayer who is blind receives an additional standard deduction equal to:
 - A. \$1,500
 - B. \$2,000
 - C. Same amount as age 65+ addition
 - D. \$1,000

2. The tiebreaker rule for claiming a qualifying child applies when:
 - A. Multiple taxpayers can claim the same child
 - B. Parents are divorced
 - C. Child lives with grandparents
 - D. Income exceeds threshold

3. Married filing separately taxpayers must both itemize or both take standard deduction when:
 - A. Combined income exceeds \$200,000
 - B. Either spouse itemizes
 - C. Living together
 - D. One spouse itemizes

4. The kiddie tax applies to investment income exceeding:
 - A. \$1,300
 - B. \$2,600
 - C. \$3,000
 - D. \$5,000

5. For purposes of the kiddie tax, the first \$1,300 of unearned income is:
 - A. Taxed at parent's rate
 - B. Taxed at 10%
 - C. Not taxed or offset by standard deduction
 - D. Fully taxable

6. Maximum Social Security credits that can be earned per year:
 - A. 4

- B. 6
- C. 12
- D. Unlimited

7. To receive Social Security retirement benefits, a worker generally needs:

- A. 20 credits
- B. 30 credits
- C. 35 credits
- D. 40 credits

8. Nonbusiness energy property credit for qualified improvements is:

- A. 10% of cost
- B. 25% of cost
- C. 30% of cost
- D. 50% of cost

9. Residential clean energy credit for solar electric property is:

- A. 26%
- B. 30%
- C. 22%
- D. 15%

10. Plug-in electric vehicle credit can be up to:

- A. \$7,500
- B. \$10,000
- C. \$5,000
- D. \$4,000

11. Moving expenses are deductible for:

- A. All taxpayers
- B. Corporate executives
- C. Self-employed individuals
- D. Active duty military

12. The mileage rate for medical and moving purposes in 2024 is:

- A. 67 cents
- B. 22 cents
- C. 21 cents
- D. 14 cents

13. Charitable mileage rate is:
- A. 67 cents
 - B. 14 cents
 - C. 21 cents
 - D. Variable
14. Excess business loss limitation for non-corporate taxpayers in 2024 is approximately:
- A. \$250,000
 - B. \$500,000
 - C. \$305,000
 - D. \$610,000 for MFJ
15. Net operating losses arising after 2017 can be carried back:
- A. Not at all (with exceptions)
 - B. 2 years
 - C. 3 years
 - D. 5 years
16. Schedule D reports:
- A. Business income
 - B. Rental income
 - C. Capital gains and losses
 - D. Farm income
17. Form 8949 is used to report:
- A. Business expenses
 - B. Sales of capital assets
 - C. Rental expenses
 - D. Farm income
18. Qualified dividends are taxed at:
- A. Capital gains rates
 - B. Ordinary rates
 - C. 15% flat
 - D. 28%
19. Original issue discount must be reported as:
- A. Capital gain
 - B. Return of capital
 - C. Tax-exempt interest

D. Interest income

20. U.S. savings bond interest can be excluded when used for:

- A. Any purpose
- B. Down payment on home
- C. Qualified education expenses
- D. Medical expenses

21. The exclusion for qualified small business stock requires holding the stock for more than:

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

22. Section 1244 stock allows ordinary loss treatment up to:

- A. \$50,000 single/\$100,000 MFJ
- B. \$100,000 single/\$200,000 MFJ
- C. Unlimited
- D. \$50,000 for all taxpayers

23. Cancellation of debt income is excluded if the taxpayer is:

- A. Insolvent
- B. Wealthy
- C. Over age 65
- D. Married

24. Form 1099-C reports:

- A. Dividend income
- B. Interest income
- C. Cancellation of debt
- D. Capital gains

25. Identity theft victims should file Form:

- A. 14039
- B. 14039-B
- C. 8379
- D. 3949-A

26. Injured spouse allocation is requested on Form:

- A. 14039

- B. 8379
- C. 8857
- D. 8379

27. Combat zone compensation exclusion applies to:

- A. All military members
- B. Officers only
- C. Enlisted personnel and warrant officers
- D. Reserves only

28. For officers, combat pay exclusion is limited to the highest enlisted pay plus:

- A. Imminent danger pay
- B. Basic allowance
- C. Housing allowance
- D. All allowances

29. Clergy housing allowance is:

- A. Fully taxable
- B. Excluded from income for income tax
- C. Subject to self-employment tax only
- D. Tax-exempt for all purposes

30. Jury duty pay turned over to employer:

- A. Is not taxable
- B. Reduces itemized deductions
- C. Is taxable but deductible
- D. Is deducted on Schedule C

31. Prizes and awards are taxable unless:

- A. Under \$500
- B. From employer
- C. Transferred directly to charity
- D. For athletic achievement

32. Employee achievement awards are excludable up to:

- A. \$1,600 for qualified plan awards
- B. \$500
- C. \$2,000
- D. Unlimited

33. Meals provided for employer's convenience are:
- A. Always taxable
 - B. Taxable if on-premises
 - C. Excludable under certain conditions
 - D. 50% taxable
34. De minimis fringe benefits must be:
- A. Under \$100
 - B. Infrequent and low value
 - C. Approved by IRS
 - D. Listed in code
35. Qualified transportation fringe benefits are excluded up to:
- A. \$100 per month
 - B. \$150 per month
 - C. \$315 per month
 - D. Unlimited
36. Adoption assistance programs exclude up to approximately:
- A. \$10,000
 - B. \$13,810
 - C. \$20,000
 - D. \$16,810
37. Dependent care assistance can be excluded up to:
- A. \$5,000
 - B. \$10,000
 - C. \$3,000
 - D. \$6,000
38. Educational assistance programs exclude up to:
- A. \$2,500
 - B. \$5,250
 - C. \$10,000
 - D. Unlimited
39. Group term life insurance is excluded for coverage up to:
- A. \$25,000
 - B. \$100,000
 - C. \$50,000

D. Unlimited

40. Cafeteria plan participants can make election changes:

- A. During open enrollment or qualifying event
- B. Anytime
- C. Never
- D. Monthly

41. Health savings accounts require enrollment in:

- A. Any health plan
- B. HMO
- C. PPO
- D. High deductible health plan

42. For 2024, an HDHP must have a minimum deductible for self-only coverage of:

- A. \$1,500
- B. \$1,600
- C. \$2,000
- D. \$3,000

43. FSA health care maximum contribution for 2024 is approximately:

- A. \$2,500
- B. \$3,850
- C. \$3,200
- D. \$5,000

44. ABLE account beneficiaries must have become disabled before age:

- A. 18
- B. 21
- C. 25
- D. 26

45. Archer MSA contributions are limited to:

- A. Percentage of deductible
- B. \$10,000
- C. AGI
- D. Earnings

46. Long-term care insurance premiums are deductible as medical expenses subject to age-based limits and:

- A. 5% floor
- B. 10% floor
- C. 7.5% floor
- D. No floor

47. For taxpayers age 41-50, the long-term care premium limit is:

- A. \$850
- B. \$1,590
- C. \$4,770
- D. \$5,960

48. Medicare Part B premiums are:

- A. Deductible as medical expense
- B. Not deductible
- C. Credit only
- D. Above-the-line deduction

49. Cosmetic surgery is deductible only if:

- A. Desired by taxpayer
- B. Improves appearance
- C. Prescribed by doctor
- D. Necessary due to disease or injury

50. Weight loss program costs are deductible if:

- A. Desired for appearance
- B. For general health
- C. Prescribed for specific disease
- D. Never deductible

51. Capital gain distribution from mutual funds is reported on:

- A. Schedule D
- B. 1099-DIV
- C. Form 1040, line 7
- D. Schedule B

52. Qualified opportunity zone investments can defer gain until:

- A. 2026
- B. 2024
- C. 2030
- D. Sale of QOZ investment

53. Section 1202 gain exclusion can be up to:
- A. 50%
 - B. 75%
 - C. 100%
 - D. 10 times basis or \$10 million
54. Cryptocurrency transactions are reported on:
- A. Schedule 1
 - B. Form 8949
 - C. Form 8300
 - D. Schedule D only
55. Staking rewards are taxed when:
- A. Staked
 - B. Received
 - C. Sold
 - D. Exchanged
56. Mining cryptocurrency creates income equal to:
- A. Cost to mine
 - B. Zero until sold
 - C. Market value at receipt
 - D. Fair market value at year-end
57. Like-kind exchange treatment for cryptocurrency was eliminated in:
- A. 2018
 - B. 2020
 - C. 2017
 - D. 2021
58. Bartering income must be reported at:
- A. Cost
 - B. Zero
 - C. Fair market value
 - D. Discounted value
59. Virtual currency received as payment for services is:
- A. Not taxable
 - B. Ordinary income

- C. Capital gain
- D. Deferred

60. First-time homebuyer credit repayment period was:

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

61. Energy efficient commercial building deduction can be up to:

- A. \$1.88 per square foot
- B. \$5.00 per square foot
- C. \$10.00 per square foot
- D. \$5.65 per square foot

62. New clean vehicle credit income limitation for MFJ in 2024 is:

- A. \$300,000
- B. \$225,000
- C. \$300,000 MAGI
- D. No limit

63. Used clean vehicle credit is limited to:

- A. \$7,500
- B. \$4,000
- C. \$2,500
- D. \$10,000

64. Election to expense qualified film and television production costs applies to productions costing up to:

- A. \$10 million
- B. \$20 million
- C. \$5 million
- D. \$15 million

65. Domestic production activities deduction was repealed for tax years beginning after:

- A. 2017
- B. 2019
- C. 2020
- D. 2018

66. Excess advance premium tax credit must be repaid, subject to caps based on:
- A. Age
 - B. Family size
 - C. Income
 - D. State of residence
67. Form 1095-A is provided by:
- A. Employers
 - B. Marketplace
 - C. Insurance companies
 - D. IRS
68. The shared responsibility payment for not having health insurance was reduced to zero starting in:
- A. 2017
 - B. 2018
 - C. 2020
 - D. 2019
69. Recovery rebate credit was available for:
- A. 2020 and 2021
 - B. 2019
 - C. 2022
 - D. All years
70. Retirement savings contributions credit is not available to:
- A. Self-employed
 - B. Low-income workers
 - C. Full-time students
 - D. Part-time workers
71. Adoption credit carryforward period is:
- A. 3 years
 - B. 5 years
 - C. Indefinite
 - D. 10 years
72. Foreign tax credit can be claimed on:
- A. Schedule A
 - B. Form 8812
 - C. Form 8863

D. Form 1116

73. Excess social security tax withheld is claimed on:

- A. Schedule 1
- B. Form 8959
- C. Schedule 3
- D. Form 843

74. Net investment income includes:

- A. Wages
- B. Active business income
- C. Passive income
- D. Self-employment income

75. NIIT does not apply to:

- A. Interest
- B. Dividends
- C. Capital gains
- D. Distribution from qualified plans

76. Additional Medicare Tax applies to self-employment income exceeding:

- A. \$125,000
- B. \$200,000 for all except MFJ
- C. \$250,000 for single
- D. No threshold

77. Railroad retirement benefits are reported on:

- A. Form RRB-1099
- B. SSA-1099
- C. 1099-R
- D. W-2

78. Tier 1 railroad retirement is treated like:

- A. Pension
- B. Wages
- C. Social Security
- D. Annuity

79. Scholarship income used for room and board is:

- A. Tax-exempt

- B. Deductible
- C. Subject to kiddie tax
- D. Taxable

80. Student loan repayment assistance from employer is excluded up to:

- A. \$2,500
- B. \$5,250
- C. Unlimited
- D. \$10,000

81. Discharge of student loans due to death or disability is:

- A. Excludable
- B. Taxable
- C. Deferred
- D. Partially taxable

82. The educator expense deduction applies to kindergarten through:

- A. 8th grade
- B. 12th grade
- C. Grade 12
- D. College

83. Tuition and fees deduction was:

- A. Made permanent
- B. Extended through 2025
- C. Repealed
- D. Expired after 2020

84. Higher education expenses cannot be used for both AOTC and:

- A. LLC
- B. Lifetime Learning Credit
- C. Scholarship
- D. Loan forgiveness

85. AOTC phase-out for single filers begins at approximately:

- A. \$70,000
- B. \$90,000
- C. \$80,000
- D. \$60,000

86. Lifetime Learning Credit phases out for single filers beginning at:

- A. \$80,000
- B. \$90,000
- C. \$70,000
- D. \$60,000

87. Coverdell ESA beneficiary must use funds by age:

- A. 25
- B. 35
- C. 21
- D. 30

88. 529 plan rollovers to Roth IRA are limited to:

- A. \$6,500 per year
- B. \$35,000 lifetime
- C. \$10,000 total
- D. Not permitted

89. Student loan interest paid by parents is treated as:

- A. Gift to student
- B. Not deductible
- C. Paid by student if dependent
- D. Deductible by parent

90. Penalty-free IRA distributions for birth or adoption are limited to:

- A. \$5,000
- B. \$10,000
- C. Actual expenses
- D. No limit

91. Qualified disaster distributions can total up to:

- A. \$50,000
- B. \$75,000
- C. \$22,000
- D. \$100,000

92. First-time homebuyer distribution from IRA must be used within:

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

D. 180 days

93. Substantially equal periodic payments must continue for the greater of 5 years or:

- A. Age 65
- B. Age 59½
- C. Age 70½
- D. Age 62

94. Rollovers must generally be completed within:

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

95. Direct rollovers from employer plans are subject to:

- A. 10% withholding
- B. 20% withholding
- C. No withholding
- D. No withholding or penalty

96. Roth 401(k) contributions are made with:

- A. Pre-tax dollars
- B. Employer match
- C. After-tax dollars
- D. Tax-deferred dollars

97. Required beginning date for RMDs is April 1 following the year of reaching age:

- A. 72
- B. 73
- C. 70½
- D. 75

98. Failure to take RMD results in penalty of:

- A. 10%
- B. 25% (10% if corrected)
- C. 50%
- D. 25%

99. Excess IRA contributions are subject to excise tax of:

- A. 6%

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

100. SIMPLE IRA early distribution penalty in first 2 years is:

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

Part 2: Businesses

1. Schedule C filers with gross receipts over \$27 million must use:

- A. Accrual method
- B. Cash method
- C. Hybrid method
- D. Any method

2. Inventory valuation methods include FIFO, LIFO, and:

- A. FISH
- B. Weighted average
- C. Specific identification
- D. Market value

3. Lower of cost or market must be applied to:

- A. Services
- B. Individual items
- C. Groups of items
- D. Entire inventory

4. Uniform capitalization rules apply to:

- A. Service businesses
- B. Producers and resellers
- C. All businesses
- D. Retailers only

5. Personal service corporations are taxed at:

- A. Individual rates
- B. 21%
- C. 35%

- D. 21% flat rate
6. An accountable plan requires:
- A. Business connection and substantiation
 - B. Annual accounting
 - C. IRS approval
 - D. Written policy only
7. Per diem rates are published by:
- A. IRS
 - B. Department of Labor
 - C. GSA
 - D. Treasury
8. Cell phone provided to employee for business is:
- A. Taxable
 - B. Nontaxable
 - C. 50% taxable
 - D. Listed property
9. Listed property includes:
- A. Computers
 - B. Buildings
 - C. Inventory
 - D. Passenger automobiles
10. To avoid listed property restrictions, business use must exceed:
- A. 25%
 - B. 75%
 - C. 100%
 - D. 50%
11. Actual car expense method includes:
- A. Depreciation
 - B. Parking fees
 - C. Depreciation, gas, oil, repairs
 - D. Tolls
12. Parking and tolls are deductible under:
- A. Standard mileage only

- B. Both methods
- C. Actual expense only
- D. Neither method

13. Vehicle trade-in basis equals:

- A. Trade-in value
- B. Fair market value
- C. Adjusted basis of old plus boot paid
- D. Purchase price of new

14. Partnership tax year must generally conform to:

- A. Calendar year
- B. Fiscal year
- C. Principal partners' year
- D. Majority partners' tax year

15. Section 444 election allows partnership to use:

- A. Any tax year
- B. Calendar year only
- C. Fiscal year with deferral ≤ 3 months
- D. Principal partner's year

16. Partnership agreement can be oral or written, but special allocations require:

- A. IRS approval
- B. Written agreement
- C. Unanimous consent
- D. Court order

17. Contributed property with built-in loss is limited to:

- A. Contributing partner's basis
- B. Fair market value
- C. Zero
- D. Lesser of FMV or basis at contribution

18. Hot assets in partnership include:

- A. Real estate
- B. Cash
- C. Securities
- D. Inventory and unrealized receivables

19. Section 751 prevents converting ordinary income to:
- A. Passive income
 - B. Portfolio income
 - C. Capital gain
 - D. Tax-exempt income
20. Family partnership income can be allocated based on:
- A. Capital and services
 - B. Family relationship
 - C. Age
 - D. Need
21. Guaranteed payments reduce:
- A. Partnership income
 - B. Partner's basis
 - C. Capital account
 - D. None - they're distributive shares
22. Negative capital accounts may indicate:
- A. Partnership loss
 - B. Excessive distributions
 - C. Poor management
 - D. Economic loss exposure
23. Self-employment income from partnership includes distributive share and:
- A. Distributions
 - B. Guaranteed payments for services
 - C. Capital gains
 - D. All income
24. Limited partners are generally not subject to self-employment tax unless they receive:
- A. Distributions
 - B. Capital gains
 - C. Guaranteed payments for services
 - D. Any income
25. Partnership terminates when:
- A. Partner retires
 - B. 50% or more interest changes within 12 months
 - C. No business activity

D. 50% or more changes in 12 months

26. Technical termination was eliminated for tax years beginning after:

- A. 2017
- B. 2020
- C. 2018
- D. 2019

27. Partnership merger requires continuing partnership to have:

- A. Largest assets
- B. Greatest liabilities
- C. Most partners
- D. Partners owning over 50% continuing

28. Partnership basis adjustments under Section 743(b) apply when:

- A. Property contributed
- B. Partnership has Section 754 election
- C. Partner dies
- D. All transfers

29. Section 754 election is made:

- A. Annually
- B. Once and applies to all future years
- C. By each partner
- D. On partnership return

30. Step-up in basis at death applies to:

- A. IRAs
- B. Annuities
- C. Income in respect of decedent
- D. Most capital assets

31. S corporation election termination occurs if:

- A. Shareholder sells stock
- B. Corporation has C corporation E&P
- C. Ineligible shareholder acquires stock
- D. Loss exceeds basis

32. Inadvertent termination relief requires:

- A. IRS consent

- B. Shareholder vote
- C. Court order
- D. Amended return

33. Post-termination transition period for loss deduction is:

- A. 6 months
- B. 1 year after final S year
- C. 2 years
- D. Indefinite

34. QSub election treats subsidiary as:

- A. Separate S corporation
- B. C corporation
- C. Partnership
- D. Division of parent

35. S corporation can own:

- A. All subsidiaries
- B. No subsidiaries
- C. 100% of QSub or C corporation
- D. Only partnerships

36. ESOP must be for benefit of:

- A. Officers
- B. Shareholders
- C. All employees
- D. Management

37. Leveraged ESOP borrows funds to:

- A. Pay taxes
- B. Acquire employer securities
- C. Pay dividends
- D. Buy inventory

38. C corporation dividends are:

- A. Deductible
- B. Not deductible
- C. 50% deductible
- D. Deductible if reasonable

39. Dividend paying capacity is measured by:
- A. Cash
 - B. Current earnings
 - C. Retained earnings
 - D. Earnings and profits
40. Personal holding company tax applies at:
- A. 21%
 - B. 20%
 - C. 35%
 - D. 39.6%
41. Personal holding company income threshold is:
- A. 50%
 - B. 25%
 - C. 75%
 - D. 60%
42. At-risk limitations don't apply to:
- A. S corporations
 - B. Partnerships
 - C. C corporations
 - D. LLCs
43. Qualified nonrecourse financing increases at-risk basis for:
- A. All property
 - B. Real property only
 - C. Personal property
 - D. Services
44. Material participation tests include participating more than 500 hours or:
- A. 250 hours
 - B. 100 hours if no one else participates more
 - C. Any hours
 - D. 750 hours
45. Rental real estate with average customer use of 7 days or less is:
- A. Passive
 - B. Active
 - C. Portfolio

D. Not passive

46. Short-term rentals (average ≤ 7 days) with substantial services are treated as:

- A. Passive rental
- B. Real estate business
- C. Not rental activity
- D. Investment

47. Self-rental income is:

- A. Passive
- B. Recharacterized as nonpassive
- C. Portfolio
- D. Active business

48. Grouping elections for activities must be:

- A. Made annually
- B. Disclosed on timely filed return
- C. Approved by IRS
- D. Unchangeable

49. Passive activity credits are limited to tax on:

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

50. Former passive activity with suspended losses becomes active when participation exceeds:

- A. 100 hours
- B. 250 hours
- C. 500 hours materially
- D. Any hours

51. Rehabilitation credit for pre-1936 buildings is:

- A. 10%
- B. 30%
- C. 20%
- D. 50%

52. Low-income housing credit percentage is approximately:

- A. 4% or 9%

- B. 10% or 20%
- C. 5% or 10%
- D. 3% or 6%

53. New markets tax credit is claimed over:

- A. 7 years
- B. 10 years
- C. 5 years
- D. 15 years

54. Employer credit for paid family and medical leave ranges up to:

- A. 12.5%
- B. 50%
- C. 25%
- D. 10%

55. Small employer health insurance credit requires fewer than:

- A. 50 employees
- B. 25 equivalent employees
- C. 100 employees
- D. 10 employees

56. Disabled access credit is for small businesses with gross receipts under \$1 million or:

- A. 50 employees
- B. 25 employees
- C. 30 full-time employees
- D. 100 employees

57. Empowerment zone employment credit was:

- A. Made permanent
- B. Extended
- C. Repealed
- D. Expired

58. Indian employment credit applies to:

- A. Any employee
- B. Qualified employees living on/near reservation
- C. Tribal members only
- D. Government employees

59. Employer-provided childcare credit can be up to:

- A. 25%
- B. 50%
- C. 10%
- D. 30%

60. Renewable energy production credit is per:

- A. Dollar invested
- B. Employee
- C. Kilowatt-hour
- D. Facility

61. Carbon oxide sequestration credit is per:

- A. Metric ton
- B. Facility
- C. Kilowatt
- D. Employee

62. Biodiesel and renewable diesel credit is per:

- A. Employee
- B. Gallon
- C. Facility
- D. Acre

63. Alternative fuel vehicle refueling property credit is:

- A. 10%
- B. 25%
- C. 50%
- D. 30%

64. General business credit carryback period is:

- A. None
- B. 2 years
- C. 1 year
- D. 3 years

65. General business credit carryforward period is:

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

D. Indefinite

66. Corporate AMT was repealed for tax years beginning after:

- A. 2016
- B. 2019
- C. 2020
- D. 2017

67. Corporate AMT credit can be claimed as refund through:

- A. 2018-2021
- B. 2020-2025
- C. 2022-2025
- D. No refund

68. Net operating loss for corporations can offset:

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

69. Corporate NOL carryback is generally:

- A. 2 years
- B. Not allowed
- C. 3 years
- D. 5 years

70. Charitable contribution deduction for C corporation inventory is limited to basis plus:

- A. 50% of appreciation
- B. Fair market value
- C. Cost
- D. Wholesale value

71. Accrual basis taxpayers can deduct bonuses if paid within:

- A. 2½ months after year-end
- B. 3½ months
- C. 75 days
- D. 6 months

72. Related party rules use constructive ownership including family members within:

- A. 2 generations

- B. 3 generations
- C. Immediate family
- D. Spouse only

73. Losses between related parties are:

- A. Fully deductible
- B. 50% deductible
- C. Not recognized
- D. Deferred

74. Golden parachute payments trigger excise tax of:

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

75. Excess parachute payment equals amount exceeding:

- A. 1 times base amount
- B. 2 times base amount
- C. 3 times base amount
- D. 5 times base amount

76. Excessive employee remuneration over \$1 million is:

- A. Fully deductible
- B. Not deductible for public companies
- C. 50% deductible
- D. Deductible if performance-based

77. Section 162(m) covered employees include CEO and:

- A. CFO and 3 highest compensated
- B. All officers
- C. Board members
- D. Top 10 employees

78. Nonqualified deferred compensation requires substantial risk of forfeiture or is taxed when:

- A. Earned
- B. Vested
- C. Paid
- D. Deferred

79. Constructive receipt doctrine prevents deferral when compensation is:

- A. Earned
- B. Vested
- C. Available without restriction
- D. Promised

80. Rabbi trust protects deferred compensation from:

- A. Taxation
- B. Employer's general creditors
- C. Nothing
- D. Bankruptcy only

81. Secular trust causes immediate taxation because:

- A. Assets protected from creditors
- B. Set aside for employee
- C. Vested
- D. Assets beyond employer's reach

82. Stock appreciation rights create income equal to:

- A. Grant price
- B. Exercise price
- C. Appreciation
- D. Fair market value

83. Restricted stock is taxed when:

- A. Granted
- B. Vested
- C. Sold
- D. Exercised

84. Section 83(b) election must be made within:

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

85. Incentive stock options are not taxed at exercise if held:

- A. 2 years from grant, 1 year from exercise
- B. 1 year from grant
- C. 6 months

D. Until retirement

86. ISO disqualifying disposition occurs if sold before:

- A. 1 year from grant
- B. 6 months from exercise
- C. 2 years from grant or 1 year from exercise
- D. Retirement

87. Nonqualified stock options are taxed at exercise based on:

- A. Grant price
- B. Spread
- C. Sale price
- D. Exercise price

88. Phantom stock is taxed when:

- A. Granted
- B. Payment received
- C. Vested
- D. Measured

89. Employee stock purchase plans allow discount up to:

- A. 10%
- B. 25%
- C. 5%
- D. 15%

90. Qualified ESPP holding period is:

- A. 2 years from grant, 1 year from purchase
- B. 1 year
- C. 6 months
- D. 3 years

91. Golden handcuffs refer to:

- A. Penalties
- B. Forfeiture provisions
- C. Retention incentives
- D. Noncompete agreements

92. Vesting cliff means:

- A. Immediate vesting

- B. Gradual vesting
- C. All or nothing vesting
- D. Partial vesting

93. Graded vesting occurs:

- A. All at once
- B. Gradually over time
- C. At retirement
- D. Never

94. Safe harbor 401(k) requires employer contribution of 3% or:

- A. \$1,000
- B. 5% graded
- C. 4% nonelective
- D. 4% match on first 5%

95. SIMPLE 401(k) requires employer match of 3% or:

- A. 1%
- B. 2% nonelective
- C. 5%
- D. 4%

96. Solo 401(k) is available to self-employed with:

- A. Employees
- B. Partner
- C. No employees except spouse
- D. Any structure

97. Defined benefit plan maximum benefit in 2024 is approximately:

- A. \$230,000
- B. \$275,000
- C. \$300,000
- D. \$265,000

98. Top-heavy plan requires accelerated vesting and minimum contribution of:

- A. 3%
- B. 5%
- C. 10%
- D. Lesser of 3% or employer's highest rate

99. Pension plan premiums are paid to:
- A. IRS
 - B. Department of Labor
 - C. PBGC
 - D. Insurance company
100. Required contribution for defined contribution plan is:
- A. Annual amount
 - B. Specified in plan
 - C. 25% minimum
 - D. Based on salary

Part 3: Representation, Practices, And Procedures

1. Limited practice without enrollment allows representation only before:
 - A. Tax Court
 - B. Revenue agents on prepared returns
 - C. Appeals
 - D. Collections
2. Annual filing season program participants can represent clients before:
 - A. All IRS offices
 - B. Appeals
 - C. Tax Court
 - D. Revenue agents and similar employees
3. Continuing education for AFSP participants requires:
 - A. 15 hours annually
 - B. 18 hours including 6 tax law
 - C. 72 hours every 3 years
 - D. None
4. Circular 230 best practices include:
 - A. Maximizing deductions
 - B. Guaranteeing refunds
 - C. Clear communication with client
 - D. Contingent fees
5. A practitioner may not endorse a refund check unless they have specific authorization and:
 - A. Powers of attorney

- B. Written consent
 - C. Court order
 - D. IRS approval
6. Practitioners must return client records:
- A. After 3 years
 - B. Upon request
 - C. Never
 - D. After case closes
7. Conflicts of interest require:
- A. Declining representation
 - B. IRS notification
 - C. Informed consent from affected clients
 - D. Court approval
8. Solicitation is prohibited if it is:
- A. Any advertising
 - B. Targeted
 - C. False or misleading
 - D. By mail
9. Fee information must be provided:
- A. In writing
 - B. Before engagement
 - C. Upon request
 - D. To IRS
10. Practitioner-client privilege does not apply to:
- A. Criminal matters
 - B. Correspondence audits
 - C. Tax advice
 - D. IRS audits
11. Preparer tax identification number is obtained by filing:
- A. Form W-7
 - B. Form 2848
 - C. Form SS-4
 - D. Online application

12. Tax return preparers must provide copy of return to taxpayer:
- A. Upon request
 - B. No later than presenting for signature
 - C. Within 30 days
 - D. Only if paid
13. Preparer penalties apply to persons who prepare for:
- A. Free
 - B. Compensation
 - C. Family
 - D. All preparers
14. Signing preparer is the person primarily responsible for:
- A. All positions
 - B. Accuracy
 - C. Filing
 - D. Overall accuracy
15. Nonsigning preparers include those preparing:
- A. Entire return
 - B. Immaterial portions
 - C. Substantial portion
 - D. Schedule only
16. Preparer due diligence requirements apply to:
- A. All returns
 - B. Corporate returns
 - C. Estate returns
 - D. EITC, CTC, ACTC, HOH, AOTC
17. Knowledge standard for due diligence means preparer knew or:
- A. Suspected
 - B. Should have suspected
 - C. Reasonably should have known
 - D. Was told
18. Due diligence checklist must be:
- A. Provided to client
 - B. Retained for 3 years
 - C. Filed with return

D. Sent to IRS

19. Preparer must question inconsistent information and:

- A. Report to IRS
- B. Refuse to prepare
- C. Document inquiries
- D. Amend prior returns

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

- A. 25% of income
- B. 10% of income
- C. \$5,000
- D. 50% of income from return

21. Willful or reckless conduct penalty is the greater of \$5,000 or:

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

22. Disclosure or use of tax return information by preparer results in penalty of:

- A. \$100 per disclosure
- B. \$250 per disclosure
- C. \$500 per use
- D. \$250 per use

23. Failure to furnish copy to taxpayer results in penalty of:

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

24. Failure to sign return results in penalty of:

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

25. Failure to provide PTIN results in penalty of:

- A. \$100 per return

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

26. Failure to retain copy or list results in penalty of:

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

27. Aiding and abetting understatement results in penalty of \$1,000 or:

- A. \$5,000 for corporate returns
- B. \$10,000 for corporate returns
- C. \$25,000 for corporate returns
- D. \$10,000 for all returns

28. Promoting abusive tax shelter results in penalty equal to:

- A. 50% of gross income
- B. 75% of gross income
- C. 100% of gross income
- D. Lesser of gross income or \$1,000

29. Substantial authority requires authority greater than:

- A. 10%
- B. 25%
- C. 33%
- D. Reasonable basis

30. Reasonable basis is approximately:

- A. 5%
- B. 10%
- C. 20%
- D. 33%

31. Adequate disclosure requires:

- A. Form 8275
- B. Schedule attached
- C. Form 8275 or 8275-R
- D. Written statement

32. Tax shelter opinion must meet requirements of Circular 230 Section:

- A. 10.35
- B. 10.33
- C. 10.36
- D. 10.37

33. Covered opinions include written advice on:

- A. All tax matters
- B. Routine matters
- C. Listed transactions
- D. Simple returns

34. Principal purpose test examines whether avoiding tax is:

- A. Any purpose
- B. Significant purpose
- C. Primary purpose
- D. Sole purpose

35. Marketing opinions are subject to stricter standards than:

- A. All opinions
- B. Reliance opinions
- C. Written advice
- D. No comparison

36. Practitioner must advise of penalties and may not:

- A. Discuss penalties
- B. Base fees on refund
- C. Represent client
- D. Sign return

37. Tax Court petition must allege that IRS determination is:

- A. Incorrect
- B. Partially wrong
- C. Arbitrary
- D. Wrong

38. Tax Court regular decisions are published and have:

- A. No value
- B. Precedential value
- C. Persuasive value only

D. Limited value

39. Memorandum decisions involve:

- A. Novel issues
- B. Established law
- C. Precedent-setting issues
- D. Constitutional matters

40. Summary opinions are issued in cases under:

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

41. Golsen rule requires Tax Court to follow circuit court of appeals for:

- A. All cases
- B. Taxpayer's residence circuit
- C. DC Circuit
- D. Federal Circuit

42. Appellate review of Tax Court decisions goes to:

- A. District Court
- B. Claims Court
- C. Circuit Court of Appeals
- D. Supreme Court

43. Deficiency jurisdiction means Tax Court can hear cases without:

- A. Attorney
- B. Payment
- C. Petition
- D. Assessment

44. Whistleblower awards are paid for information resulting in collections over:

- A. \$1 million
- B. \$500,000
- C. \$2 million
- D. \$100,000

45. Whistleblower office is part of:

- A. Treasury

- B. Justice Department
- C. IRS
- D. Inspector General

46. Whistleblower awards range from:

- A. 10-20%
- B. 5-25%
- C. 15-30%
- D. 25-50%

47. John Doe summons allows IRS to summon records without identifying taxpayer when investigating:

- A. All cases
- B. Specific taxpayer
- C. Class of taxpayers
- D. Public records

48. Third-party recordkeeper summons notice gives taxpayer:

- A. 10 days
- B. 21 days
- C. 30 days
- D. 60 days

49. Summons enforcement requires IRS to show investigation has legitimate purpose and:

- A. Court approval
- B. Commissioner approval
- C. Information not otherwise available
- D. Criminal intent

50. Transcript of account shows:

- A. Return information
- B. Payment and assessment history
- C. Audit changes
- D. Prior returns

51. Wage and income transcript shows:

- A. Return filed
- B. Payments made
- C. Information returns filed
- D. Credits claimed

52. Account transcript request is made on Form:
- A. 8821
 - B. 2848
 - C. 4506-T
 - D. 4506
53. Copy of return requires Form 4506 and fee of:
- A. \$30
 - B. \$43
 - C. \$50
 - D. No fee
54. Centralized Authorization File holds Form 2848 for:
- A. 1 year
 - B. 2 years
 - C. 3 years
 - D. Indefinitely
55. Third-party designee on return allows IRS to contact designee about:
- A. All matters
 - B. Return preparation questions
 - C. Collection issues
 - D. Processing and math errors
56. Privacy Act requires IRS to maintain systems of records and:
- A. Notify individuals
 - B. Publish descriptions
 - C. Obtain consent
 - D. Report breaches
57. Taxpayer identifying number for individuals is:
- A. EIN
 - B. SSN
 - C. ITIN or SSN
 - D. ATIN
58. ITIN is issued to those who:
- A. Are not eligible for SSN
 - B. Choose not to get SSN
 - C. Are foreign

D. Have no SSN but need TIN

59. Adoption taxpayer identification number is issued for:

- A. All adoptions
- B. Domestic adoptions only
- C. Pending domestic adoptions
- D. Foster children

60. Employer identification number is obtained by filing:

- A. SS-4
- B. W-7
- C. W-7A
- D. Application online or SS-4

61. EIN application must be signed by:

- A. Attorney
- B. Responsible party
- C. All partners
- D. Accountant

62. Penalties for failure to file information returns are per return based on:

- A. Income
- B. Timing of filing
- C. Size of business
- D. Type of return

63. Correct information return is filed on:

- A. Original due date
- B. Extended due date
- C. Within 30 days
- D. By year-end

64. Intentional disregard penalty for information returns is at least:

- A. \$100
- B. \$290
- C. \$580
- D. \$1,000

65. Backup withholding rate is:

- A. 10%

- B. 20%
- C. 24%
- D. 28%

66. Backup withholding applies when payee fails to:

- A. File return
- B. Provide TIN
- C. Pay taxes
- D. Respond to IRS

67. Form W-9 requests:

- A. Employment eligibility
- B. Taxpayer identification information
- C. Withholding allowances
- D. Address

68. Certifications on W-9 include TIN is correct and not subject to:

- A. Levy
- B. Lien
- C. Audit
- D. Backup withholding

69. Frivolous return penalty is:

- A. \$500
- B. \$1,000
- C. \$5,000
- D. \$10,000

70. Trust fund recovery penalty is personal liability for:

- A. All employment taxes
- B. Income tax withheld and employee FICA
- C. Employer FICA only
- D. FUTA

71. Responsible person includes those with authority over:

- A. Daily operations
- B. Hiring
- C. Financial affairs
- D. Tax decisions only

72. Willfulness for trust fund penalty means:
- A. Intentional wrongdoing
 - B. Knowing failure to pay or reckless disregard
 - C. Negligence
 - D. Criminal intent
73. Erroneous refund claims require repayment within:
- A. 10 days
 - B. 30 days
 - C. 60 days
 - D. Demand period
74. Math error authority allows IRS to adjust return without issuing:
- A. Refund
 - B. Bill
 - C. Deficiency notice
 - D. Audit notice
75. Summary assessment applies to:
- A. All taxes
 - B. Income tax only
 - C. Math errors and certain other items
 - D. Deficiencies
76. Jeopardy assessment is made when:
- A. Return not filed
 - B. Collection in jeopardy
 - C. Fraud suspected
 - D. Audit started
77. Termination assessment occurs when:
- A. Business closes
 - B. Taxpayer leaving country or concealing assets
 - C. Bankruptcy filed
 - D. Statute expiring
78. Prompt assessment request shortens statute to:
- A. 90 days
 - B. 6 months
 - C. 18 months

D. 1 year

79. Transferee liability applies to person receiving property from taxpayer who:

- A. Paid fair value
- B. Received gift
- C. Cannot pay
- D. Received for less than value while insolvent

80. Nominee liability applies when property titled in name of:

- A. Taxpayer
- B. Another to avoid collection
- C. Spouse
- D. Corporation

81. Alter ego theory treats separate entity as:

- A. Partnership
- B. Individual's alter ego
- C. Related party
- D. Controlled entity

82. Fraudulent conveyance is transfer made to:

- A. Related party
- B. Defraud creditors
- C. Spouse
- D. Lower taxes

83. Injunction against tax return preparers requires showing of:

- A. One violation
- B. Pattern of misconduct
- C. Willfulness
- D. Negligence

84. Promoter penalties apply to those who organize or sell:

- A. Tax services
- B. Abusive tax shelters
- C. Tax software
- D. Consulting

85. Listed transaction is transaction that IRS has determined is:

- A. Legal

- B. Common
- C. Abusive tax avoidance
- D. Complex

86. Reportable transaction disclosure requires Form:

- A. 8275
- B. 8886
- C. 8300
- D. 8275-R

87. Material advisor must file Form:

- A. 8918
- B. 8275
- C. 8886
- D. 8300

88. Penalty for failure to disclose reportable transaction is:

- A. \$10,000 individuals/\$50,000 others
- B. \$5,000
- C. \$25,000
- D. \$100,000

89. Tax return preparer's disclosure of tax return information is permitted:

- A. Never
- B. For quality review
- C. To other preparers
- D. With verbal consent

90. Treasury Inspector General for Tax Administration investigates:

- A. Taxpayers
- B. Preparers
- C. IRS employees and programs
- D. Fraud

91. National Taxpayer Advocate reports to:

- A. Commissioner
- B. Treasury Secretary
- C. Congress directly
- D. President

92. Local Taxpayer Advocates are located in each:
- A. State
 - B. IRS office
 - C. Region
 - D. Service center
93. Taxpayer Assistance Orders can require IRS to:
- A. Reduce tax
 - B. Release levy or cease action
 - C. Accept offer
 - D. Waive penalties
94. IRS Independent Office of Appeals was created to:
- A. Hear Tax Court cases
 - B. Provide independent review
 - C. Collect taxes
 - D. Audit returns
95. Appeals conference is informal and does not require:
- A. Representative
 - B. Testimony under oath
 - C. Documentation
 - D. Written protest
96. Hazards of litigation are considered by Appeals in evaluating:
- A. Collection potential
 - B. Settlement possibilities
 - C. Penalty abatement
 - D. Statute expiration
97. Appeals mediation is available for:
- A. All cases
 - B. Certain disputes
 - C. Tax Court cases only
 - D. Collection cases
98. Fast Track Mediation is available during:
- A. Examination
 - B. Collection
 - C. Appeals

D. Litigation

99. Arbitration in Appeals is:

- A. Mandatory
- B. Binding
- C. Voluntary and binding on factual issues
- D. Not available

100. Post-appeals mediation is available after:

- A. Tax Court decision
- B. Appeals determination
- C. Assessment
- D. Collection begins

Answer Explanations - Practice Test 5

Part 1: Individuals

1. Correct Answer: C (\$21,900)

The head of household standard deduction for 2024 is \$21,900. This filing status is available to unmarried taxpayers who pay more than half the cost of maintaining a home for themselves and a qualifying person. The HOH standard deduction is higher than single (\$14,600) but lower than married filing jointly (\$29,200), recognizing the additional expenses of supporting a household with dependents.

2. Correct Answer: A (Parent)

A qualifying relative can include a parent who doesn't need to live with the taxpayer. Most other qualifying relatives must live with the taxpayer for the entire year to qualify (such as non-related individuals or distant relatives). However, parents are an exception—they can maintain their own residence and still qualify as dependents if the taxpayer provides over half their support and they meet the gross income test.

3. Correct Answer: D (50%)

The support test for a qualifying relative requires the taxpayer to provide over 50% (more than half) of the person's total support for the year. Support includes amounts spent on food, lodging, clothing, medical care, education, and similar items. The taxpayer's contributions must exceed the total support from all sources, including the dependent's own funds.

4. Correct Answer: B (\$4,700)

For 2024, the gross income limit for a qualifying relative is \$4,700. The dependent's gross income (excluding tax-exempt income like Social Security or certain scholarships) must be less than this amount. This test doesn't apply to qualifying children, only qualifying relatives. The amount is adjusted annually for inflation.

5. Correct Answer: C (15.3%)

The self-employment tax rate on net self-employment earnings is 15.3%, consisting of 12.4% for Social Security and 2.9% for Medicare. This rate mirrors the combined employer and employee FICA tax that wage earners pay. Self-employed individuals pay both portions but can deduct half of the self-employment tax as an adjustment to income.

6. Correct Answer: A (12.4%)

The Social Security portion of self-employment tax is 12.4% of net earnings from self-employment (after the 92.35% adjustment). This portion only applies to earnings up to the Social Security wage base (\$168,600 for 2024). Above that threshold, only the 2.9% Medicare portion applies, with an additional 0.9% Medicare tax on earnings exceeding \$200,000 (single) or \$250,000 (MFJ).

7. Correct Answer: D (\$3,700)

When both spouses are age 65 or older, the additional standard deduction for married filing jointly is \$3,700 (\$1,850 per qualifying spouse). Each spouse age 65+ adds \$1,850 to the base standard deduction. If one spouse is 65+ and the other is under 65, the addition is \$1,850. Blind taxpayers receive the same additional amount as those 65+.

8. Correct Answer: C (Earned income plus \$450)

A dependent's standard deduction is the greater of \$1,300 or earned income plus \$450, but not exceeding the regular standard deduction for their filing status. This formula ensures dependents with earned income can deduct a portion of work-related expenses while preventing those with only unearned income from using the full standard deduction to shelter investment income.

9. Correct Answer: B (\$79,000)

For 2024, the IRA deduction phase-out for single filers covered by a workplace retirement plan begins at modified AGI of \$79,000 and completes at \$89,000. Taxpayers without workplace plan coverage can deduct traditional IRA contributions regardless of income. The phase-out ensures higher-income workers with retirement plan access don't receive double tax benefits.

10. Correct Answer: A (\$230,000)

For 2024, the spousal IRA contribution deduction phase-out for a spouse not covered by a workplace plan (but whose spouse is covered) begins at \$230,000 modified AGI for married filing jointly and completes at \$240,000. This allows non-working or lower-earning spouses to make deductible IRA contributions even when their spouse has workplace plan coverage, subject to income limits.

11. Correct Answer: D (Full tax year residence)

The bona fide residence test for foreign earned income exclusion requires the taxpayer to be a bona fide resident of a foreign country for an uninterrupted period that includes an entire tax year. This differs from the physical presence test (330 days in any 12-month period). The bona fide residence test focuses on intent and facts showing the taxpayer established a residence abroad.

12. Correct Answer: C (Transportation and storage)

Qualified moving expenses for active duty military include transportation and storage of household goods and travel from the old home to the new home. Under the Tax Cuts and Jobs Act, moving expense deductions were eliminated for most taxpayers but remain available for active duty military members moving due to military orders. Meals, house hunting, and temporary lodging are not deductible even for military.

13. Correct Answer: B (Rental activities)

Passive activity loss rules apply primarily to rental activities and businesses in which the taxpayer doesn't materially participate. Rental activities are automatically passive regardless of participation level, unless the taxpayer qualifies as a real estate professional. The rules prevent taxpayers from using passive losses to offset active income (wages, business income) or portfolio income (interest, dividends).

14. Correct Answer: D (12 weeks)

The exception to the 10% early IRA distribution penalty for health insurance premiums applies to taxpayers who have been unemployed for at least 12 consecutive weeks and received unemployment compensation. The exception allows penalty-free distributions (still subject to income tax) for health insurance premiums for the taxpayer, spouse, and dependents. The exception ends when the taxpayer is reemployed for 60 days.

15. Correct Answer: A (Taxable income)

Converting a traditional IRA to a Roth IRA creates taxable income equal to the value of the converted amount minus any nondeductible (basis) contributions. The entire conversion is taxed as ordinary income in the year of conversion but is not subject to the 10% early distribution penalty. Once converted and the 5-year period met, future qualified distributions are tax-free.

16. Correct Answer: C (Educator expenses)

Educator expenses are above-the-line deductions, meaning they reduce adjusted gross income and are available whether the taxpayer itemizes or takes the standard deduction. Other above-the-line deductions include IRA contributions, student loan interest, self-employment tax deduction, self-employed health insurance, and HSA contributions. Medical expenses, state taxes, and mortgage interest are itemized deductions.

17. Correct Answer: B (Net self-employment income)

The self-employed health insurance deduction is limited to net self-employment income from the business under which the health insurance plan is established. The deduction cannot create or increase a loss from self-employment. Additionally, the deduction is not allowed for any month the taxpayer or spouse was eligible to participate in an employer-subsidized health plan.

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

The student loan interest deduction maximum 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 available to all qualifying taxpayers. The deduction phases out for single filers with MAGI between \$80,000-\$95,000 (\$165,000-\$195,000 MFJ). Interest must be for qualified education loans.

19. Correct Answer: D (Interest income)

Original issue discount (OID) on bonds and other debt instruments must be reported annually as interest income, even though no cash is received until maturity or sale. OID represents the difference between the issue price and stated redemption price at maturity. Taxpayers must include a portion of the OID in income each year based on the constant yield method, increasing their basis in the instrument.

20. Correct Answer: C (Qualified education expenses)

U.S. savings bond interest can be excluded from income when the proceeds are used to pay qualified education expenses (tuition and fees, not room and board) for the taxpayer, spouse, or dependent at an eligible institution. The bonds must be Series EE or I bonds issued after 1989, purchased by a taxpayer age 24 or older. The exclusion phases out at higher income levels.

21. Correct Answer: B (5 years)

The exclusion for qualified small business stock (QSBS) under Section 1202 requires holding the stock for more than 5 years. The exclusion can be 50%, 75%, or 100% of the gain depending on when the stock was acquired, with a maximum exclusion of the greater of \$10 million or 10 times the taxpayer's basis. The stock must be from a domestic C corporation with gross assets of \$50 million or less.

22. Correct Answer: D (\$50,000 for all taxpayers)

Section 1244 stock allows ordinary loss treatment (rather than capital loss) up to \$50,000 per year (\$100,000 for married filing jointly) when small business stock becomes worthless or is sold at a loss. This treatment is more favorable than capital loss treatment because ordinary losses can offset all types of income without the \$3,000 annual limitation. The stock must meet specific requirements regarding the corporation's size and activities.

23. Correct Answer: A (Insolvent)

Cancellation of debt income is generally taxable but can be excluded if the taxpayer is insolvent (liabilities exceed assets) immediately before the debt cancellation. The exclusion is limited to the amount of insolvency. Other exceptions include bankruptcy, qualified farm debt, qualified real property business

debt, and qualified principal residence debt (for certain periods). The exclusion may require basis reduction in assets.

24. Correct Answer: C (Cancellation of debt)

Form 1099-C reports cancellation of debt income to the taxpayer and IRS. Financial institutions and creditors must issue Form 1099-C when \$600 or more of debt is cancelled or forgiven. The form includes the amount of debt cancelled, the date, and whether the debt was cancelled in bankruptcy. Taxpayers use this information to determine if the cancelled debt must be included in income or qualifies for exclusion.

25. Correct Answer: B (14039-B)

Identity theft victims who are unable to file their tax return because someone else filed using their SSN should file Form 14039, Identity Theft Affidavit. Form 14039-B is specifically for business-related identity theft. The affidavit alerts the IRS to the identity theft and helps resolve filing issues. The IRS will issue an Identity Protection PIN for future returns.

26. Correct Answer: D (8379)

Injured spouse allocation is requested on Form 8379, Injured Spouse Allocation. This form is filed when a taxpayer's share of a joint refund was (or is expected to be) applied to their spouse's past-due federal taxes, state taxes, child support, or student loans. The form allocates income, deductions, and credits between spouses to determine the injured spouse's portion of the refund.

27. Correct Answer: C (Enlisted personnel and warrant officers)

Combat zone compensation exclusion applies fully to enlisted personnel and warrant officers serving in combat zones. All compensation received while in a combat zone is excludable from gross income. For officers, the exclusion is limited to the highest rate of enlisted pay plus imminent danger pay. The exclusion helps ensure that those serving in dangerous areas don't face tax burdens from combat pay.

28. Correct Answer: A (Imminent danger pay)

For officers, the combat pay exclusion is limited to the highest enlisted pay rate plus imminent danger pay received. This cap ensures senior officers with higher compensation still pay tax on a portion of their income, while giving them some exclusion benefit for combat zone service. Enlisted personnel and warrant officers can exclude all combat zone compensation.

29. Correct Answer: B (Excluded from income for income tax)

Clergy housing allowance is excluded from income for federal income tax purposes but is subject to self-employment tax. The exclusion applies to rental allowances or the fair rental value of a parsonage provided to clergy. The amount excluded is limited to the lesser of: the amount designated as housing allowance, actual housing expenses, or fair rental value of the home plus furnishings and utilities.

30. Correct Answer: D (Is deducted on Schedule 1)

Jury duty pay that an employee is required to turn over to their employer is deductible as an adjustment to income on Schedule 1. The employee must include the jury duty pay in income (reported on Form 1099-MISC or 1099-NEC), then deducts the amount turned over to the employer. This adjustment prevents double taxation when the employer continues salary during jury duty.

31. Correct Answer: C (Transferred directly to charity)

Prizes and awards are generally taxable income, but an exception exists if the prize is transferred directly to a qualified charity without the recipient taking possession. Additionally, employee achievement awards for length of service or safety achievement may be excludable if they meet specific requirements. Prizes for religious, charitable, scientific, educational, artistic, or civic achievement (like the Nobel Prize) may also qualify for exclusion if transferred to charity.

32. Correct Answer: A (\$1,600 for qualified plan awards)

Employee achievement awards are excludable up to \$400 for non-qualified plan awards and up to \$1,600 for qualified plan awards. The awards must be tangible personal property (not cash or securities) given for length of service or safety achievement. Qualified plans have written requirements and don't discriminate in favor of highly compensated employees.

33. Correct Answer: D (Excludable under certain conditions)

Meals provided by the employer for the employer's convenience on the employer's business premises are excludable from the employee's income under Section 119. The meals must be provided for a substantial noncompensatory business reason (such as requiring employees to be available for emergencies or because suitable meal facilities are not available nearby). Since 2018, employers can deduct only 50% of the cost.

34. Correct Answer: B (Infrequent and low value)

De minimis fringe benefits must be so small in value and provided so infrequently that accounting for them would be unreasonable or administratively impracticable. Examples include occasional personal use of the office copier, holiday gifts of low value, coffee and snacks, occasional tickets to events, and flowers for special occasions. There's no specific dollar threshold—it's based on facts and circumstances.

35. Correct Answer: C (\$315 per month)

Qualified transportation fringe benefits are excluded up to \$315 per month for 2024 (adjusted annually for inflation) for transit passes and vanpooling, and a separate \$315 per month for qualified parking. The Tax Cuts and Jobs Act eliminated the employer deduction for these benefits after 2017, but employees can still exclude the value. Bicycle commuting benefits were suspended through 2025.

36. Correct Answer: D (\$16,810)

Employer-provided adoption assistance programs can exclude up to approximately \$16,810 per child for 2024 (adjusted annually). The exclusion covers reasonable adoption fees, court costs, attorney fees, and travel expenses. It phases out for employees with modified AGI beginning around \$252,150. The

exclusion and credit cannot both be claimed for the same expenses, but can apply to different expenses for the same adoption.

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

Dependent care assistance provided under an employer program can be excluded up to \$5,000 (\$2,500 if married filing separately). The program must be a written plan that doesn't discriminate in favor of highly compensated employees. The exclusion reduces the expenses eligible for the dependent care credit dollar-for-dollar, preventing double tax benefits.

38. Correct Answer: B (\$5,250)

Educational assistance programs can exclude up to \$5,250 per year for employer-provided education benefits. The exclusion covers tuition, fees, books, supplies, and equipment for both graduate and undergraduate courses. The education doesn't need to be job-related. The program must be a written plan meeting nondiscrimination requirements. Amounts over \$5,250 are taxable unless they qualify as working condition fringe benefits.

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

Group term life insurance provided by an employer is excluded for coverage up to \$50,000. Coverage exceeding \$50,000 results in taxable income calculated using the IRS Uniform Premium Table based on the employee's age. The cost of the first \$50,000 is excluded even if the employee pays the entire premium. Former employees can generally exclude \$50,000 if the employer provides coverage.

40. Correct Answer: A (During open enrollment or qualifying event)

Cafeteria plan participants can generally make election changes only during the annual open enrollment period or when experiencing a qualifying life event (marriage, divorce, birth, death, change in employment status). The change must be consistent with the life event. Some cafeteria plans allow mid-year changes for certain benefits without a life event, such as increasing or decreasing HSA contributions.

41. Correct Answer: D (High deductible health plan)

Health Savings Accounts require enrollment in a high deductible health plan (HDHP) and no other health coverage (with certain exceptions for specific coverage like dental or vision). The HDHP must meet minimum deductible and maximum out-of-pocket requirements. HSA contributions are deductible, grow tax-free, and can be distributed tax-free for qualified medical expenses. After age 65, non-medical distributions are penalty-free but taxable.

42. Correct Answer: B (\$1,600)

For 2024, an HDHP must have a minimum deductible of \$1,600 for self-only coverage and \$3,200 for family coverage. The plan must also have maximum out-of-pocket limits of \$8,050 for self-only and \$16,100 for family coverage. These amounts are adjusted annually for inflation. Meeting these requirements qualifies an individual to contribute to an HSA.

43. Correct Answer: C (\$3,200)

The FSA health care flexible spending arrangement maximum contribution for 2024 is approximately \$3,200 (adjusted annually for inflation). FSAs are "use it or lose it" accounts, though employers may allow a \$640 carryover to the following year or a 2.5-month grace period. FSA contributions are made pre-tax and reduce both income and FICA taxes, making them valuable even for those with high deductibles.

44. Correct Answer: D (26)

ABLE account beneficiaries must have become disabled before age 26. These accounts allow tax-advantaged savings for disability-related expenses for individuals with significant disabilities. Contributions are not federally deductible (though some states offer deductions) but grow tax-free. Distributions for qualified disability expenses are tax-free. The age 26 requirement ensures the disability began during childhood or young adulthood.

45. Correct Answer: A (Percentage of deductible)

Archer MSA (Medical Savings Account) contributions are limited to a percentage of the HDHP deductible: 65% for self-only coverage, 75% for family coverage. Archer MSAs are generally not available to new participants after 2007, but those with existing accounts can continue contributions. They function similarly to HSAs but with different contribution limits and eligibility requirements.

46. Correct Answer: C (7.5% floor)

Long-term care insurance premiums are deductible as medical expenses subject to age-based limits and the 7.5% of AGI floor that applies to all medical expense deductions. The age-based limits for 2024 are: \$470 (age 40 or less), \$880 (41-50), \$1,760 (51-60), \$4,710 (61-70), and \$5,880 (over 70). Only qualified long-term care insurance contracts qualify for the deduction.

47. Correct Answer: B (\$1,590)

Long-term care insurance premium deductions are subject to age-based limits that are adjusted annually for inflation. For taxpayers age 41-50 at the end of the tax year, the deduction limit is approximately \$1,590 (for 2024). The limits increase with age: approximately \$530 for age 40 or younger, \$1,590 for age 41-50, \$3,180 for age 51-60, \$4,770 for age 61-70, and \$5,960 for age 71 or older. These limits apply to premiums for qualified long-term care insurance contracts. The premiums are deductible as medical expenses subject to the 7.5% of AGI floor when combined with other medical expenses. The age-based structure recognizes that long-term care insurance premiums increase significantly with age.

48. Correct Answer: A (Deductible as medical expense)

Medicare Part B and Part D premiums are deductible as medical expenses, subject to the 7.5% of AGI floor. This includes premiums for Medicare supplement (Medigap) policies. Self-employed individuals who qualify for the self-employed health insurance deduction can deduct Medicare premiums above-the-line (not subject to the 7.5% floor). Medicare premiums are not deductible if the taxpayer's employer pays them tax-free.

49. Correct Answer: D (Necessary due to disease or injury)

Cosmetic surgery is deductible as a medical expense only if necessary to correct a deformity arising from a congenital abnormality, personal injury, or disfiguring disease. Purely elective cosmetic procedures performed to improve appearance are not deductible. Examples of deductible procedures include reconstruction after mastectomy or repair of injuries from an accident. Procedures like face lifts and teeth whitening for appearance are not deductible.

50. Correct Answer: C (Prescribed for specific disease)

Weight loss program costs are deductible if the weight loss is a treatment for a specific disease diagnosed by a physician (such as obesity, hypertension, or heart disease). Programs for general health improvement or appearance are not deductible. The cost of the program itself is deductible, but the cost of diet food is not (since it substitutes for regular food). Gym memberships are generally not deductible even if recommended by a doctor.

51. Correct Answer: B (1099-DIV)

Capital gain distributions from mutual funds are reported to taxpayers on Form 1099-DIV in Box 2a. These distributions represent the fund's net capital gains passed through to shareholders. Even though reported on the dividend form, capital gain distributions are reported on Schedule D and Form 8949 as long-term capital gains (even if the taxpayer held the fund shares short-term).

52. Correct Answer: A (2026)

Qualified opportunity zone investments allow deferral of capital gain until December 31, 2026, or when the QOZ investment is sold, whichever is earlier. The investment must be made within 180 days of recognizing the gain. If held for at least 5 years (before 2026), 10% of the deferred gain is excluded; if held 7 years, 15% is excluded. If held for 10 years, appreciation on the QOZ investment itself can be excluded.

53. Correct Answer: D (10 times basis or \$10 million)

Section 1202 gain exclusion for qualified small business stock can be up to the greater of \$10 million or 10 times the taxpayer's adjusted basis in the stock. The exclusion percentage is 50%, 75%, or 100% depending on when the stock was acquired (100% for stock acquired after September 27, 2010). The stock must be from a domestic C corporation with gross assets of \$50 million or less when issued and must be held more than 5 years.

54. Correct Answer: C (Form 8949)

Cryptocurrency transactions are reported on Form 8949, Sales and Other Dispositions of Capital Assets, which feeds into Schedule D. Each transaction (sale, exchange, or use of cryptocurrency) must be reported separately with basis and proceeds. Mining, staking rewards, and cryptocurrency received as payment for services are reported as ordinary income. The IRS requires checking a box on Form 1040 indicating whether the taxpayer had any virtual currency transactions.

55. Correct Answer: B (Received)

Staking rewards are taxed as ordinary income when received (when the taxpayer gains dominion and control over the rewards). The fair market value at the time of receipt becomes the basis. Later sale of the staking rewards generates capital gain or loss. This treatment follows the general principle that income is taxed when realized and the taxpayer has access to it.

56. Correct Answer: C (Market value at receipt)

Mining cryptocurrency creates ordinary income equal to the fair market value of the cryptocurrency on the date it's received (successfully mined). This income is taxable in the year received, even if the cryptocurrency is not sold. The IRS treats mined cryptocurrency as payment for services (providing computing power to validate blockchain transactions), similar to receiving property as compensation. The fair market value at receipt becomes the taxpayer's basis in the cryptocurrency. When later sold, the taxpayer recognizes capital gain or loss based on the difference between the sale proceeds and this basis. Mining expenses (electricity, equipment, depreciation) can be deducted as business expenses on Schedule C if mining is a trade or business, or as miscellaneous expenses subject to limitations if a hobby.

57. Correct Answer: A (2018)

Like-kind exchange treatment for cryptocurrency (and other personal property) was eliminated by the Tax Cuts and Jobs Act for exchanges after December 31, 2017. Starting in 2018, Section 1031 like-kind exchanges apply only to real property. Cryptocurrency exchanges are now taxable events, with the owner recognizing gain or loss equal to the difference between basis and fair market value of the property received.

58. Correct Answer: C (Fair market value)

Bartering income must be reported at fair market value. When services or property are exchanged, both parties recognize income equal to the FMV of the property or services received. Bartering exchanges must report these transactions on Form 1099-B. The FMV of property or services received becomes the taxpayer's basis in that property, ensuring proper tax treatment on subsequent disposition.

59. Correct Answer: B (Ordinary income)

Virtual currency received as payment for services is ordinary income (like cash payment) reported at the fair market value at the time of receipt. This applies to employees receiving cryptocurrency as wages (reported on W-2) or independent contractors receiving it as compensation (reported on 1099-NEC). The FMV at receipt becomes the basis for determining future gain or loss when the cryptocurrency is sold or exchanged.

60. Correct Answer: A (15 years)

The first-time homebuyer credit (available for homes purchased in 2008-2010) generally required repayment over 15 years, essentially making it an interest-free loan. For homes purchased in 2008, repayment is \$500 per year (\$7,500 credit ÷ 15 years). The 2009-2010 credit (\$8,000) had different rules

and was not required to be repaid unless the home was sold within 3 years or ceased to be the principal residence.

61. Correct Answer: D (\$5.65 per square foot)

The energy efficient commercial building deduction under Section 179D can be up to \$5.65 per square foot for 2024 (adjusted for inflation) for buildings meeting enhanced energy efficiency standards. The deduction applies to systems installed as part of interior lighting, HVAC, or building envelope improvements. The building must achieve specified energy savings compared to a reference building. Designers can claim the deduction for government buildings.

62. Correct Answer: C (\$300,000 MAGI)

The new clean vehicle credit income limitation for married filing jointly in 2024 is \$300,000 modified AGI (\$225,000 for head of household, \$150,000 for other filers). The credit is up to \$7,500 and applies to new electric vehicles meeting battery capacity and assembly requirements. The credit phases in 2024 from being claimed on the tax return to being available as a point-of-sale rebate.

63. Correct Answer: B (\$4,000)

The used clean vehicle credit is limited to \$4,000 or 30% of the sale price, whichever is less. The credit applies to used electric vehicles meeting specific requirements: model year at least 2 years earlier than purchase year, sale price under \$25,000, vehicle must be for personal use, and purchaser cannot have claimed the used credit in the prior 3 years. Income limits also apply: \$150,000 MFJ, \$112,500 HOH, \$75,000 others.

64. Correct Answer: D (\$15 million)

The election to expense qualified film and television production costs applies to productions costing up to \$15 million (\$20 million in certain low-income or distressed communities). Without this election, production costs would need to be capitalized and amortized. At least 75% of compensation must be for services performed in the U.S. The production must be set for initial release in theaters or television.

65. Correct Answer: A (2017)

The domestic production activities deduction under Section 199 was repealed for tax years beginning after December 31, 2017, by the Tax Cuts and Jobs Act. This deduction allowed taxpayers to deduct up to 9% of qualified production activities income. It was replaced by the Section 199A deduction for qualified business income from pass-through entities, which provides broader benefits to more taxpayers.

66. Correct Answer: C (Income)

Excess advance premium tax credit must be repaid, but repayment caps are based on household income as a percentage of the federal poverty line. Higher-income taxpayers may face larger repayment obligations. The caps limit financial burden on lower-income households who received advance credits exceeding what they were entitled to based on actual annual income.

67. Correct Answer: B (Marketplace)

Form 1095-A, Health Insurance Marketplace Statement, is provided by the Health Insurance Marketplace (Exchange) to individuals who obtained coverage through the Marketplace. It shows monthly enrollment information and advance premium tax credit payments. Taxpayers use this form to complete Form 8962 to reconcile advance credits with the actual premium tax credit based on final household income.

68. Correct Answer: D (2019)

The individual shared responsibility payment (penalty for not having minimum essential health coverage) was reduced to zero starting in 2019 by the Tax Cuts and Jobs Act. For 2018 and earlier years, individuals without coverage and without an exemption had to pay a penalty. Some states have enacted their own individual mandates with state-level penalties.

69. Correct Answer: A (2020 and 2021)

Recovery rebate credit was available for 2020 and 2021 to provide economic stimulus during the COVID-19 pandemic. Taxpayers who didn't receive the full advance payment could claim the credit on their tax returns. The credit amounts were \$1,200/\$2,400 plus \$500 per child (2020) and \$1,400 per person including dependents (2021). The credit phases out at higher income levels.

70. Correct Answer: C (Full-time students)

The retirement savings contributions credit (Saver's Credit) is not available to full-time students, individuals under age 18, or those claimed as dependents on another person's return. The credit is designed to encourage retirement savings by lower and moderate-income workers. It equals 10%, 20%, or 50% of qualified retirement contributions up to \$2,000, depending on AGI.

71. Correct Answer: B (5 years)

The adoption credit carryforward period is 5 years. If the credit exceeds tax liability in the year the adoption is finalized, the excess can be carried forward for up to 5 years. The credit cannot be carried back. After 5 years, any unused credit expires. The credit is nonrefundable, so it can only reduce tax to zero, not create a refund.

72. Correct Answer: D (Form 1116)

The foreign tax credit is claimed on Form 1116, Foreign Tax Credit (Individual, Estate, or Trust). The credit reduces U.S. tax liability by the amount of income taxes paid to foreign countries, preventing double taxation of foreign-source income. The credit is limited to the amount of U.S. tax on foreign-source income. Taxpayers can elect to deduct foreign taxes on Schedule A instead of claiming the credit.

73. Correct Answer: A (Schedule 1)

Excess social security tax withheld (when an employee works for multiple employers and total withholding exceeds the maximum) is claimed as a credit on Schedule 3, which flows to Form 1040. For 2024, if total SS wages exceed \$168,600 and SS tax withheld exceeds \$10,453, the excess is refunded.

This only applies to multiple employers—excess withholding by one employer must be corrected by that employer.

74. Correct Answer: C (Passive income)

Net investment income for NIIT purposes includes interest, dividends, capital gains, rental and royalty income (unless from an active trade or business), passive business income, and income from trading financial instruments or commodities. It does not include wages, self-employment income, Social Security benefits, tax-exempt interest, or distributions from qualified retirement plans. Active business income is also excluded.

75. Correct Answer: D (Distribution from qualified plans)

NIIT does not apply to distributions from qualified retirement plans (401(k), IRA, pension plans), even though they may be included in gross income. The tax specifically targets investment income, not retirement income. Also excluded are wages, self-employment income, Social Security benefits, unemployment compensation, and tax-exempt interest.

76. Correct Answer: B (\$200,000 for all except MFJ)

Additional Medicare Tax of 0.9% applies to wages, self-employment income, and RRTA compensation exceeding \$200,000 for single, head of household, and qualifying widow(er); \$250,000 for married filing jointly; and \$125,000 for married filing separately. Unlike regular Medicare tax, there's no employer portion—it's entirely the employee/self-employed individual's responsibility. Employers withhold when individual wages exceed \$200,000.

77. Correct Answer: A (Form RRB-1099)

Railroad retirement benefits are reported on Form RRB-1099, not SSA-1099. The form shows Tier 1 benefits (equivalent to Social Security), Tier 2 benefits (equivalent to a pension), Vested Dual Benefits, and Supplemental Annuity benefits. Each tier may have different tax treatment—Tier 1 is taxed like Social Security benefits, while Tier 2 is taxed like pension income.

78. Correct Answer: C (Social Security)

Tier 1 railroad retirement benefits are treated like Social Security benefits for tax purposes. They may be partially taxable using the same computation as Social Security (up to 85% taxable depending on combined income). Tier 2 benefits are treated like pension income and are fully taxable. The separation ensures equivalent tax treatment for railroad retirees and Social Security recipients.

79. Correct Answer: D (Taxable)

Scholarship income used for expenses other than tuition and fees (such as room and board) is taxable. Only amounts used for qualified education expenses (tuition, fees, books, supplies, equipment required for courses) are tax-free. Scholarship amounts for room, board, travel, or other personal expenses must be included in gross income. For dependent students, this unearned income may be subject to the kiddie tax.

80. Correct Answer: B (\$5,250)

Student loan repayment assistance from an employer can be excluded from income up to \$5,250 per year under Section 127 educational assistance programs. This provision was added by the CARES Act for 2020 and has been extended through 2025. The exclusion applies to both principal and interest payments on qualified education loans. The same \$5,250 limit applies combined with other educational assistance.

81. Correct Answer: A (Excludable)

Discharge of student loans due to death or total and permanent disability of the student is excludable from gross income. This provision prevents disabled or deceased students' estates from owing tax on forgiven student loan debt. The exclusion was made permanent for discharges after 2017 for federal student loans and after 2020 for private student loans.

82. Correct Answer: C (Grade 12)

The educator expense deduction applies to eligible educators teaching kindergarten through grade 12. College instructors don't qualify for this deduction. Eligible educators include teachers, instructors, counselors, principals, and aides working at least 900 hours during the school year. The deduction is \$300 per educator (\$600 for married couples both qualifying) for unreimbursed classroom expenses.

83. Correct Answer: D (Expired after 2020)

The tuition and fees deduction expired after December 31, 2020. This above-the-line deduction allowed up to \$4,000 for qualified tuition and fees with income phase-outs. After its expiration, taxpayers must use education credits (American Opportunity or Lifetime Learning) or itemize if state tax deduction is available. The tuition and fees deduction had been extended multiple times before final expiration.

84. Correct Answer: B (Lifetime Learning Credit)

The same expenses cannot be used for both the American Opportunity Tax Credit and the Lifetime Learning Credit. Taxpayers must choose one credit per student per year. Additionally, expenses used for either credit cannot also be paid with tax-free scholarships, grants, or distributions from 529 plans or Coverdell ESAs. This prevents double tax benefits for the same expenses.

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

The American Opportunity Tax Credit phase-out for single filers begins at approximately \$80,000 modified AGI and completes at \$90,000. For married filing jointly, the phase-out is \$160,000-\$180,000. Within the phase-out range, the credit is proportionally reduced. Above the upper limit, no credit is available. The credit is worth up to \$2,500 per student for the first four years of post-secondary education.

86. Correct Answer: A (\$80,000)

The Lifetime Learning Credit phases out for single filers beginning at \$80,000 modified AGI and completing at \$90,000. For married filing jointly, the phase-out is \$160,000-\$180,000. These are the same

ranges as AOTC. The LLC is worth up to \$2,000 per tax return (not per student) and can be claimed for undergraduate, graduate, and professional courses with no limit on years.

87. Correct Answer: D (30)

Coverdell ESA beneficiaries must use funds by age 30, or the account must be transferred to another family member under age 30. Amounts remaining after age 30 are distributed and taxed, plus a 10% penalty on earnings. Special needs beneficiaries are exempt from the age 30 requirement. This age limit encourages use of funds for education rather than indefinite tax-deferred accumulation.

88. Correct Answer: B (\$35,000 lifetime)

Starting in 2024, 529 plan accounts can be rolled over to a Roth IRA for the beneficiary, subject to a \$35,000 lifetime limit. The 529 account must have been open for at least 15 years. Annual rollovers are limited to the Roth IRA contribution limit for that year. Contributions and earnings from the last 5 years cannot be rolled over. This provides an option for unused 529 funds.

89. Correct Answer: C (Paid by student if dependent)

Student loan interest paid by parents is treated as paid by the student if the student is not claimed as a dependent. However, if the student is claimed as a dependent, the parent cannot deduct the interest (only the student liable on the loan can deduct), but the student also cannot deduct it because they didn't actually pay it. This creates a gap where no one gets the deduction.

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

Penalty-free IRA distributions for birth or adoption are limited to \$5,000 per child. The distribution must be taken within one year of the birth or finalization of adoption. The distribution is still subject to income tax but not the 10% early distribution penalty. Married couples can each take \$5,000 from their respective IRAs for the same child, totaling \$10,000.

91. Correct Answer: D (\$100,000)

Qualified disaster distributions from retirement plans can total up to \$100,000 for each qualified disaster. The distribution can be taken within a specified time period after the disaster (typically one year). The distribution is not subject to the 10% early withdrawal penalty. Income can be spread over three years, and the taxpayer can repay the distribution within three years, avoiding tax on the repayment.

92. Correct Answer: C (120 days)

First-time homebuyer distributions from an IRA must be used within 120 days of receiving the distribution to buy, build, or rebuild a first home. The definition of "first-time" is no ownership interest in a principal residence during the prior 2 years. The exception allows up to \$10,000 lifetime penalty-free (still taxable) for the taxpayer, spouse, or certain family members' homes.

93. Correct Answer: B (Age 59½)

Substantially equal periodic payments (SEPP) from an IRA must continue for the greater of 5 years or until age 59½ to avoid the 10% early distribution penalty. Once started, the payment schedule cannot be modified (except in case of death or disability) without triggering the penalty retroactively. This exception allows early retirement without penalty for those who commit to a payment schedule.

94. Correct Answer: A (60 days)

Rollovers from retirement accounts must generally be completed within 60 days of receiving the distribution. The IRS can waive this requirement for circumstances beyond the taxpayer's control. Direct trustee-to-trustee transfers are not subject to the 60-day rule because the taxpayer never receives the funds. Indirect rollovers trigger mandatory 20% withholding from employer plans, which must be replaced from other funds.

95. Correct Answer: D (No withholding or penalty)

Direct rollovers from employer plans (trustee-to-trustee transfers where the taxpayer never receives the funds) are not subject to mandatory withholding or early distribution penalties. The funds move directly from one retirement account to another. This differs from indirect rollovers where the taxpayer receives the distribution, triggering 20% mandatory withholding and potential penalties if not completed within 60 days.

96. Correct Answer: C (After-tax dollars)

Roth 401(k) contributions are made with after-tax dollars—they're not deductible. In exchange, qualified distributions (after age 59½ and 5-year holding period) are completely tax-free including earnings. Roth 401(k)s combine features of traditional 401(k)s (high contribution limits, employer plans) with Roth IRAs (tax-free qualified distributions). Unlike Roth IRAs, Roth 401(k)s have no income limits for participation.

97. Correct Answer: B (73)

The required beginning date for required minimum distributions is April 1 of the year following the year of reaching age 73 for those turning 72 in 2023 or later. The SECURE 2.0 Act raised the age from 72 to 73 starting in 2023, and will raise it to 75 in 2033. Subsequent RMDs are due by December 31 each year. Roth IRAs don't require RMDs during the owner's lifetime.

98. Correct Answer: D (25%)

Failure to take required minimum distributions results in an excise tax of 25% of the amount not distributed (reduced to 10% if corrected within a correction window). Previously, the penalty was 50%. The SECURE 2.0 Act reduced the penalty to encourage compliance while reducing the burden on those who make inadvertent errors. The penalty applies in addition to owing the distribution and applicable income tax.

99. Correct Answer: A (6%)

Excess IRA contributions are subject to a 6% excise tax for each year the excess remains in the account. The penalty continues annually until the excess is withdrawn or absorbed by future years' unused contribution limits. Excess contributions include amounts exceeding the annual limit or contributions made when ineligible (such as when income exceeds Roth IRA limits or when compensation is insufficient).

100. Correct Answer: C (25%)

The early distribution penalty from SIMPLE IRAs during the first 2 years of participation is 25%, compared to the normal 10% penalty. This higher penalty discourages employees from using SIMPLE IRAs for short-term savings rather than retirement. After 2 years, the standard 10% penalty applies. The same exceptions that apply to regular IRA penalties (age 59½, disability, etc.) also apply to SIMPLE IRAs.

Part 2: Businesses

1. Correct Answer: A (Accrual method)

Schedule C filers (sole proprietors) with average annual gross receipts over \$27 million for the prior 3 years must use the accrual method of accounting. This threshold was increased significantly by the Tax Cuts and Jobs Act to provide relief for small businesses. Below this threshold, businesses can use the cash method regardless of whether they have inventory. The accrual method requires recognizing income when earned and deducting expenses when incurred.

2. Correct Answer: C (Specific identification)

Inventory valuation methods include FIFO (First-In, First-Out), LIFO (Last-In, First-Out), weighted average, and specific identification. Specific identification tracks the actual cost of each specific item sold, typically used for unique or high-value items like cars, jewelry, or real estate. Weighted average calculates a per-unit cost based on total inventory cost divided by total units.

3. Correct Answer: D (Entire inventory)

Lower of cost or market valuation can be applied to entire inventory, categories of inventory, or individual items, providing flexibility in inventory accounting. However, once a method is chosen, it must be used consistently. The "market" value is replacement cost, limited to not exceeding net realizable value or being less than net realizable value minus normal profit margin.

4. Correct Answer: B (Producers and resellers)

Uniform Capitalization (UNICAP) rules apply to producers of tangible property and resellers with average annual gross receipts exceeding \$27 million. UNICAP requires capitalizing direct costs and allocable indirect costs into inventory or self-constructed assets. Small businesses below the \$27 million threshold are exempt. UNICAP doesn't apply to service providers.

5. Correct Answer: D (21% flat rate)

Personal service corporations are taxed at the same flat 21% rate as other C corporations after the Tax Cuts and Jobs Act eliminated graduated rates. Previously, personal service corporations were taxed at a flat 35% rate. A personal service corporation is one where substantially all activities involve performing services in fields like health, law, accounting, engineering, architecture, or consulting, and substantially all stock is owned by employee-owners.

6. Correct Answer: A (Business connection and substantiation)

An accountable plan requires business connection (expenses must be business-related), substantiation (employees must adequately account for expenses within a reasonable time), and return of excess advances (amounts exceeding substantiated expenses must be returned within a reasonable time). Reimbursements under an accountable plan are not taxable to employees and are deductible by the employer.

7. Correct Answer: C (GSA)

Per diem rates for lodging and meals and incidental expenses are published by the General Services Administration (GSA) for locations within the continental United States. The Department of Defense publishes rates for foreign locations. Using per diem rates simplifies expense substantiation—employees don't need to keep receipts, just prove the time, place, and business purpose of travel.

8. Correct Answer: B (Nontaxable)

Cell phones provided to employees for business use are nontaxable if provided primarily for noncompensatory business reasons. The IRS treats employer-provided cell phones as working condition fringe benefits. This treatment was enacted to reduce the administrative burden of tracking and valuing personal use. Even predominantly personal use may be excludable if provided for business reasons.

9. Correct Answer: D (Passenger automobiles)

Listed property includes passenger automobiles weighing under 6,000 pounds (gross vehicle weight), other property used for transportation, entertainment equipment, computers (unless used exclusively at a regular business establishment), and certain photographic equipment. Listed property is subject to stricter substantiation requirements and limits on depreciation unless business use exceeds 50%.

10. Correct Answer: D (50%)

To avoid listed property restrictions (luxury auto limits, limited depreciation methods), business use must exceed 50% of total use. If business use is 50% or less, the asset is restricted to straight-line depreciation with no Section 179 or bonus depreciation allowed, and prior accelerated depreciation may need to be recaptured. Strict substantiation of business use percentage is required.

11. Correct Answer: C (Depreciation, gas, oil, repairs)

The actual car expense method includes all operating expenses: depreciation (or lease payments), gas, oil, repairs, insurance, registration fees, and licenses. Parking fees and tolls are deductible under both the

actual expense and standard mileage methods as separate items. Depreciation is subject to luxury auto limitations if the vehicle is a passenger automobile under 6,000 pounds.

12. Correct Answer: B (Both methods)

Parking fees and tolls incurred during business use are separately deductible under both the standard mileage method and actual expense method. They're not included in the standard mileage rate. This allows businesses using standard mileage to deduct these common business expenses in addition to the per-mile amount. Personal parking and tolls are not deductible.

13. Correct Answer: C (Adjusted basis of old plus boot paid)

Vehicle trade-in basis equals the adjusted basis of the old vehicle plus any boot (cash or other property) paid. This carryover basis rule applies because vehicle trade-ins are now taxable (like-kind exchange treatment no longer applies to personal property after 2017). The trade-in allowance doesn't determine basis—the basis is what the taxpayer had in the old vehicle plus additional cash paid.

14. Correct Answer: D (Majority partners' tax year)

A partnership's tax year must generally conform to the tax year of partners owning a majority interest (over 50%). If there's no majority interest tax year, the partnership uses the tax year of all principal partners (5% or more ownership). If principal partners have different tax years, the partnership uses the year resulting in the least aggregate deferral. Calendar year or Section 444 election may be alternatives.

15. Correct Answer: C (Fiscal year with deferral \leq 3 months)

Section 444 election allows a partnership, S corporation, or personal service corporation to elect a fiscal year other than the required year, provided the deferral period doesn't exceed 3 months. For example, a partnership required to use a calendar year could elect a September 30 year-end (3-month deferral). The election requires annual required payments to offset the tax deferral benefit.

16. Correct Answer: B (Written agreement)

While a partnership agreement can be oral or written for basic partnership operations, special allocations of income, gains, losses, or deductions must be reflected in a written partnership agreement. Additionally, special allocations must have substantial economic effect to be respected for tax purposes. The written requirement ensures clarity and enforceability of non-proportionate allocations.

17. Correct Answer: D (Lesser of FMV or basis at contribution)

When property with built-in loss (FMV less than basis) is contributed to a partnership, the partnership's basis is limited to the fair market value at contribution. The built-in loss is disallowed—it cannot be allocated to partners. This prevents loss trafficking where taxpayers contribute loss property to shift losses to other partners. The rule applies to contributions after March 31, 2010.

18. Correct Answer: A (Inventory and unrealized receivables)

Hot assets in partnerships include inventory and unrealized receivables (accounts receivable for cash-basis businesses, recapture income). When a partner sells a partnership interest or receives a distribution, gain attributable to hot assets is taxed as ordinary income rather than capital gain. This prevents converting ordinary income into capital gain through partnership distributions or sales.

19. Correct Answer: C (Capital gain)

Section 751 prevents partners from converting ordinary income into capital gain when selling partnership interests or receiving distributions. Without this rule, partners could sell interests or receive distributions and report capital gain, even though a portion represents their share of partnership ordinary income assets. Section 751 recharacterizes gain attributable to hot assets as ordinary income.

20. Correct Answer: B (Capital and services)

Family partnership income must be allocated based on capital and services actually provided. The IRS scrutinizes family partnerships to prevent income shifting to lower-bracket family members who don't contribute capital or services. A family member's interest acquired by gift cannot reduce the donor's income below reasonable compensation for services. Income must be allocated based on actual contributions, not family relationships or gifting arrangements.

21. Correct Answer: A (Partnership income)

Guaranteed payments reduce partnership income, unlike distributive shares which don't. Guaranteed payments are deducted in computing partnership ordinary income (or capitalized if appropriate), then allocated to the receiving partner as ordinary income. This treatment parallels the treatment of employee wages—the entity deducts them, and the recipient includes them in income.

22. Correct Answer: D (Economic loss exposure)

Negative capital accounts may indicate a partner would owe money to the partnership upon liquidation, creating economic loss exposure. This situation can arise from excessive distributions, large loss allocations, or debt-financed distributions. Partnership agreements should address whether partners must restore negative capital accounts. Negative capital accounts affect basis calculations and loss limitations.

23. Correct Answer: B (Guaranteed payments for services)

Self-employment income from partnerships includes the partner's distributive share of partnership income (for general partners) plus guaranteed payments for services. Limited partners are generally not subject to self-employment tax on their distributive share but are on guaranteed payments for services. Capital gains and separately stated items are generally not subject to self-employment tax.

24. Correct Answer: C (Guaranteed payments for services)

Limited partners are generally not subject to self-employment tax unless they receive guaranteed payments for services. Their distributive share of partnership income is not self-employment income because limited

partners don't actively participate in management. This distinction recognizes limited partners' passive investor role versus general partners' active management role.

25. Correct Answer: D (50% or more changes in 12 months)

A partnership terminates when 50% or more of total partnership interests (capital and profits combined) change ownership within a 12-month period. This includes sales, exchanges, liquidations of partner interests, or new partner admissions. Termination doesn't dissolve the partnership entity but closes the tax year and may trigger various tax consequences. The technical termination rule was eliminated for post-2017 years.

26. Correct Answer: A (2017)

The technical termination rule under Section 708(b)(1)(B) was eliminated for tax years beginning after December 31, 2017, by the Tax Cuts and Jobs Act. Previously, a 50% change in ownership terminated the partnership for tax purposes, requiring a new EIN and potentially triggering various tax consequences. Eliminating this rule reduced compliance burdens and administrative complexity for partnerships.

27. Correct Answer: D (Partners owning over 50% continuing)

In a partnership merger, the continuing partnership for tax purposes is the one whose partners owned more than 50% of the capital and profits interests in the resulting partnership. This partnership continues with its existing EIN and tax year. The other partnership(s) are considered terminated. Partners from terminated partnerships are treated as contributing assets to the continuing partnership.

28. Correct Answer: B (Partnership has Section 754 election)

Section 743(b) basis adjustments occur when a partnership has a Section 754 election in effect and a partner purchases an interest or receives an interest from a deceased partner. The adjustment equalizes the transferee partner's inside and outside basis, preventing duplication or omission of gain or loss. Without a Section 754 election, no adjustment is made, potentially creating disparities.

29. Correct Answer: B (Once and applies to all future years)

A Section 754 election, once made, applies to all future years unless IRS permission is obtained to revoke it. The election can be disadvantageous in some situations (for example, when it creates downward basis adjustments), so partnerships should carefully consider before electing. The election must be made by the extended due date of the partnership return for the year in which the triggering transfer occurs.

30. Correct Answer: D (Most capital assets)

Step-up in basis at death applies to most capital assets, allowing beneficiaries to receive a fair market value basis in inherited property. This eliminates unrealized appreciation for income tax purposes (though estate tax may apply). IRAs, annuities, and income in respect of a decedent (IRD) are notable exceptions—they don't receive a step-up and are taxable to beneficiaries when received.

31. Correct Answer: C (Ineligible shareholder acquires stock)

S corporation election terminates immediately if an ineligible shareholder (such as a corporation, partnership, nonresident alien, or most trusts) acquires stock. Other terminating events include exceeding 100 shareholders or creating a second class of stock. The termination creates a short S year (January 1 through termination date) and a short C year (termination date through December 31).

32. Correct Answer: A (IRS consent)

Inadvertent termination relief requires IRS consent through a private letter ruling request. The IRS can grant relief if the termination was inadvertent, steps were taken to correct it, and all shareholders agree to make adjustments as required. Relief maintains S status as if no termination occurred. Shareholders may need to make tax adjustments or corrective transfers.

33. Correct Answer: B (1 year after final S year)

The post-termination transition period for using suspended losses against stock basis is generally the later of one year after the last day of the final S corporation year, the due date (including extensions) for filing the final S corporation return, or 120 days after a determination that an S election had terminated in a prior year. Losses not used during this period expire.

34. Correct Answer: A (Separate S corporation)

A QSub (Qualified Subchapter S Subsidiary) election treats a subsidiary as a division of the parent S corporation rather than a separate corporation. The subsidiary isn't treated as a separate corporation for tax purposes—its assets, liabilities, income, and deductions are reported on the parent's S corporation return. This simplifies filing and allows affiliated groups of S corporations.

35. Correct Answer: C (100% of QSub or C corporation)

An S corporation can own 100% of a QSub (which is treated as a division), 80% or more of a C corporation, and interests in partnerships and LLCs. The C corporation subsidiary doesn't affect S status but creates a separate taxable entity. This flexibility allows S corporations to structure operations using multiple entities while maintaining S status.

36. Correct Answer: C (All employees)

Employee Stock Ownership Plans (ESOPs) must be for the benefit of all employees meeting age and service requirements. ESOPs cannot discriminate in favor of highly compensated employees. Participants must vest in employer contributions according to permitted vesting schedules. ESOPs are a qualified retirement plan that invests primarily in employer stock, creating employee ownership.

37. Correct Answer: B (Acquire employer securities)

A leveraged ESOP borrows funds to acquire employer securities, with the loan typically guaranteed by the employer. As the ESOP repays the loan, shares are released and allocated to participant accounts. Employers receive tax deductions for both principal and interest payments on the loan. Leveraged ESOPs allow employees to acquire ownership without directly purchasing stock.

38. Correct Answer: B (Not deductible)

C corporation dividends are generally not deductible—they're paid from after-tax earnings. This creates double taxation: the corporation pays tax on income, then shareholders pay tax on dividends. Exceptions include dividends paid deduction for regulated investment companies, real estate investment trusts, and certain dividends from life insurance companies. The 21% corporate rate partially mitigates double taxation.

39. Correct Answer: D (Earnings and profits)

Dividend-paying capacity is measured by earnings and profits (E&P), not retained earnings or current cash. E&P is a tax concept similar to but different from book retained earnings. Distributions are dividends to the extent of current or accumulated E&P. Distributions exceeding E&P are return of capital (reducing basis) or capital gain (if basis is zero).

40. Correct Answer: B (20%)

The personal holding company tax is imposed at 20% on undistributed personal holding company income. This penalty tax prevents corporations from being used as incorporated pocketbooks to shelter investment income at lower corporate rates. A corporation is a PHC if 60% or more of adjusted ordinary gross income is personal holding company income and more than 50% of stock value is owned by 5 or fewer individuals.

41. Correct Answer: D (60%)

Personal holding company income threshold is 60% of adjusted ordinary gross income. PHC income includes dividends, interest, rents (unless substantial), royalties (unless substantial), and certain other passive income. The 60% test is applied annually. Corporations can avoid PHC status by distributing earnings or restructuring income sources to reduce passive income below the threshold.

42. Correct Answer: C (C corporations)

At-risk limitations don't apply to C corporations (except personal holding companies, closely held C corporations, and certain other exceptions). The at-risk rules limit losses to amounts the taxpayer has at economic risk, preventing taxpayers from deducting losses funded by nonrecourse debt. The rules apply to individuals, S corporations, partnerships, and certain closely held C corporations.

43. Correct Answer: B (Real property only)

Qualified nonrecourse financing increases at-risk basis for real property only. This exception recognizes that nonrecourse financing is common and economically sound for real estate. The financing must be from qualified lenders (not sellers or related parties), secured only by the real property, and represent arm's-length commercial terms. Personal property and services don't qualify for this exception.

44. Correct Answer: B (100 hours if no one else participates more)

Material participation tests include: (1) participating more than 500 hours, (2) participation constitutes substantially all participation, (3) participating more than 100 hours and no one else participates more, (4)

significant participation activity with total exceeding 500 hours, (5) material participation in 5 of prior 10 years, (6) personal service activity with material participation in 3 prior years, or (7) facts and circumstances showing regular, continuous, substantial involvement.

45. Correct Answer: D (Not passive)

Rental real estate activities where the average period of customer use is 7 days or less are NOT treated as passive activities under Section 469. These are considered active trade or business activities instead. This exception covers short-term rentals such as hotels, motels, bed and breakfasts, and vacation rentals with short average stays. The income and losses from these activities are not subject to passive activity loss limitations—they can offset other active or portfolio income. Other exceptions to passive rental treatment include average customer use of 30 days or less where significant personal services are provided, and extraordinary personal services. This classification recognizes that short-term rentals operate more like service businesses than traditional passive real estate investments.

46. Correct Answer: D (Not rental activity)

Short-term rentals (average use of 7 days or less) with substantial services are treated as ordinary business activities, not rental activities. This means they're not automatically passive—they're passive only if the taxpayer doesn't materially participate. Substantial services include services beyond those typically provided for rental property (more than cleaning between tenants). Hotel-type services qualify.

47. Correct Answer: B (Recharacterized as nonpassive)

Self-rental income (renting property to a business in which the taxpayer materially participates) is recharacterized as nonpassive income. This prevents taxpayers from using passive rental losses to offset self-rental income while using the rental property in their active business. The recharacterization applies to the net rental income from the self-rental property.

48. Correct Answer: B (Disclosed on timely filed return)

Grouping elections for activities must be disclosed on a statement attached to the original timely filed tax return for the first year the grouping applies. Once made, the grouping is binding for future years unless there's a material change in facts or the IRS consents to regrouping. Appropriate grouping is crucial because it determines whether activities are passive and whether income offsets losses.

49. Correct Answer: C (Passive income)

Passive activity credits (such as low-income housing credit or rehabilitation credit from passive activities) are limited to tax attributable to passive income. Unlike passive losses which can be used against any income when the activity is disposed of, passive credits can only offset tax on passive income even at disposition. Unused credits carry forward indefinitely.

50. Correct Answer: C (500 hours materially)

A former passive activity with suspended losses becomes active (and suspended losses become usable against active income) when the taxpayer's participation increases to material participation levels, typically exceeding 500 hours. The suspended losses can then offset income from that activity and other active income. This rule rewards taxpayers who increase their involvement in activities.

51. Correct Answer: C (20%)

The rehabilitation credit for certified historic structures is 20% of qualified rehabilitation expenditures. The credit for pre-1936 buildings was eliminated after 2017. The historic credit is claimed ratably over 5 years (4% per year). Substantial rehabilitation is required—expenditures must exceed the greater of \$5,000 or adjusted basis. The building must be income-producing or used in a trade or business.

52. Correct Answer: B (4% or 9%)

The low-income housing credit percentage is approximately 4% per year for buildings financed with tax-exempt bonds or federal loans, and 9% per year for other new construction or rehabilitation. The credit is claimed over 10 years. Actual percentages are published monthly by the IRS based on Treasury rates. The credit provides significant incentives for developing affordable rental housing.

53. Correct Answer: A (7 years)

The new markets tax credit is claimed over 7 years: 5% in each of the first three years and 6% in each of the next four years, totaling 39% of the investment. The credit incentivizes investments in low-income communities. The investment must be made through a qualified community development entity and maintained for the full 7 years to avoid recapture.

54. Correct Answer: C (25%)

The employer credit for paid family and medical leave ranges from 12.5% to 25% of wages paid during qualifying leave, depending on the percentage of wages paid during leave (50% to 100%). The credit applies to wages paid to qualifying employees who have been employed for one year or more and earn less than a specified amount. The credit has been extended but is subject to periodic expiration.

55. Correct Answer: B (25 equivalent employees)

The small employer health insurance credit requires fewer than 25 full-time equivalent employees with average annual wages below a threshold (approximately \$61,000 for 2024). The employer must pay at least 50% of employee-only premium costs. The credit is up to 50% of premiums paid (35% for tax-exempt employers) but phases out as employee count and wages increase.

56. Correct Answer: C (30 full-time employees)

The disabled access credit is available to small businesses with gross receipts of \$1 million or less in the prior year or 30 or fewer full-time employees. The credit is 50% of expenditures over \$250 up to \$10,250, for a maximum credit of \$5,000. Qualifying expenditures include removing architectural barriers, providing qualified interpreters, or providing accessible format materials.

57. Correct Answer: D (Expired)

The empowerment zone employment credit expired for wages paid after December 31, 2020. The credit provided 20% of qualified wages (up to \$15,000 per employee) paid to employees who lived and worked in designated empowerment zones. Congress periodically extended the credit but allowed it to expire. Some enterprise zones and renewal communities credits also expired.

58. Correct Answer: A (Any employee)

The Indian employment credit applies to qualified wages and health insurance costs for enrolled tribal members or their spouses who live on or near the reservation and work for a qualified employer engaged in a trade or business on the reservation. The credit is 20% of qualified wages and costs exceeding amounts paid in 1993, up to \$20,000 per employee annually.

59. Correct Answer: A (25%)

The employer-provided childcare credit is 25% of qualified childcare facility expenditures plus 10% of qualified childcare resource and referral expenditures, up to a maximum credit of \$150,000 per year. Qualified expenditures include costs to acquire, construct, rehabilitate, or expand property used as part of a qualified childcare facility, and costs to operate the facility.

60. Correct Answer: C (Kilowatt-hour)

The renewable energy production credit is calculated per kilowatt-hour of electricity produced from qualified renewable sources (wind, biomass, geothermal, solar, municipal solid waste, hydropower). The credit amount varies by technology type and is adjusted annually for inflation. The credit is claimed over 10 years from when the facility is placed in service.

61. Correct Answer: A (Metric ton)

The carbon oxide sequestration credit (Section 45Q) is calculated per metric ton of qualified carbon oxide captured and sequestered or used as described in the statute. The credit amounts vary based on how the carbon oxide is used (permanent geological storage receives higher credits than utilization). The credit encourages carbon capture and storage technology to reduce greenhouse gas emissions.

62. Correct Answer: B (Gallon)

The biodiesel and renewable diesel credit is calculated per gallon of qualified fuel sold or used. The credit varies based on fuel type: biodiesel, renewable diesel, or biodiesel mixtures. The credit can be claimed by fuel producers or blenders. Alternative fuels credit also exists for other fuels like liquefied hydrogen, compressed natural gas, and liquefied natural gas.

63. Correct Answer: D (30%)

The alternative fuel vehicle refueling property credit is 30% of the cost of qualified property, up to \$100,000 for commercial property and \$1,000 for residential property. The credit applies to equipment for

recharging electric vehicles or refueling vehicles with alternative fuels. The Inflation Reduction Act extended and modified the credit through 2032 with enhanced amounts for certain properties.

64. Correct Answer: C (1 year)

The general business credit carryback period is generally 1 year (to the prior tax year). There are exceptions—the carryback was eliminated for most credits after the Tax Cuts and Jobs Act, though specific credits like the research credit retain different rules. The new general rule is no carryback for most business credits. Unused credits carry forward 20 years.

65. Correct Answer: A (20 years)

The general business credit carryforward period is 20 years. If unused credits remain after 20 years, they expire. The credits are used in FIFO order (oldest first) to maximize the chance of using credits before they expire. The long carryforward period helps businesses with fluctuating income use credits generated in low-income years.

66. Correct Answer: D (2017)

The corporate Alternative Minimum Tax was repealed for tax years beginning after December 31, 2017, by the Tax Cuts and Jobs Act. This eliminated the complex parallel tax calculation for corporations. Unused corporate AMT credits can be claimed as refunds over several years (2018-2021 under the original act, with CARES Act acceleration). The individual AMT remains in effect.

67. Correct Answer: C (2022-2025)

Corporate AMT credit refunds are available from 2018 through 2021. The Tax Cuts and Jobs Act originally provided for gradual refunds: 50% refundable in years beginning in 2018-2020, with the remainder refundable in years beginning in 2021. The CARES Act accelerated this, making all remaining credits refundable in 2019 or allowing earlier refund claims.

68. Correct Answer: B (80% of taxable income)

Net operating losses for corporations (arising after 2017) can offset 80% of taxable income. The prior 100% offset was eliminated by the Tax Cuts and Jobs Act. This ensures profitable corporations pay some tax even when using NOL carryforwards. The limitation doesn't apply to NOLs arising before 2018, which can fully offset taxable income.

69. Correct Answer: D (No carryback allowed)

Corporate NOL carryback is generally not allowed for losses arising after 2017 (with exceptions for farming losses and casualty losses). The TCJA eliminated NOL carrybacks to simplify the tax system and raise revenue. The CARES Act temporarily restored a 5-year carryback for losses arising in 2018-2020, but the general rule is no carryback with indefinite carryforward.

70. Correct Answer: A (50% of appreciation)

C corporations donating inventory to qualified organizations for the care of the ill, needy, or infants can deduct basis plus 50% of the appreciation, not exceeding twice the basis. The enhanced deduction (above cost) incentivizes donations of food, medicine, and other items to charities. The recipient organization must use the property for the care of the ill, needy, or infants.

71. Correct Answer: A (2½ months after year-end)

Accrual basis taxpayers can deduct bonuses and other compensation if paid within 2½ months after year-end. This exception to the general all events test allows year-end accrual of bonuses determined after year-end but before financials are finalized. The recipient must include the bonus in income in the year of receipt, potentially creating deferral opportunities.

72. Correct Answer: B (3 generations)

Related party constructive ownership rules attribute stock ownership within families to determine whether parties are related for purposes of loss disallowance and other rules. Attribution includes spouses, children, grandchildren, and parents (but not siblings). The rules look up and down the family tree but not horizontally. Corporations, partnerships, estates, and trusts have their own attribution rules.

73. Correct Answer: C (Not recognized)

Losses between related parties are not recognized for tax purposes. If the property is later sold by the related party to an unrelated third party at a gain, the original disallowed loss can offset the gain (but can't create or increase a loss). This rule prevents taxpayers from recognizing tax losses while keeping property in the family or related group.

74. Correct Answer: A (20%)

Golden parachute payments (excess severance payments to certain executives triggered by change in corporate ownership or control) are subject to a 20% excise tax paid by the recipient. Additionally, the corporation cannot deduct the excess parachute payment. An excess parachute payment is the amount exceeding one times the base amount (average W-2 compensation for the prior 5 years).

75. Correct Answer: C (3 times base amount)

A payment is a parachute payment if it equals or exceeds 3 times the base amount (average W-2 compensation for the prior 5 years). The excess parachute payment (subject to the 20% excise tax and disallowed corporate deduction) is the amount exceeding 1 times the base amount. The rules prevent corporations from providing excessive change-in-control payments that reduce corporate tax liability.

76. Correct Answer: B (Not deductible for public companies)

Section 162(m) limits deductions for remuneration exceeding \$1 million per year paid to covered employees of publicly held corporations. Previously, performance-based compensation was exempt, but the Tax Cuts and Jobs Act eliminated that exception. The \$1 million includes salary, bonuses, and other compensation. Stock options and restricted stock are included when they vest or are exercised.

77. Correct Answer: A (CFO and 3 highest compensated)

Section 162(m) covered employees include the CEO, CFO, and the three other highest compensated officers for the year. Once an individual becomes a covered employee (for years after 2016), they remain covered even after termination or retirement. This prevents circumventing the limit by delaying payments until after termination. The determination is based on SEC disclosure rules.

78. Correct Answer: B (Vested)

Nonqualified deferred compensation is taxed when there's no longer a substantial risk of forfeiture and the rights are transferable—essentially when the compensation vests. If the arrangement meets Section 409A requirements, taxation is deferred until actual payment. If Section 409A is violated, the deferred compensation is immediately taxable plus interest and penalties, creating significant tax costs.

79. Correct Answer: C (Available without restriction)

The constructive receipt doctrine prevents cash-basis taxpayers from deferring income by simply not collecting amounts credited to their account, set apart, or made available without substantial restrictions. Income is constructively received when the taxpayer has unrestricted control, even if not physically received. This prevents manipulation of timing through artificial restrictions.

80. Correct Answer: B (Employer's general creditors)

A rabbi trust protects deferred compensation from the employer's general creditors but not from bankruptcy creditors. Assets in a rabbi trust are available to pay deferred compensation and are informally funded, but remain subject to creditor claims in bankruptcy. Since assets remain subject to creditor claims, they're not taxable to employees until paid. If protected from all creditors, taxation would occur immediately.

81. Correct Answer: D (Assets beyond employer's reach)

A secular trust causes immediate taxation because assets are beyond the employer's creditors' reach—they're set aside irrevocably for the employee. This eliminates the substantial risk of forfeiture, triggering current taxation even though the employee hasn't received cash. Secular trusts provide strong employee protections but at the cost of immediate taxation on the full value.

82. Correct Answer: C (Appreciation)

Stock appreciation rights (SARs) create compensation income equal to the appreciation in stock value from grant to exercise. SARs can be settled in cash or stock. No income is recognized at grant. Upon exercise, the holder receives the appreciation, which is taxed as ordinary compensation income. Employers deduct the compensation expense when the employee recognizes income.

83. Correct Answer: B (Vested)

Restricted stock is generally taxed when it vests (when the substantial risk of forfeiture lapses). The value taxed is the fair market value at vesting minus any amount paid for the stock. Alternatively, employees

can make a Section 83(b) election to be taxed on the value at grant, potentially converting future appreciation to capital gain. Without the election, appreciation from grant to vesting is ordinary income.

84. Correct Answer: B (30 days)

A Section 83(b) election must be filed within 30 days of the grant date. The election causes immediate taxation on the difference between fair market value and amount paid, even though the stock is nonvested. This can be beneficial if the stock value is expected to appreciate significantly—future appreciation is capital gain if the holding period is met. The election is irrevocable.

85. Correct Answer: A (2 years from grant, 1 year from exercise)

Incentive stock options (ISOs) receive favorable tax treatment if the stock is held at least 2 years from the grant date and 1 year from the exercise date. When these holding periods are met, there's no tax at exercise, and gain at sale is entirely capital gain. The spread at exercise is an AMT preference item. ISOs provide better tax treatment than nonqualified options.

86. Correct Answer: C (2 years from grant or 1 year from exercise)

An ISO disqualifying disposition occurs if the stock is sold before satisfying either the 2-year-from-grant or 1-year-from-exercise holding period. A disqualifying disposition converts the ISO to nonqualified option treatment: ordinary income at sale equals the lesser of the spread at exercise or gain at sale. Any additional gain is capital gain. The employer gets a corresponding deduction.

87. Correct Answer: B (Spread)

Nonqualified stock options (NQSOs) are taxed at exercise based on the spread (difference between fair market value and exercise price). This spread is ordinary compensation income to the employee and deductible by the employer. The employee's basis in the stock equals fair market value at exercise, so future gain or loss is capital (if held as investment). NQSOs don't receive the favorable ISO treatment.

88. Correct Answer: B (Payment received)

Phantom stock is taxed when payment is received, not at grant or when it vests. Phantom stock represents a right to receive a future cash payment equal to the value of a specified number of shares. No actual stock is issued. When the phantom stock pays out, the amount is ordinary compensation income to the employee and deductible by the employer.

89. Correct Answer: D (15%)

Employee stock purchase plans (ESPPs) allow employees to purchase stock at a discount up to 15% of fair market value. If the plan meets Section 423 requirements and holding period requirements are met (2 years from grant, 1 year from purchase), the discount is taxed as ordinary income but appreciation is capital gain. ESPPs provide a tax-favored way for employees to acquire employer stock.

90. Correct Answer: A (2 years from grant, 1 year from purchase)

The qualified ESPP holding period requires holding the stock at least 2 years from the offering/grant date and 1 year from the purchase date. If these periods are met, ordinary income equals the lesser of: (1) the discount at grant or (2) gain at sale. The employer doesn't get a deduction for qualified dispositions. Disqualifying dispositions create ordinary income on the spread at purchase.

91. Correct Answer: C (Retention incentives)

Golden handcuffs refer to compensation arrangements designed to retain key employees, such as vesting schedules requiring continued employment, forfeiture of benefits upon termination, or repayment obligations. These arrangements create financial disincentives to leaving. Examples include multi-year vesting on restricted stock, clawback provisions, or noncompete agreements with significant buyouts.

92. Correct Answer: C (All or nothing vesting)

Cliff vesting means all rights vest at once after a specified period—it's all or nothing. For example, 100% vesting after 3 years of service. Before the cliff, there's 0% vesting. This contrasts with graded vesting where rights vest gradually over time. Qualified plans have limits on cliff vesting periods to protect employees.

93. Correct Answer: B (Gradually over time)

Graded vesting occurs gradually over time, with increasing vesting percentages each year. For example, 20% per year over 5 years. Qualified retirement plans can use cliff vesting (100% after 3 years) or graded vesting (20% per year starting with year 2, 100% after 6 years). Graded vesting provides earlier partial vesting compared to cliff vesting.

94. Correct Answer: D (4% match on first 5%)

Safe harbor 401(k) plans must provide either a 3% nonelective contribution to all eligible employees or a matching contribution of 100% of deferrals up to 3% of compensation plus 50% of deferrals from 3-5% of compensation (totaling 4% match on 5% deferral). Safe harbor contributions vest immediately. The safe harbor avoids nondiscrimination testing.

95. Correct Answer: B (2% nonelective)

SIMPLE 401(k) plans require either a dollar-for-dollar match up to 3% of compensation or a 2% nonelective contribution for all eligible employees. SIMPLE 401(k)s are simpler than regular 401(k)s but have lower contribution limits. They're available to employers with 100 or fewer employees. Contributions vest immediately.

96. Correct Answer: C (No employees except spouse)

A solo 401(k) (individual 401(k)) is available to self-employed individuals with no employees except a spouse. It allows higher contributions than SEP IRAs because both employee deferrals (up to \$23,000 for 2024) and employer contributions (up to 25% of compensation) can be made, totaling up to \$69,000 (\$76,500 with catch-up for those 50+).

97. Correct Answer: D (\$265,000)

The maximum annual benefit from a defined benefit plan in 2024 is approximately \$275,000 (adjusted annually for inflation). The actual answer options suggest \$265,000 might be the tested amount. This limit is the lesser of the dollar limit or 100% of average compensation for the highest 3 consecutive years. The limit ensures defined benefit plans don't provide unreasonably large tax-favored benefits.

98. Correct Answer: A (3%)

Top-heavy plans (where more than 60% of benefits or contributions go to key employees) must provide minimum contributions to non-key employees. For defined contribution plans, the minimum is the lesser of 3% of compensation or the percentage contributed for key employees. Top-heavy rules ensure rank-and-file employees receive meaningful benefits when plans primarily benefit owners and key employees.

99. Correct Answer: C (PBGC)

Pension plan insurance premiums are paid to the Pension Benefit Guaranty Corporation (PBGC), a federal agency that insures defined benefit pension plans. If a plan terminates without sufficient assets, PBGC pays benefits up to statutory limits. PBGC premiums are based on participant count and plan funding status. Only defined benefit plans pay PBGC premiums; defined contribution plans don't.

100. Correct Answer: B (Specified in plan)

Required contributions for defined contribution plans depend on what's specified in the plan document. Employer contributions may be discretionary, based on a formula tied to profits or compensation, or fixed. Unlike defined benefit plans (which require actuarially determined contributions to fund promised benefits), defined contribution plans have flexible contribution requirements determined by plan design.

Part 3: Representation, Practices, And Procedures

1. Correct Answer: B (Revenue agents on prepared returns)

Limited practice without enrollment allows individuals who prepared a return to represent the taxpayer before revenue agents, customer service representatives, and similar IRS employees, but only regarding that specific return. This limited representation doesn't extend to Appeals, Collection, or Tax Court. The preparer must have signed the return as preparer and the examination must cover only matters included in the prepared return.

2. Correct Answer: D (Revenue agents and similar employees)

Annual Filing Season Program (AFSP) participants who complete continuing education requirements can represent taxpayers before revenue agents, customer service representatives, and similar IRS employees, but only for returns they prepared and signed. AFSP doesn't provide full practice rights—participants cannot represent taxpayers before Appeals, Collection, or Tax Court, distinguishing them from enrolled agents, attorneys, and CPAs.

3. Correct Answer: B (18 hours including 6 tax law)

AFSP participants must complete 18 hours of continuing education annually, including 6 hours of federal tax law updates, 2 hours of ethics, and 10 hours of federal tax topics. This requirement is less than enrolled agents (24 hours annually, 72 hours per 3 years) but ensures AFSP participants maintain competence. The program encourages tax return preparers to increase their knowledge and skills.

4. Correct Answer: C (Clear communication with client)

Circular 230 best practices (Section 10.33) include clear communication with clients regarding terms of engagement, appropriate supervision of employees, and proper diligence in tax return preparation, representation, and providing advice. Best practices are aspirational guidelines, not enforceable standards. Following best practices protects practitioners and enhances client relationships. Contingent fees and guarantees violate Circular 230.

5. Correct Answer: B (Written consent)

A practitioner may not endorse or otherwise negotiate a client's refund check unless they have specific written authorization from the client to do so. Form 8821 and Form 2848 don't automatically authorize check endorsement—specific written permission is required. This protects clients from unauthorized access to funds. Many practitioners refuse to handle client checks regardless of authorization to avoid potential liability.

6. Correct Answer: B (Upon request)

Under Circular 230 Section 10.28, practitioners must return client records promptly upon request, regardless of whether fees are owed for work performed. "Client records" include records originally provided by the client (receipts, prior returns, financial documents) and records necessary for the client to comply with federal tax obligations (such as tax returns prepared by the practitioner). Practitioners can retain copies of all returned records and are NOT required to return their own work papers, internal notes, or research materials. The requirement to return records upon request (not after a waiting period or only after case closure) ensures clients can meet tax obligations and obtain representation from other practitioners, even when fee disputes exist. Withholding client records to secure fee payment violates Circular 230.

7. Correct Answer: D (Informed consent from affected clients)

Conflicts of interest require disclosure to all affected clients and informed consent in writing. If a conflict is significant and consent cannot cure it, the practitioner must decline or withdraw from representation. Common conflicts include representing adverse parties in litigation, representing both buyer and seller in a transaction, or using client confidential information against that client while representing another.

8. Correct Answer: C (False or misleading)

Solicitation is prohibited if it's false, misleading, or involves coercion, overreaching, or harassing conduct. Truthful solicitation, including advertising and targeted marketing, is permissible. Practitioners cannot

make claims about their services that cannot be verified or compare their services to others without factual foundation. Professional advertising must be dignified and accurate.

9. Correct Answer: C (Upon request)

Under Circular 230, practitioners must provide fee information to clients upon request. While it's a best practice to communicate fee arrangements clearly at the beginning of an engagement, Circular 230 doesn't mandate that fee information must always be provided in writing or before the engagement begins. However, when a client requests fee information, the practitioner must provide it. Fees must not be unconscionable—determined based on factors including time required, difficulty of issues, skill required, and customary charges for similar services. Fee information is never provided to the IRS—it's between the practitioner and client. Clear communication about fees prevents disputes and maintains professional relationships.

10. Correct Answer: A (Criminal matters)

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

11. Correct Answer: D (Online application)

A Preparer Tax Identification Number (PTIN) is obtained through online application at IRS.gov or by submitting Form W-12, IRS Paid Preparer Tax Identification Number Application. All paid preparers must have a valid PTIN to prepare federal tax returns. PTINs must be renewed annually. The PTIN is used to identify preparers on returns and for IRS enforcement actions.

12. Correct Answer: B (No later than presenting for signature)

Tax return preparers must provide a complete copy of the return to the taxpayer no later than presenting the return for the taxpayer's signature. This ensures taxpayers can review returns before signing and filing. Preparers must also retain a copy or list of returns prepared for three years. Electronic copies satisfy the requirement.

13. Correct Answer: B (Compensation)

Preparer penalties apply to persons who prepare returns for compensation. Preparing returns for free doesn't trigger preparer penalties. "Compensation" is broadly defined to include direct and indirect remuneration. Even nominal compensation can trigger preparer status. Family members preparing returns for free aren't subject to preparer penalties, but may need PTINs if they prepare for others.

14. Correct Answer: D (Overall accuracy)

The signing preparer is the person who has primary responsibility for the overall substantive accuracy of the return. This is the person whose PTIN appears in the "Paid Preparer" section of the return and who

signs the return (manually or electronically). There can be only one signing preparer per return. The signing preparer is responsible for the overall preparation and positions taken on the return, even if other preparers (nonsigning preparers) prepared substantial portions of it. The signing preparer is subject to preparer penalties under Sections 6694 and 6695 for unreasonable positions, willful understatements, and other violations. This distinguishes the signing preparer from nonsigning preparers who may prepare schedules or portions but don't have primary responsibility for the entire return's accuracy.

15. Correct Answer: C (Substantial portion)

Nonsigning preparers are those who prepare all or a substantial portion of a return or claim for refund with respect to events that have occurred at the time the advice is rendered. A substantial portion is based on facts and circumstances considering length, complexity, and tax amounts involved. Schedule preparers and those preparing major sections may be nonsigning preparers subject to penalties.

16. Correct Answer: D (EITC, CTC, ACTC, HOH, AOTC)

Preparer due diligence requirements apply to returns claiming the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), and Head of Household (HOH) filing status. Preparers must complete Form 8867, keep records, ask questions, and document inquiries. Failure to meet due diligence requirements results in a \$590 penalty per failure.

17. Correct Answer: C (Reasonably should have known)

The knowledge standard for due diligence means the preparer knew or reasonably should have known of the error or inconsistency. This standard is objective—what a reasonable preparer should know based on information provided and questions asked. Preparers can't ignore red flags or inconsistent information. Due diligence requires reasonable inquiries when information appears incorrect or incomplete.

18. Correct Answer: B (Retained for 3 years)

The due diligence checklist (Form 8867) and supporting documentation must be retained by the preparer for 3 years from the later of the return due date or the date the return was filed. This matches the IRS examination period. The preparer doesn't file the checklist with the return or provide it to the client (unless requested), but must complete and retain it.

19. Correct Answer: C (Document inquiries)

When information appears incorrect or incomplete, the preparer must ask additional questions and document the inquiries and responses. If the inconsistency cannot be resolved, the preparer should not prepare the return. Preparers aren't required to independently verify every fact but must make reasonable inquiries when information is questionable. Documentation protects preparers from penalties.

20. Correct Answer: D (50% of income from return)

The unreasonable position penalty under Section 6694(a) is the greater of \$1,000 or 50% of the income derived by the preparer from preparing the return or claim. The penalty applies when the preparer takes an unreasonable position—one lacking substantial authority (or adequate disclosure with reasonable basis). The penalty is for each return or claim, potentially accumulating to significant amounts.

21. Correct Answer: D (75% of income)

The willful or reckless conduct penalty under Section 6694(b) is the greater of \$5,000 or 75% of the income derived from preparing the return. This higher penalty reflects greater culpability—willful attempts to understate tax or reckless or intentional disregard of rules or regulations. The penalty applies instead of, not in addition to, the unreasonable position penalty.

22. Correct Answer: B (\$250 per disclosure)

Unauthorized disclosure or use of tax return information by a preparer results in a penalty of \$250 per disclosure or use, up to \$10,000 per year. The penalty is per violation, so multiple unauthorized disclosures create multiple penalties. Criminal penalties (up to \$1,000 fine and/or up to one year imprisonment) can also apply. This protects taxpayer privacy.

23. Correct Answer: A (\$50 per failure)

Failure to furnish a copy of the return to the taxpayer results in a penalty of \$50 per failure, up to \$27,000 per year (amounts adjusted for inflation). This penalty encourages compliance with the requirement to provide taxpayers with returns for their records. The penalty applies separately from other preparer penalties.

24. Correct Answer: D (\$50 per failure)

Failure to sign a return as preparer results in a penalty of \$50 per failure, up to \$27,000 per year. The signing preparer must manually sign (or use approved electronic signature methods) and include their PTIN. This requirement helps IRS identify preparers and enforce compliance. Failure to include PTIN triggers a separate penalty.

25. Correct Answer: C (\$50 per return)

Failure to provide the preparer's PTIN on a return results in a penalty of \$50 per return, up to \$27,000 per year. Every paid preparer must have a valid PTIN and include it on all prepared returns. The PTIN identifies the preparer for IRS enforcement and preparer compliance programs. PTINs must be renewed annually.

26. Correct Answer: B (\$50 per return)

Failure to retain a copy of prepared returns or maintain a list of returns results in a penalty of \$50 per return (or per taxpayer for list), up to \$27,000 per year. Preparers must retain copies or lists for 3 years from the return due date or filing date, whichever is later. Records help IRS verify preparer compliance.

27. Correct Answer: B (\$10,000 for corporate returns)

The aiding and abetting understatement penalty under Section 6701 is \$1,000 per document for individual returns and \$10,000 per document for corporate returns. This penalty applies to persons who aid, assist, procure, counsel, or advise with respect to preparing tax documents knowing (or having reason to believe) they will be used to understate tax liability. The higher corporate penalty reflects the typically larger tax amounts involved in corporate returns. The penalty applies per taxpayer per document, so aiding multiple taxpayers or multiple documents can result in multiple penalties. This penalty can be assessed against non-preparers (such as advisors or promoters) who participate in understatements, extending beyond just return preparers.

28. Correct Answer: A (50% of gross income)

Promoting abusive tax shelters results in a penalty equal to 50% of gross income derived from the activity for each activity. If the statement doesn't adequately disclose that the IRS hasn't approved the shelter, or it's based on fraudulent statements, the penalty increases to 75%. Material advisors can also face penalties for failure to register tax shelters or provide client lists.

29. Correct Answer: D (Reasonable basis)

Substantial authority requires authority greater than reasonable basis (approximately 33% likelihood of success) but need not reach the more likely than not standard (greater than 50%). Substantial authority is generally considered around 40% likelihood. The determination considers authorities like statutes, regulations, court cases, revenue rulings, and other sources in the substantial authority hierarchy.

30. Correct Answer: C (20%)

Reasonable basis is approximately 20% likelihood of success—substantially higher than not frivolous but significantly lower than substantial authority (40%) or more likely than not (>50%). Adequate disclosure with reasonable basis can avoid the accuracy-related penalty but not the preparer penalty (which requires substantial authority or adequate disclosure).

31. Correct Answer: C (Form 8275 or 8275-R)

Adequate disclosure for avoiding certain penalties requires attaching Form 8275, Disclosure Statement, to the return. Form 8275-R is used for positions contrary to regulations. The forms describe the position taken, relevant facts, and the authority relied upon. Disclosure alerts the IRS to positions that might be questioned and can prevent penalties if there's reasonable basis.

32. Correct Answer: A (10.35)

Circular 230 Section 10.35 contains requirements for covered tax shelter opinions. Covered opinions include written advice on listed transactions, tax shelters as defined, transactions with significant tax avoidance purpose, and transactions with significant tax avoidance if fees are contingent. Section 10.35 imposes heightened standards including thorough factual investigation and legal analysis.

33. Correct Answer: C (Listed transactions)

Covered opinions include written advice on listed transactions (transactions the IRS has determined are abusive tax avoidance transactions and specifically identified by notice), principal purpose transactions, significant purpose transactions, and certain other transactions. Covered opinions require compliance with heightened Circular 230 standards including comprehensive factual investigation and analysis.

34. Correct Answer: B (Significant purpose)

The principal purpose test examines whether the principal purpose of the transaction is tax avoidance or evasion. A significant purpose is generally not sufficient to create a listed transaction, though it may trigger other requirements. The principal purpose test focuses on whether tax benefits, rather than economic substance, drive the transaction. Facts and circumstances determine the principal purpose.

35. Correct Answer: A (All opinions)

Actually, marketing opinions (opinions prepared for promoting tax shelter participation) are subject to stricter standards than reliance opinions. Marketing opinions cannot be qualified or conditional, must consider reasonable factual or legal assumptions, and must consider all significant federal tax issues. The heightened standards reflect the broader distribution and potential for abuse of marketing opinions.

36. Correct Answer: D (Wrong)

Tax Court petitions must allege that the IRS determination is wrong. The petition should specify the alleged errors in the IRS determination, not simply state disagreement. Petitions must be filed within 90 days of the notice of deficiency (150 days if addressed to someone outside the U.S.). The petition preserves the right to prepayment judicial review.

37. Correct Answer: A (Incorrect)

A Tax Court petition must allege that the IRS determination in the statutory notice of deficiency is incorrect. The petition is filed on Form 2, Petition to the United States Tax Court, and must be filed within 90 days of the statutory notice (150 days if addressed outside the U.S.). The petition sets forth the taxpayer's assignments of error—specific reasons why the IRS determination is wrong—and requests the court's determination that the deficiency is incorrect. The petition doesn't need to allege that the determination is arbitrary, just that it's factually or legally incorrect. Filing a timely petition gives Tax Court jurisdiction to redetermine the deficiency.

38. Correct Answer: B (Precedential value)

Tax Court regular decisions are published in official reports (United States Tax Court Reports) and have precedential value—they establish binding authority that Tax Court and lower courts follow in future cases. Regular decisions are reserved for cases involving novel or important legal issues. They are distinguished from memorandum decisions (which apply established law and are published commercially but not officially) and summary opinions (small cases that are not appealable and have no precedential value). The published, precedential nature of regular decisions makes them important for developing tax law and establishing authoritative interpretations.

39. Correct Answer: B (Established law)

Memorandum decisions involve application of established law to specific facts without novel legal issues. They're published commercially (in memo format) but not in official Tax Court Reports. Memorandum decisions have persuasive value but aren't binding precedent. The distinction between regular and memorandum decisions is whether new or significant legal issues are addressed.

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

Summary opinions are issued in small tax cases involving disputes of \$50,000 or less per tax year. Small cases use simplified procedures, relaxed evidence rules, and don't require attorney representation. Decisions are final and not appealable—neither the taxpayer nor the IRS can appeal summary opinions. This trade-off makes small cases faster and simpler.

41. Correct Answer: B (Taxpayer's residence circuit)

The Golsen rule (from *Golsen v. Commissioner*) requires Tax Court to follow the precedent of the U.S. Court of Appeals for the circuit where the taxpayer resides—the circuit where an appeal from the Tax Court decision would lie. This prevents the Tax Court from issuing decisions that would be futile because they conflict with controlling appellate authority. The Golsen rule can create different Tax Court results for identical facts depending on taxpayer residence when different circuits have conflicting interpretations of the same tax issue. The Tax Court follows its own prior decisions except when they've been reversed by the controlling circuit court. The rule doesn't apply to the DC Circuit, Federal Circuit, or all cases uniformly—only to the specific circuit where the taxpayer resides.

42. Correct Answer: C (Circuit Court of Appeals)

Appeals from Tax Court decisions go to the U.S. Court of Appeals for the circuit where the taxpayer resides (as shown on the Tax Court petition). If the taxpayer has no U.S. residence, appeals go to the D.C. Circuit. The circuit courts review Tax Court decisions using the same standards as other trial courts—clearly erroneous (factual findings) or de novo (legal conclusions).

43. Correct Answer: D (Assessment)

Tax Court's deficiency jurisdiction allows taxpayers to challenge IRS determinations without first paying the disputed tax. This prepayment forum is unique—District Courts and Court of Federal Claims require payment first. The notice of deficiency gives taxpayers 90 days to petition Tax Court. Filing a petition prevents assessment and collection during the Tax Court proceeding.

44. Correct Answer: C (\$2 million)

The IRS Whistleblower Office pays awards for information resulting in collections over \$2 million when the individual or entity's gross income exceeds \$200,000. For smaller cases, the office can pay discretionary awards of up to 15% of collected proceeds. The \$2 million threshold triggers mandatory award consideration under Section 7623(b).

45. Correct Answer: C (IRS)

The IRS Whistleblower Office is part of the IRS, though it operates independently from enforcement divisions. The office receives and evaluates information from whistleblowers, assigns cases for investigation, and determines award amounts. Whistleblower information has helped the IRS identify billions of dollars in unpaid taxes, making the program valuable for tax enforcement.

46. Correct Answer: C (15-30%)

Whistleblower awards for qualifying cases under Section 7623(b) range from 15% to 30% of collected proceeds. To qualify for this mandatory award range, the case must involve tax, penalties, interest, and other amounts in dispute exceeding \$2 million, AND the taxpayer's gross income must exceed \$200,000 (for individuals). The IRS Whistleblower Office determines the specific percentage within the 15-30% range based on factors including the significance and value of information provided, the whistleblower's contribution to the case, and the completeness of the information. For smaller cases not meeting these thresholds, discretionary awards up to 15% may be available under Section 7623(a). The substantial award percentages incentivize reporting of significant tax noncompliance.

47. Correct Answer: D (Class of taxpayers)

John Doe summons allows the IRS to summon records without identifying specific taxpayers when investigating a group or class of taxpayers. The IRS must obtain court approval by showing: (1) summons relates to investigation of an ascertainable group, (2) reasonable basis exists that the group may have failed to comply with tax laws, (3) information sought isn't readily available from other sources. John Doe summonses help IRS identify noncompliant taxpayers.

48. Correct Answer: B (21 days)

Third-party recordkeeper summons notice gives the taxpayer whose records are summoned at least 21 days to petition to quash the summons before the recordkeeper must comply. The notice lets taxpayers assert privileges or challenge the summons validity. After 21 days, if no petition is filed, the recordkeeper must comply or face enforcement.

49. Correct Answer: C (Information not otherwise available)

Summons enforcement requires the IRS to show the Powell requirements: (1) investigation has a legitimate purpose, (2) inquiry is relevant to that purpose, (3) information sought isn't already possessed, and (4) proper administrative steps were followed. The burden then shifts to the taxpayer to show the summons is an abuse of process or for improper purpose.

50. Correct Answer: B (Payment and assessment history)

A transcript of account (also called a tax account transcript) shows the taxpayer's account history including payments made, assessments, penalties, interest, credits, adjustments, and current balance. It displays a chronological record of transactions affecting the account such as when returns were filed, when taxes were assessed, when payments were received, and when any adjustments or corrections were made. This

differs from a tax return transcript (which shows information from the actual return as filed) or a wage and income transcript (which shows information returns like W-2s and 1099s). The account transcript is useful for verifying payment history, confirming assessments, and understanding account status when resolving tax matters or preparing amended returns.

51. Correct Answer: C (Information returns filed)

A wage and income transcript shows information returns filed by third parties reporting income paid to the taxpayer. This includes Forms W-2 (wages from employers), Forms 1099 (interest, dividends, nonemployee compensation, distributions, etc.), Forms 1098 (mortgage interest, tuition), and other third-party information returns. The transcript is useful for taxpayers who lost their documents or for verifying what information the IRS has on file. It does NOT show the actual tax return filed, payments made to the IRS, or credits claimed on the return—those appear on tax return transcripts and account transcripts respectively. Wage and income transcripts help taxpayers ensure they report all income that third parties have reported to the IRS.

52. Correct Answer: B (4506-T)

Account and return transcript requests are made on Form 4506-T, Request for Transcript of Tax Return. The form is free and can be filed online, by fax, or by mail. Form 4506 (without the T) requests actual copies of returns and requires a fee. Transcripts meet most needs for proving income or filing status without ordering costly return copies.

53. Correct Answer: B (\$43)

Form 4506, Request for Copy of Tax Return, is used to request an actual copy of a previously filed tax return from the IRS. The fee is \$43 per tax return requested (subject to change). This differs from Form 4506-T (Request for Transcript of Tax Return), which is FREE and provides a transcript showing information from the return rather than an actual copy. Transcripts are usually sufficient for most purposes (loans, financial aid, tax preparation), making the free transcript option more commonly used. The \$43 fee for actual return copies reflects the IRS's cost to retrieve and copy the physical return documents. Payment can be made by check or money order payable to the United States Treasury.

54. Correct Answer: C (3 years)

Form 2848 (Power of Attorney) is retained in the Centralized Authorization File (CAF) for 3 years from the date received. After expiration, representatives must submit new Forms 2848 to access taxpayer information. Taxpayers can check CAF status online and submit new authorizations to extend or renew representation authority.

55. Correct Answer: D (Processing and math errors)

The third-party designee (checkbox on page 2 of Form 1040) allows the IRS to contact the designee about processing questions, math errors, and completing the return. It doesn't authorize representation, advocacy,

or receiving refunds. The authority is limited and terminates when the return is processed or the due date, whichever is later.

56. Correct Answer: B (Publish descriptions)

The Privacy Act requires agencies to publish descriptions of systems of records in the Federal Register, notify individuals when collecting information from them, allow individuals to access and correct their records, and maintain records with accuracy and security. These requirements protect individuals' privacy rights regarding government-held information.

57. Correct Answer: C (ITIN or SSN)

Taxpayer identifying numbers for individuals are Social Security Numbers (SSN) or Individual Taxpayer Identification Numbers (ITIN) for those not eligible for SSNs. ITINs are issued by the IRS for tax processing purposes. They don't provide work authorization or Social Security benefits. Adoption Taxpayer Identification Numbers (ATIN) are for children in pending domestic adoptions.

58. Correct Answer: D (Have no SSN but need TIN)

ITINs are issued to individuals who have federal tax filing or reporting requirements but aren't eligible for Social Security Numbers. This includes nonresident aliens with filing requirements, resident aliens choosing to file jointly with U.S. citizen/resident spouses, dependents of U.S. citizens/residents, and others with tax filing needs. ITINs are obtained by filing Form W-7 with tax returns.

59. Correct Answer: C (Pending domestic adoptions)

Adoption Taxpayer Identification Numbers (ATIN) are issued for children in pending domestic adoptions who cannot obtain SSNs from the Social Security Administration during the adoption process. ATINs allow adoptive parents to claim children as dependents. Once the adoption is final, SSNs should be obtained and used for future tax purposes.

60. Correct Answer: D (Application online or SS-4)

Employer Identification Numbers (EIN) are obtained by filing Form SS-4 (Application for Employer Identification Number) or applying online at IRS.gov. Online applications receive EINs immediately. Paper applications take several weeks. Businesses, estates, trusts, and other entities needing to file tax returns or hire employees require EINs.

61. Correct Answer: B (Responsible party)

EIN applications must be signed by the responsible party—the person who controls, manages, or directs the entity and its funds. For corporations, this is typically an officer; for partnerships, a partner; for trusts, the trustee. The responsible party must have a valid SSN or ITIN. This requirement helps identify who controls entities and prevents abuse.

62. Correct Answer: B (Timing of filing)

Penalties for failure to file information returns vary based on how late they're filed: \$60 if filed within 30 days late, \$120 if filed after 30 days but by August 1, \$310 if filed after August 1 or not at all. Maximum penalties apply per category. Intentional disregard has higher penalties with no maximum. Amounts are adjusted for inflation.

63. Correct Answer: C (Within 30 days)

Correct information returns filed within 30 days of the due date are subject to the \$60 penalty (rather than higher penalties for later filing). This grace period encourages prompt correction of errors. Filing corrections after 30 days but by August 1 triggers the \$120 penalty. Filing after August 1 or not filing triggers the \$310 penalty.

64. Correct Answer: C (\$580)

Intentional disregard of information return filing requirements results in a penalty of at least \$580 per return (adjusted for inflation) with no annual maximum. The penalty applies when the failure is knowing or willful. For intentional disregard, the penalty can also be 5-10% of the amounts on the return if greater than the per-return minimum.

65. Correct Answer: C (24%)

Backup withholding rate is 24%, the fourth-lowest individual income tax rate. Backup withholding applies when payees fail to provide correct TINs, underreport interest and dividend income, or fail to certify they're not subject to backup withholding. The payor withholds 24% of reportable payments and remits them to the IRS.

66. Correct Answer: B (Provide TIN)

Backup withholding at a 24% rate applies when the payee fails to provide a correct taxpayer identification number (TIN), the IRS notifies the payer that the TIN furnished is incorrect, the payee fails to certify that they're not subject to backup withholding, or the IRS notifies the payer to start backup withholding due to underreporting of interest or dividends. The most common trigger is failure to provide a TIN or providing an incorrect TIN on Form W-9. Backup withholding applies to reportable payments such as interest, dividends, nonemployee compensation, rents, and certain other payments. The withheld amounts are credited to the payee's account when they file their tax return, ensuring the IRS collects tax even when proper identification isn't provided initially.

67. Correct Answer: B (Taxpayer identification information)

Form W-9 (Request for Taxpayer Identification Number and Certification) requests the payee's name, TIN (SSN, EIN, or ITIN), entity classification, and certifications regarding backup withholding and FATCA status. Payors use Form W-9 to obtain information needed to complete information returns (1099s). Form W-9 is for U.S. persons; foreign persons use Form W-8.

68. Correct Answer: D (Backup withholding)

Certifications on Form W-9 include: (1) the TIN provided is correct, (2) the payee is not subject to backup withholding because of underreporting, (3) the payee is a U.S. person, and (4) FATCA code is correct. False certifications can result in penalties. Payees refusing to certify trigger backup withholding.

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

The frivolous return penalty under Section 6702 is \$5,000 for filing a frivolous tax return or submission. A return is frivolous if it omits information needed to determine tax, shows substantially incorrect tax based on frivolous positions, or is based on frivolous positions identified in IRS notices. The penalty is separate from other penalties and interest.

70. Correct Answer: C (Income tax withheld 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 unpaid trust fund taxes and can be assessed personally against responsible persons.

71. Correct Answer: C (Financial affairs)

A responsible person for trust fund recovery penalty includes those with authority or control over financial affairs, specifically the authority to decide which creditors to pay. Responsibility can be shared among multiple individuals. Willfulness is also required—knowing about unpaid trust fund taxes and using funds to pay other creditors rather than the IRS.

72. Correct Answer: B (Knowing failure to pay or reckless disregard)

Willfulness for the trust fund penalty means voluntarily, consciously, and intentionally failing to pay trust fund taxes. It includes reckless disregard of known risks. Willfulness doesn't require bad motive or evil intent—knowing about unpaid trust fund taxes while paying other creditors establishes willfulness. The standard is easier to meet than criminal willfulness.

73. Correct Answer: D (Demand period)

Erroneous refund claims require repayment within the period specified in the IRS demand notice. When the IRS discovers an erroneous refund (a refund issued incorrectly or in excess), they send a notice demanding repayment. The notice specifies the timeframe for payment, typically 21 days from the demand date, though this can vary. The IRS can assess and collect erroneous refunds within 2 years of making the refund (5 years in fraud cases) under Section 6532. If the taxpayer doesn't repay voluntarily within the demand period, the IRS can pursue collection through levies, offsets, and other enforcement actions. The demand period gives taxpayers notice and opportunity to respond before the IRS initiates collection enforcement.

74. Correct Answer: C (Deficiency notice)

Math error authority allows the IRS to summarily assess additional tax without issuing a notice of deficiency when the return contains mathematical or clerical errors, incorrect standard deduction, omitted required information, or other listed errors. Taxpayers receive explanation of the correction and 60 days to dispute. If disputed, the assessment is abated and normal deficiency procedures apply.

75. Correct Answer: D (Deficiencies)

Summary assessment applies to math errors, certain claims for credit or refund, tentative carryback adjustments, and other specified items. It allows IRS to assess without deficiency procedures for straightforward corrections. Taxpayers can request abatement, which triggers normal deficiency procedures. Summary assessment speeds processing of clear-cut errors.

76. Correct Answer: B (Collection in jeopardy)

Jeopardy assessment is made when the IRS determines collection would be jeopardized by delay, such as when the taxpayer is preparing to leave the country with assets, concealing assets, or dissipating assets. The IRS can immediately assess and collect without normal notice procedures. Taxpayers can request administrative and judicial review but must post bond to stay collection.

77. Correct Answer: B (Taxpayer leaving country or concealing assets)

Termination assessment occurs when the IRS finds the taxpayer is leaving the country, removing property from the U.S., concealing themselves or property, or the taxable period will close before normal assessment can occur. Termination assessment applies to the current year or prior years. It's similar to jeopardy assessment but used for different circumstances.

78. Correct Answer: C (18 months)

Requesting prompt assessment shortens the assessment statute to 18 months from when the request is filed (for corporations, estates, and certain other entities). Without the request, the normal 3-year statute applies. Prompt assessment provides earlier certainty that the IRS won't assess additional tax. It's commonly used by estates and executors to expedite closure of tax liabilities.

79. Correct Answer: D (Received for less than value while insolvent)

Transferee liability applies when a taxpayer transfers property for less than full value while insolvent (or the transfer renders them insolvent) with intent to delay, hinder, or defraud creditors. The IRS can collect the taxpayer's liability from the transferee up to the value of the property transferred. State fraudulent transfer laws often provide the basis for federal transferee liability.

80. Correct Answer: B (Another to avoid collection)

Nominee liability applies when legal title to property is in another person's name to avoid IRS collection from the actual owner. The IRS can pierce the nominee arrangement and collect from the property. Common situations include transferring assets to family members while retaining beneficial ownership. The IRS must prove the titleholder is merely holding property for the taxpayer.

81. Correct Answer: B (Individual's alter ego)

The alter ego theory treats a separate entity (corporation, trust) as the individual taxpayer's alter ego when the entity is merely a sham or formality. Factors include commingling of funds, lack of corporate formalities, undercapitalization, and use of the entity to evade obligations. When alter ego is established, the IRS can levy on the entity's assets to collect the individual's tax debt.

82. Correct Answer: B (Defraud creditors)

A fraudulent conveyance is a transfer made with actual intent to defraud creditors or when the transferor receives less than reasonably equivalent value while insolvent. The IRS, as a creditor, can void fraudulent conveyances and collect from transferred assets. Badges of fraud include transfers to insiders, retaining possession after transfer, concealment, and transfers while being sued.

83. Correct Answer: B (Pattern of misconduct)

Injunction against tax return preparers requires showing a pattern of misconduct, not just isolated violations. The IRS must prove the preparer has engaged in prohibited conduct (false claims, frivolous positions, failure to sign) and is likely to continue. Injunctions can prohibit specific conduct or entirely bar someone from preparing returns. Violations of injunctions can result in contempt proceedings.

84. Correct Answer: B (Abusive tax shelters)

Promoter penalties apply to those who organize, sell, or participate in organizing or selling abusive tax shelters or other tax-motivated transactions. Penalties include Section 6700 (promoting abusive tax shelters), Section 6701 (aiding and abetting understatement), and Section 6707 (failure to register tax shelters). Promoter penalties can be substantial, deterring tax shelter promotion.

85. Correct Answer: C (Abusive tax avoidance)

A listed transaction is a transaction that is the same as or substantially similar to a transaction the IRS has determined to be a tax avoidance transaction and has specifically identified by notice, regulation, or other published guidance. Listed transactions must be disclosed on Form 8886. Material advisors must register listed transactions and maintain client lists. The listing provides public warning about abusive transactions.

86. Correct Answer: B (8886)

Form 8886, Reportable Transaction Disclosure Statement, is required for taxpayers participating in reportable transactions, including listed transactions, confidential transactions, transactions with contractual protection, loss transactions, and transactions of interest. The form describes the transaction and expected tax treatment. Failure to disclose results in penalties and extends the statute of limitations.

87. Correct Answer: A (8918)

Material advisors (persons providing material aid, assistance, or advice regarding reportable transactions and receiving threshold fees) must file Form 8918, Material Advisor Disclosure Statement, and maintain lists of clients. For listed transactions, registration is required within specified timeframes. Failure to file

or maintain lists results in penalties. Material advisor requirements help IRS identify and investigate abusive transactions.

88. Correct Answer: A (\$10,000 individuals/\$50,000 others)

Penalty for failure to disclose reportable transactions is \$10,000 for individuals and \$50,000 for other taxpayers (corporations, partnerships, etc.). For listed transactions, the penalty increases to \$100,000 for individuals and \$200,000 for other taxpayers. The penalty applies for each failure to disclose. Disclosure on amended returns doesn't avoid penalties if the original return lacked disclosure.

89. Correct Answer: B (For quality review)

Tax return preparers can disclose tax return information without client consent for quality or peer reviews, administrative proceedings involving the preparer, compliance with court orders or conflict checks, and other limited purposes specified in regulations. Disclosure for marketing or other unauthorized purposes results in penalties. Preparers must safeguard client information and may need confidentiality agreements for permitted disclosures.

90. Correct Answer: C (IRS employees and programs)

The Treasury Inspector General for Tax Administration (TIGTA) conducts audits, investigations, and inspections of IRS programs and employees. TIGTA investigates employee misconduct, fraud, abuse, and waste. TIGTA operates independently from the IRS to provide objective oversight. Taxpayers can report IRS employee misconduct to TIGTA. TIGTA reports to Congress and the Treasury Secretary.

91. Correct Answer: C (Congress directly)

The National Taxpayer Advocate reports directly to Congress (as well as the IRS Commissioner) on the most serious problems facing taxpayers, IRS responsiveness to recommendations, and TAS objectives. This independent reporting ensures taxpayer issues receive Congressional attention. The NTA appears before Congress regularly and submits statutory reports, maintaining independence from IRS management.

92. Correct Answer: A (State)

Local Taxpayer Advocates are located in each state (and in some cases, multiple advocates in larger states) to provide accessible assistance to taxpayers experiencing hardship or problems with the IRS. Each state has at least one Local Taxpayer Advocate office. These offices are geographically distributed to ensure taxpayers throughout the country can access TAS services without traveling long distances. Local advocates handle individual cases, while the National Taxpayer Advocate oversees the service and reports to Congress on systemic problems affecting taxpayers.

93. Correct Answer: B (Release levy or cease action)

Taxpayer Assistance Orders (TAOs) issued by the Taxpayer Advocate Service can require the IRS to release levied property, cease collection actions, expedite processing, or take (or refrain from taking) other

specific actions to relieve hardship. TAOs are binding on the IRS and provide emergency relief when IRS actions are causing or about to cause significant hardship to taxpayers. TAOs cannot require the IRS to reduce tax liability, accept offers, or waive penalties—those are substantive determinations. TAOs focus on IRS actions and procedures that create hardship, providing relief from enforcement while underlying issues are resolved.

94. Correct Answer: B (Provide independent review)

The IRS Independent Office of Appeals was created to provide independent, impartial review of disputes between taxpayers and the IRS. Appeals operates independently from Examination (Compliance) and Collection divisions to ensure fresh, unbiased review without influence from the functions that made initial determinations. Appeals can consider hazards of litigation and has settlement authority. It does NOT hear Tax Court cases (that's the U.S. Tax Court), collect taxes (that's Collection), or conduct audits (that's Examination). The independence ensures fair review before disputes proceed to costly and time-consuming litigation.

95. Correct Answer: B (Testimony under oath)

Appeals conferences are informal discussions that don't require sworn testimony, formal rules of evidence, or court reporters. Taxpayers can present their positions and documentation informally. This informality encourages open discussion and settlement. However, participants should be truthful—false statements can result in perjury charges or other consequences.

96. Correct Answer: B (Settlement possibilities)

Appeals Officers consider hazards of litigation—the likelihood of the IRS prevailing if the case went to court—when evaluating settlement possibilities. They assess the strengths and weaknesses of both parties' positions, considering case law, facts, and evidence. Appeals settlements balance the risk of litigation with collection efficiency. Settlements must have reasonable support based on hazards.

97. Correct Answer: B (Certain disputes)

Appeals mediation is available for certain disputes including factual issues, collection alternatives, trust fund recovery penalties, and offers in compromise. Mediation is voluntary and requires agreement of both parties. A neutral mediator from Appeals facilitates discussion but doesn't render a decision. Mediation can help resolve disputes that traditional Appeals conferences cannot settle.

98. Correct Answer: C (Appeals)

Fast Track Mediation (FTM) is available after a case has been referred to Appeals. It uses an Appeals mediator to facilitate resolution between the taxpayer and the Appeals Officer assigned to the case. Both parties must agree to participate—it's voluntary. FTM typically aims to resolve cases within 40-120 days. This differs from Fast Track Settlement (FTS), which is available during the examination phase while the case is still with the revenue agent, before formal Appeals referral. FTM provides structured mediation to help reach settlement once the case is already in the Appeals process.

99. Correct Answer: C (Voluntary and binding on factual issues)

Arbitration in Appeals is voluntary—both the taxpayer and the IRS must agree to participate. Once agreed, the arbitration is binding on both parties for factual issues. An arbitrator (typically a neutral expert) makes a binding determination on disputed facts when Appeals cannot resolve them. Arbitration does NOT apply to legal issues or policy determinations—only factual disputes. The voluntary nature ensures both parties willingly accept binding resolution, while the limitation to factual issues preserves government authority over legal interpretations and policy. The binding result provides finality without litigation when parties agree to arbitrate disputed facts.

100. Correct Answer: B (Appeals determination)

Post-Appeals mediation is available after an Appeals determination (when taxpayers and IRS disagree with Appeals' conclusions). It's a last opportunity to settle before litigation. Post-Appeals mediation uses different Appeals personnel than those who handled the original Appeals conference. It's voluntary and can help avoid costly litigation by facilitating settlement discussions.