

Full-Length Practice Test 9

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

Part 1: Individuals

1. When married taxpayers live apart but are not legally separated, they must file:
 - A. Jointly only
 - B. Married filing jointly or married filing separately
 - C. As single
 - D. As head of household

2. The standard deduction for taxpayers over age 65 includes an additional:
 - A. \$1,950 (MFJ, one spouse)
 - B. \$1,850
 - C. \$2,000
 - D. \$3,000

3. A qualifying child for dependent purposes must be younger than the taxpayer or:
 - A. Under 21
 - B. Under 24 if student
 - C. Under 18
 - D. Permanently and totally disabled

4. The support test for qualifying relative requires the taxpayer to provide over:
 - A. 25% of support
 - B. One-third of support
 - C. Half of support
 - D. 75% of support

5. Married filing separately taxpayers must both take standard deduction or:
 - A. One can itemize
 - B. Both must itemize
 - C. Neither can deduct
 - D. File amended returns

6. Scholarship income is excludable if the student is a degree candidate and funds are used for:
 - A. Room and board

- B. Travel
 - C. Living expenses
 - D. Tuition and required fees
7. Unemployment compensation is:
- A. Fully taxable
 - B. 50% taxable
 - C. Excluded from income
 - D. Taxable only over \$10,000
8. Alimony paid under divorce agreements executed after 2018 is:
- A. Not deductible by payor
 - B. Deductible by payor
 - C. Excludable by recipient
 - D. Both B and C
9. Social Security benefits may be taxable up to:
- A. 50%
 - B. 75%
 - C. 85%
 - D. 100%
10. The provisional income threshold for single filers for Social Security taxation begins at:
- A. \$15,000
 - B. \$20,000
 - C. \$32,000
 - D. \$25,000
11. Municipal bond interest is:
- A. Fully taxable
 - B. Tax-exempt for federal purposes
 - C. Taxable at capital gains rates
 - D. Deferred
12. Qualified dividends are taxed at the same rate as:
- A. Ordinary income
 - B. Interest income
 - C. Wages
 - D. Long-term capital gains

13. To qualify for the foreign earned income exclusion, the taxpayer must meet the bona fide residence test or:
- A. Physical presence test
 - B. Domicile test
 - C. Citizenship test
 - D. Treaty test
14. The physical presence test requires being physically present in a foreign country for at least:
- A. 180 days in 12 months
 - B. 270 days in 12 months
 - C. 330 days in 12 months
 - D. 365 consecutive days
15. Canceled credit card debt is generally:
- A. Excluded from income
 - B. Taxable as ordinary income
 - C. Treated as capital gain
 - D. Deferred
16. The maximum exclusion for employer-provided dependent care assistance is:
- A. \$5,000
 - B. \$3,000
 - C. \$10,000
 - D. \$2,500
17. Employer-provided educational assistance is excludable up to:
- A. \$3,250
 - B. \$7,500
 - C. \$5,250
 - D. No limit
18. The annual exclusion for gifts for 2024 is approximately:
- A. \$15,000
 - B. \$18,000
 - C. \$20,000
 - D. \$17,000
19. Meals provided to employees on employer premises for employer's convenience are:
- A. Excluded from income
 - B. 50% taxable

- C. Fully taxable
- D. Subject to FICA only

20. Traditional IRA distributions taken before age 59½ are subject to:

- A. 5% penalty
- B. 15% penalty
- C. No penalty
- D. 10% penalty

21. Roth IRA qualified distributions require the account to have been open for:

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

22. The maximum contribution to a traditional or Roth IRA for 2024 for those under 50 is:

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

23. Catch-up contributions to IRAs for taxpayers 50 or older add:

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

24. Required minimum distributions from traditional IRAs must begin by:

- A. April 1 following the year turning 73
- B. December 31 of year turning 70½
- C. January 1 of year turning 72
- D. Age 75

25. Self-employed SEP IRA contribution limit is based on:

- A. Gross income
- B. W-2 wages
- C. Investment income
- D. Net self-employment earnings

26. SIMPLE IRA employee contribution limit for 2024 is approximately:

- A. \$13,500
- B. \$16,000
- C. \$19,500
- D. \$22,500

27. The saver's credit is available to taxpayers with AGI below certain thresholds who contribute to:

- A. 529 plans
- B. HSAs
- C. Retirement accounts
- D. Coverdell ESAs

28. Student loan interest deduction is limited to:

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

29. The student loan interest deduction phases out for single filers beginning at approximately:

- A. \$80,000
- B. \$125,000
- C. \$90,000
- D. \$100,000

30. Qualified higher education expenses for education credits include:

- A. Room only
- B. Board only
- C. Tuition and required fees
- D. Transportation

31. The American Opportunity Credit applies to the first:

- A. 2 years
- B. 4 years
- C. 6 years
- D. All years

32. Of the American Opportunity Credit, the refundable portion is:

- A. 40%
- B. 25%
- C. 50%
- D. 100%

33. Lifetime Learning Credit can be claimed for:
- A. 2 years maximum
 - B. Unlimited years
 - C. 5 years maximum
 - D. 4 years maximum
34. The maximum Lifetime Learning Credit per return is:
- A. \$500
 - B. \$1,000
 - C. \$2,000
 - D. \$2,500
35. Coverdell ESA contributions must be made by:
- A. Tax return due date excluding extensions
 - B. December 31
 - C. April 15
 - D. October 15
36. Medical expenses include premiums for:
- A. Life insurance
 - B. Disability insurance
 - C. Dental insurance
 - D. Qualified long-term care insurance
37. Transportation costs for medical care using personal auto are deductible at:
- A. 67 cents per mile
 - B. 14 cents per mile
 - C. 21 cents per mile
 - D. 58 cents per mile
38. State income tax refunds are taxable if:
- A. Always taxable
 - B. Taxpayer itemized in prior year
 - C. Over \$1,000
 - D. Taxpayer used standard deduction
39. Real estate taxes are deductible:
- A. When assessed
 - B. When billed

- C. Only on rental property
- D. When paid

40. Home mortgage interest deduction applies to acquisition debt up to:

- A. \$750,000
- B. \$500,000
- C. \$1,000,000
- D. No limit if grandfathered

41. Investment interest expense is limited to:

- A. \$3,000
- B. 50% of investment income
- C. No limit
- D. Net investment income

42. Cash charitable contributions require contemporaneous written acknowledgment for amounts of:

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

43. Qualified charitable distributions from IRAs are available to taxpayers age:

- A. 59½ or older
- B. 65 or older
- C. 70½ or older
- D. 72 or older

44. Casualty losses must occur in:

- A. Federally declared disaster areas
- B. Any natural disaster
- C. Any casualty
- D. Only fires

45. Each casualty loss must exceed:

- A. \$100
- B. \$500
- C. \$1,000
- D. \$500 (previously \$100)

46. Gambling winnings are reported on:

- A. Schedule A
- B. Schedule E
- C. Form 1040
- D. Schedule C

47. Net capital losses are deductible against ordinary income up to:

- A. No limit
- B. \$3,000 (\$1,500 MFS)
- C. \$10,000
- D. \$5,000

48. Long-term capital gains holding period exceeds:

- A. 1 year
- B. 6 months
- C. 18 months
- D. 2 years

49. Collectibles held long-term are taxed at a maximum rate of:

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

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

- A. \$25,000 single
- B. \$100,000 MFJ
- C. \$50,000 single
- D. No limit

51. Qualified small business stock exclusion under Section 1202 requires holding for more than:

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

52. Wash sale rules apply when substantially identical securities are purchased within:

- A. 15 days
- B. 60 days
- C. 90 days
- D. 30 days before or after

53. Constructive receipt applies when income is:
- A. Invoiced
 - B. Earned
 - C. Available without restriction
 - D. Deposited
54. The threshold for reporting cash transactions on Form 8300 is:
- A. \$5,000
 - B. \$25,000
 - C. \$10,000
 - D. \$15,000
55. Bartering income is taxable at:
- A. Capital gains rates
 - B. Fair market value
 - C. 50% of value
 - D. Not taxable
56. Prizes and awards are excludable when transferred to charity if the recipient:
- A. Doesn't accept
 - B. Is selected without action
 - C. Performs services
 - D. Both A and B
57. Jury duty pay must be reported as income but can be deducted if:
- A. Inconvenient
 - B. Under \$100
 - C. Excessive
 - D. Turned over to employer
58. Alaska Permanent Fund dividends are:
- A. Excluded
 - B. Deferred
 - C. Taxable
 - D. Partially taxable
59. Adoption assistance programs exclude up to approximately:
- A. \$10,000
 - B. \$16,810

- C. \$20,000
- D. \$25,000

60. Health Savings Account family coverage contribution limit for 2024 is approximately:

- A. \$4,150
- B. \$6,000
- C. \$8,300
- D. \$10,000

61. HSA funds can be used tax-free for:

- A. Insurance premiums
- B. Qualified medical expenses
- C. Any health-related costs
- D. Preventive care only

62. Flexible Spending Account carryover amount is approximately:

- A. \$500
- B. \$640
- C. \$1,000
- D. No carryover allowed

63. Qualified transportation fringe benefits for parking are limited to monthly:

- A. \$315
- B. \$280
- C. \$450
- D. No limit

64. Archer MSA contributions are available to employees of small employers with no more than:

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

65. De minimis fringe benefits have a value not exceeding:

- A. \$100
- B. \$500
- C. Minimal administrative tracking difficulty
- D. \$1,000

66. Athletic facility fringe benefit exclusion requires the facility to be:

- A. Public
- B. On employer premises
- C. Within 5 miles
- D. Open to all employees

67. Section 125 cafeteria plans allow employees to choose between cash and:

- A. Deferred compensation
- B. Stock options
- C. Additional vacation
- D. Qualified benefits

68. The first-time homebuyer credit was available in:

- A. 2008–2010
- B. 2015–2017
- C. 2020–2022
- D. Still available

69. Energy efficient home improvement credit rate for 2024 is:

- A. 10%
- B. 26%
- C. 30%
- D. 22%

70. Residential solar energy credit has:

- A. \$2,000 annual limit
- B. No dollar limit
- C. \$5,000 lifetime limit
- D. \$10,000 annual limit

71. Electric vehicle credit applies to vehicles with battery capacity of at least:

- A. 7 kilowatt-hours
- B. 5 kilowatt-hours
- C. 10 kilowatt-hours
- D. 15 kilowatt-hours

72. Premium tax credit eligibility requires household income between:

- A. 100%–200% of poverty line
- B. 138%–250% of poverty line
- C. 150%–300% of poverty line
- D. 100%–400% of poverty line

73. Excess advance premium tax credit repayment caps apply to taxpayers with income below:

- A. 300% of poverty line
- B. 250% of poverty line
- C. 400% of poverty line
- D. 500% of poverty line

74. Child and dependent care credit applies to care for children under:

- A. 18
- B. 13
- C. 16
- D. 17

75. Dependent care FSA limit for 2024 is:

- A. \$2,500
- B. \$3,200
- C. \$4,000
- D. \$5,000

76. EITC investment income limit for 2024 is approximately:

- A. \$11,600
- B. \$15,000
- C. \$8,000
- D. \$20,000

77. EITC requires earned income which includes:

- A. Interest
- B. Pensions
- C. Wages and self-employment income
- D. Dividends

78. The additional child tax credit is limited to:

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

79. Credit for other dependents applies to dependents who:

- A. Don't qualify for child tax credit
- B. Are under 17

- C. Live with taxpayer
- D. Are qualifying children

80. Adoption credit phases out beginning at approximately:

- A. \$200,000
- B. \$175,000
- C. \$225,000
- D. \$252,150

81. Foreign tax credit applies to:

- A. Sales taxes
- B. Income taxes paid to foreign countries
- C. Property taxes
- D. All foreign taxes

82. Foreign earned income exclusion for 2024 is approximately:

- A. \$100,000
- B. \$112,000
- C. \$126,500
- D. \$150,000

83. AMT exemption for 2024 for married filing jointly is approximately:

- A. \$65,000
- B. \$85,700
- C. \$118,100
- D. \$133,300

84. AMT rates are:

- A. 26% and 28%
- B. 24% and 32%
- C. 22% and 24%
- D. 28% and 35%

85. Net investment income tax applies to:

- A. Wages
- B. Investment income
- C. Self-employment income
- D. Pensions

86. Additional Medicare tax threshold for married filing jointly is:

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

87. Self-employment tax Social Security portion applies to net earnings up to:

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

88. Nonfarm optional method for SE tax can be used:

- A. Unlimited times
- B. Once
- C. Twice
- D. 5 times

89. Farm optional method for SE tax can be used:

- A. 5 times
- B. Unlimited times
- C. Once
- D. Twice

90. Household employment tax threshold for 2024 is approximately:

- A. \$1,500
- B. \$2,000
- C. \$2,700
- D. \$3,000

91. Estimated tax safe harbor for prior year method requires payment of:

- A. 100% of prior year tax
- B. 90% of prior year tax
- C. 110% of prior year tax
- D. 80% of current year tax

92. Estimated tax payments are not required if tax due after withholding is less than:

- A. \$500
- B. \$2,000
- C. \$250
- D. \$1,000

93. Underpayment penalty can be waived for:
- A. Any reason
 - B. Inability to pay
 - C. Reasonable cause
 - D. First offense
94. Interest on underpayment of tax is calculated from:
- A. January 1
 - B. Due date of return
 - C. Filing date
 - D. Assessment date
95. Offers in compromise based on doubt as to collectibility require:
- A. Payment plan
 - B. Financial hardship
 - C. Disputed liability
 - D. Inability to pay full amount
96. Currently not collectible status is granted when payment would cause:
- A. Economic hardship
 - B. Inconvenience
 - C. Reduced lifestyle
 - D. Delayed retirement
97. Innocent spouse relief under Section 6015(b) requires the understatement to be attributable to:
- A. Both spouses
 - B. Requesting spouse
 - C. Other spouse
 - D. Neither spouse
98. Injured spouse relief applies when joint refund is offset for:
- A. Joint debts
 - B. Other spouse's separate debt
 - C. Current year taxes
 - D. Business debts
99. Taxpayer Assistance Orders can be issued by:
- A. Revenue agents
 - B. IRS Commissioner

- C. Appeals Officers
- D. Taxpayer Advocate

100. Low Income Taxpayer Clinics serve individuals with income below:
- A. 250% of poverty level
 - B. 200% of poverty level
 - C. 150% of poverty level
 - D. Federal poverty level

Part 2: Businesses

1. The all events test for accrual method income recognition requires:
 - A. Cash receipt
 - B. Invoice sent
 - C. Contract signed
 - D. Right to income fixed

2. Economic performance for accrual deductions generally occurs when:
 - A. Invoiced
 - B. Services or property provided
 - C. Payment made
 - D. Liability incurred

3. Advance payments for services can be deferred to next year if services performed by:
 - A. End of next tax year
 - B. End of current year
 - C. 90 days
 - D. 6 months

4. Small business taxpayers can use cash method if average gross receipts don't exceed:
 - A. \$10 million
 - B. \$25 million
 - C. \$29 million
 - D. \$50 million

5. LIFO inventory method assumes:
 - A. First in, first out
 - B. Weighted average
 - C. Specific identification
 - D. Last in, first out

6. Dollar-value LIFO uses:
 - A. Units
 - B. Dollars and price indexes
 - C. FIFO
 - D. Specific costs

7. Lower of cost or market for inventory compares cost to:
 - A. Original cost
 - B. Sales price
 - C. Replacement cost
 - D. Book value

8. Inventory writedowns create:
 - A. Current deduction
 - B. Deferred deduction
 - C. Capital loss
 - D. Not deductible

9. UNICAP exceptions include:
 - A. All retailers
 - B. Service providers
 - C. Manufacturers
 - D. Resellers under threshold

10. Section 263A requires capitalizing:
 - A. Selling costs
 - B. Production costs
 - C. Administrative costs
 - D. Interest expense

11. Natural resource depletion methods include cost depletion and:
 - A. Percentage depletion
 - B. Units of production
 - C. Straight-line
 - D. Declining balance

12. Percentage depletion for independent oil producers is:
 - A. 10%
 - B. 27.5%

- C. 15%
- D. 22%

13. Depletion cannot exceed:

- A. Cost
- B. Revenue
- C. Basis
- D. 50% of taxable income

14. Intangible drilling costs can be:

- A. Capitalized only
- B. Expensed or capitalized
- C. Amortized over 15 years
- D. Deducted over 5 years

15. Section 179 expensing is limited to:

- A. \$500,000
- B. \$1,000,000
- C. \$1,220,000
- D. No limit

16. Section 179 phase-out begins when property placed in service exceeds:

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

17. Section 179 property includes:

- A. Tangible personal property
- B. Real property
- C. Land
- D. Inventory

18. Bonus depreciation for 2024 is:

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

19. Bonus depreciation applies to property with recovery period of:

- A. 15 years or less
- B. 20 years or less
- C. 25 years or less
- D. Any period

20. Qualified improvement property has a recovery period of:

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

21. MACRS half-year convention assumes property placed in service on:

- A. First day of year
- B. Last day of year
- C. Any day
- D. July 1

22. Mid-quarter convention applies when more than 40% of property is placed in service in:

- A. First quarter
- B. Third quarter
- C. Fourth quarter
- D. Any quarter

23. Alternative depreciation system uses:

- A. Straight-line method
- B. Declining balance
- C. Sum of digits
- D. Units of production

24. Listed property used 50% or less for business must use:

- A. Regular MACRS
- B. ADS straight-line
- C. Section 179
- D. Bonus depreciation

25. Automobiles are subject to annual depreciation limits commonly called:

- A. MACRS limits
- B. Section 179 limits
- C. Bonus limits
- D. Luxury auto limits

26. First-year luxury auto limit without bonus for 2024 is approximately:
- A. \$10,000
 - B. \$15,000
 - C. \$12,200
 - D. \$20,400
27. Heavy SUVs over 6,000 pounds have Section 179 limit of approximately:
- A. No limit
 - B. \$29,200
 - C. \$50,000
 - D. \$100,000
28. Patents and copyrights purchased with a business are amortized over:
- A. 15 years
 - B. Legal life
 - C. Actual life
 - D. 20 years
29. Goodwill is amortized over:
- A. 10 years
 - B. 5 years
 - C. 15 years
 - D. 20 years
30. Customer-based intangibles acquired in business purchase are amortized over:
- A. 5 years
 - B. 10 years
 - C. Actual life
 - D. 15 years
31. Going concern value is:
- A. Section 197 intangible
 - B. Not amortizable
 - C. Expensed immediately
 - D. Depreciated
32. Covenants not to compete are amortized over:
- A. Covenant term
 - B. 15 years

- C. 10 years
- D. 5 years

33. Franchise fees are amortized over:

- A. Franchise term
- B. 10 years
- C. 15 years
- D. 20 years

34. Self-created intangibles are:

- A. Amortized
- B. Expensed
- C. Capitalized
- D. Not amortizable

35. Research and experimentation costs for 2024 must be:

- A. Expensed
- B. Deferred
- C. Capitalized
- D. Amortized over 5 years

36. Software development costs are amortized over:

- A. 36 months
- B. 60 months
- C. 15 years
- D. 5 years

37. Organizational costs first-year deduction is:

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

38. Organizational costs exceeding first-year deduction are amortized over:

- A. 60 months
- B. 180 months
- C. 120 months
- D. 84 months

39. Business startup costs deduction applies to costs paid or incurred:

- A. Before business begins
- B. After business begins
- C. During first year
- D. Anytime

40. Partnership syndication costs are:

- A. Deductible
- B. Amortized
- C. Capitalized
- D. Not deductible or amortizable

41. Partner's basis includes share of partnership:

- A. Income
- B. Assets
- C. Liabilities
- D. Capital

42. Guaranteed payments to partners are:

- A. Ordinary income
- B. Capital gain
- C. Return of capital
- D. Not taxable

43. Partnership distributions of cash exceeding basis create:

- A. Ordinary income
- B. Capital gain
- C. No income
- D. Deferred gain

44. Section 751 property includes:

- A. Capital assets
- B. Real estate
- C. Inventory
- D. Unrealized receivables and inventory

45. Partnership basis adjustments under Section 754 are:

- A. Mandatory
- B. Prohibited
- C. Allowed
- D. Elective

46. Special allocations must have:
- A. Partner consent
 - B. Business purpose
 - C. Substantial economic effect
 - D. IRS approval
47. Partnership minimum gain prevents:
- A. Losses
 - B. Distributions creating negative capital
 - C. Allocations
 - D. Recourse debt
48. At-risk limitations apply to:
- A. C corporations
 - B. All taxpayers
 - C. Individuals only
 - D. Partnerships and S corporations
49. Passive activity losses can offset:
- A. Wages
 - B. Portfolio income
 - C. Passive income
 - D. Any income
50. Real estate professionals must spend:
- A. 750 hours in real property trades
 - B. 500 hours
 - C. 250 hours
 - D. 1,000 hours
51. Material participation tests include participating more than:
- A. 100 hours
 - B. 250 hours
 - C. 750 hours
 - D. 500 hours
52. Rental real estate \$25,000 loss allowance phases out between AGI of:
- A. \$50,000–\$75,000
 - B. \$100,000–\$150,000

- C. \$75,000–\$125,000
- D. \$125,000–\$175,000

53. S corporation shareholders are limited to:

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

54. S corporations can have only one class of stock but can have differences in:

- A. Voting rights
- B. Distribution rights
- C. Liquidation rights
- D. Ownership percentages

55. S corporation built-in gains tax applies for:

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

56. S corporation passive investment income termination occurs after:

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

57. S corporation basis includes:

- A. Entity liabilities
- B. Indirect loans
- C. Pro rata share of debt
- D. Direct shareholder loans only

58. S corporation AAA represents:

- A. Accumulated income taxed but not distributed
- B. Earnings and profits
- C. Capital contributions
- D. Shareholder basis

59. S corporation distributions come first from:

- A. E&P
- B. Basis
- C. AAA
- D. Capital

60. C corporation capital loss carryback is:

- A. Not allowed
- B. 2 years
- C. 1 year
- D. 3 years

61. Corporate capital loss carryforward is:

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

62. Corporate charitable contribution limit is:

- A. 10% of taxable income
- B. 60% of AGI
- C. No limit
- D. 5% of taxable income

63. Dividends received deduction for 20%-owned corporations is:

- A. 50%
- B. 70%
- C. 65%
- D. 100%

64. DRD for corporations owning 80% or more is:

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

65. Personal holding company tax rate is:

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

66. PHC tax applies when more than 50% owned by:
- A. 10 or fewer individuals
 - B. One person
 - C. 5 or fewer individuals
 - D. Any shareholders
67. Accumulated earnings tax applies at:
- A. 20%
 - B. 21%
 - C. 15%
 - D. 35%
68. Accumulated earnings credit is at least:
- A. \$100,000
 - B. \$500,000
 - C. \$1,000,000
 - D. \$250,000
69. Personal service corporations have accumulated earnings credit of:
- A. \$250,000
 - B. \$150,000
 - C. \$500,000
 - D. \$100,000
70. Controlled groups must share:
- A. Section 179 limits
 - B. Income
 - C. Deductions
 - D. Credits only
71. Brother-sister controlled group requires ownership of at least:
- A. 50%
 - B. 80%
 - C. 50% with identical ownership test
 - D. 100%
72. Parent-subsidiary controlled group requires parent to own:
- A. 50%
 - B. 100%

- C. 51%
- D. 80%

73. Section 351 control requirement is:

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

74. Section 351 boot includes:

- A. Stock
- B. Securities
- C. Cash and other property
- D. Voting stock

75. Corporation's basis in Section 351 property received equals transferor's basis plus:

- A. Gain recognized
- B. FMV
- C. Cash paid
- D. Liabilities assumed

76. Section 1244 stock ordinary loss limit for single filers is:

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

77. Section 1202 exclusion for QSBS acquired after 9/27/2010 is:

- A. 50%
- B. 100%
- C. 75%
- D. 60%

78. Section 1245 recapture applies to:

- A. Depreciable personal property
- B. Real property
- C. Land
- D. Inventory

79. Section 1250 recapture for post-1986 real property is:

- A. All depreciation
- B. Excess over straight-line
- C. Zero (no additional depreciation)
- D. 20% of depreciation

80. Unrecaptured Section 1250 gain is taxed at maximum:

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

81. Corporate Section 291 recapture is:

- A. 10% of lesser of gain or depreciation
- B. 20% of lesser of gain or depreciation
- C. All depreciation
- D. Excess depreciation

82. Section 332 liquidation requires parent to own:

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

83. Section 338 election treats stock purchase as:

- A. Asset acquisition
- B. Stock acquisition
- C. Merger
- D. Reorganization

84. Employer FICA rate is:

- A. 6.2%
- B. 12.4%
- C. 15.3%
- D. 7.65%

85. FUTA tax rate after credit is:

- A. 6%
- B. 0.6%
- C. 5.4%
- D. 0.9%

86. FUTA wage base is:

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

87. Form 941 is filed:

- A. Annually
- B. Quarterly
- C. Monthly
- D. Semi-annually

88. Form 940 is filed:

- A. Quarterly
- B. Monthly
- C. Annually
- D. Semi-annually

89. Backup withholding rate is:

- A. 24%
- B. 20%
- C. 28%
- D. 10%

90. Information returns are required for payments of:

- A. \$100 or more
- B. \$500 or more
- C. \$1,000 or more
- D. \$600 or more

91. Form 1099-MISC reports:

- A. Wages
- B. Interest
- C. Rents and royalties
- D. Dividends

92. Form 1099-NEC reports:

- A. Interest
- B. Nonemployee compensation

- C. Dividends
- D. Retirement distributions

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

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

94. Independent contractor status is determined by:

- A. Common law factors
- B. Contract terms
- C. Payment method
- D. Part-time status

95. Statutory employees include:

- A. Corporate officers
- B. Certain drivers and salespeople
- C. All part-time workers
- D. Consultants

96. Accountable plan reimbursements must be substantiated within:

- A. 30 days
- B. 90 days
- C. 60 days
- D. No time limit

97. Nonaccountable plan reimbursements are:

- A. Excluded from wages
- B. Taxable wages
- C. Deductible
- D. Deferred

98. Fringe benefit valuation uses:

- A. Cost to employer
- B. Wholesale value
- C. Fair market value
- D. Discounted value

99. Employee achievement awards maximum for qualified plans is:

- A. \$400
- B. \$1,000
- C. \$2,500
- D. \$1,600

100. Group term life insurance exclusion covers up to:

- A. \$25,000
- B. \$50,000
- C. \$100,000
- D. No limit

Part 3: Representation, Practices, and Procedures

1. Circular 230 governs practice before:

- A. Tax Court
- B. State agencies
- C. Appeals
- D. IRS

2. Enrolled agents are licensed by:

- A. State boards
- B. Treasury Department
- C. AICPA
- D. IRS Commissioner

3. EA continuing education requires:

- A. 12 hours annually
- B. 24 hours annually
- C. 16 hours annually
- D. 72 hours per cycle

4. Ethics CE for enrolled agents is:

- A. 2 hours annually
- B. 6 hours per cycle
- C. 4 hours annually
- D. No requirement

5. Enrollment cycle for EAs is:

- A. Annually
- B. 2 years

- C. 5 years
 - D. 3 years
6. AFSP participants can represent before:
- A. Tax Court
 - B. Appeals
 - C. Revenue agents on prepared returns
 - D. Collection
7. Unenrolled preparers have practice rights for returns they:
- A. Reviewed
 - B. Prepared and signed
 - C. Filed
 - D. Supervised
8. Limited practice does NOT include representation before:
- A. Appeals
 - B. Revenue agents
 - C. Customer service
 - D. Examination
9. PTINs must be renewed:
- A. Every 2 years
 - B. Every 3 years
 - C. Never
 - D. Annually
10. Signing preparers must:
- A. Have CPA
 - B. Be enrolled agents
 - C. Sign return and include PTIN
 - D. Pass exam
11. Substantial portion for nonsigning preparers is:
- A. \$5,000 or 10%
 - B. \$10,000 or 20%
 - C. Any amount
 - D. \$20,000 or 25%
12. Due diligence applies to returns claiming:

- A. Standard deduction
- B. Itemized deductions
- C. Business income
- D. EITC, CTC, AOTC, HOH

13. Due diligence penalty per failure is approximately:

- A. \$590
- B. \$1,000
- C. \$250
- D. \$100

14. Form 8867 must be completed for:

- A. All returns
- B. Business returns
- C. Covered credits and HOH
- D. High-income returns

15. Preparer records must be retained for:

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

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

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

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

- A. 50% of income
- B. 100% of income
- C. 75% of income
- D. \$10,000

18. Return of client records is required:

- A. Upon request
- B. After payment
- C. Within 30 days
- D. Never

19. Contingent fees are permitted for:
- A. Original returns
 - B. All services
 - C. Routine advice
 - D. Examinations and judicial proceedings
20. Best practices under Section 10.33 are:
- A. Mandatory
 - B. Enforceable
 - C. Aspirational
 - D. Required
21. Covered opinions require conclusions at:
- A. Reasonable basis
 - B. More likely than not
 - C. Substantial authority
 - D. Should level
22. Former government employees cannot represent on matters they:
- A. Personally and substantially participated in
 - B. Supervised
 - C. Reviewed
 - D. Knew about
23. Circular 230 sanctions include censure, suspension, disbarment, and:
- A. Imprisonment
 - B. Criminal charges
 - C. License revocation
 - D. Monetary penalties
24. Conflicts of interest require:
- A. Disclosure only
 - B. Withdrawal
 - C. Written consent
 - D. IRS approval
25. Practitioner privilege applies to communications regarding:
- A. Return preparation
 - B. Tax advice

- C. All matters
- D. Criminal matters

26. Practitioner privilege does NOT apply to:

- A. Tax planning
- B. IRS proceedings
- C. Federal court
- D. Criminal matters and tax shelters

27. Form 2848 authorizes:

- A. Representation
- B. Information only
- C. Filing returns
- D. Signing agreements

28. Form 8821 authorizes:

- A. Representation
- B. Advocacy
- C. Receiving information
- D. Binding taxpayer

29. CAF retention period is:

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

30. Powers of attorney can be limited to:

- A. Specific tax years
- B. All matters only
- C. General authority only
- D. IRS discretion

31. Statute of limitations for assessment is generally:

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

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

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

33. Fraud extends statute to:

- A. 6 years
- B. Indefinite
- C. 10 years
- D. 20 years

34. Refund statute is later of 3 years from filing or:

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

35. Collection statute is:

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

36. Collection statute is suspended during:

- A. Examination
- B. Payment plan only
- C. OIC and CDP proceedings
- D. Filing delays

37. Form 872 extends statute by:

- A. Automatic 3 years
- B. Agreed period
- C. 1 year
- D. IRS discretion

38. Examination types include correspondence, office, and:

- A. Telephone
- B. Mail only
- C. Video
- D. Field

39. Statutory notice of deficiency provides:

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

40. Failure to respond to statutory notice results in:

- A. Assessment
- B. Penalty
- C. Lien
- D. Levy

41. Tax Court petition must be filed within:

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

42. Small case procedures apply to disputes of:

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

43. Small case decisions are:

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

44. District Court jurisdiction requires:

- A. Payment first
- B. No payment
- C. Petition only
- D. IRS consent

45. Court of Federal Claims has:

- A. Limited jurisdiction
- B. State jurisdiction

- C. Tax matters only
- D. Nationwide jurisdiction

46. Golsen rule requires Tax Court to follow:

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

47. Appeals settlement rate is approximately:

- A. 50%
- B. 70%
- C. 90%
- D. 100%

48. Fast Track Settlement uses:

- A. Revenue agent
- B. Tax Court
- C. Arbitrator
- D. Appeals mediator

49. Arbitration applies to:

- A. Factual issues
- B. Legal issues
- C. Policy issues
- D. All issues

50. Levy can seize:

- A. Principal residence without approval
- B. Wages and bank accounts
- C. Exempt property only
- D. Personal effects

51. Principal residence levy requires approval from:

- A. IRS Commissioner
- B. Appeals
- C. Federal court
- D. Revenue officer

52. Notice of Intent to Levy provides:

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

53. Federal tax lien arises upon:

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

54. Notice of Federal Tax Lien is filed with:

- A. IRS
- B. Appropriate government office
- C. Tax Court
- D. County recorder only

55. Lien priority is determined by:

- A. Amount
- B. Type of tax
- C. Date filed or perfected
- D. IRS discretion

56. Certificate of Release must be issued within:

- A. 90 days
- B. 60 days
- C. 45 days
- D. 30 days

57. Offers in compromise types include doubt as to collectibility, doubt as to liability, and:

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

58. OIC application fee is approximately:

- A. \$50
- B. \$100
- C. \$205
- D. \$500

59. OIC requires financial statements on:
- A. Tax return
 - B. Form 433-A or 433-B
 - C. Schedule C
 - D. Balance sheet
60. Installment agreement user fee ranges from:
- A. \$31 to \$225
 - B. \$50 to \$500
 - C. \$100 to \$300
 - D. Free to \$100
61. Streamlined installment agreements apply to liabilities of:
- A. \$25,000 or less
 - B. \$100,000 or less
 - C. \$75,000 or less
 - D. \$50,000 or less
62. Guaranteed installment agreements apply to liabilities of:
- A. \$5,000 or less
 - B. \$25,000 or less
 - C. \$10,000 or less
 - D. \$15,000 or less
63. Currently not collectible requires showing:
- A. Unemployment
 - B. Hardship
 - C. Bankruptcy
 - D. Inability to borrow
64. Collection due process hearing provides right to:
- A. Contest collection and liability
 - B. Payment plan only
 - C. Penalty abatement
 - D. Statute extension
65. CDP hearing request must be made within:
- A. 15 days
 - B. 60 days

- C. 90 days
- D. 30 days

66. Equivalent hearing differs from CDP because it:

- A. Is faster
- B. Uses different officers
- C. Has no Tax Court review
- D. Is mandatory

67. Innocent spouse relief types include traditional, separation of liability, and:

- A. Injured spouse
- B. Equitable relief
- C. Economic hardship
- D. Financial relief

68. Separation of liability relief requires:

- A. Divorce only
- B. Legal separation only
- C. Still married
- D. Divorced, separated, or living apart

69. Injured spouse applies when refund offset for other spouse's:

- A. Separate debt
- B. Joint debt
- C. Current taxes
- D. Business debts

70. Taxpayer Advocate Service assists with:

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

71. TAS can issue:

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

72. Whistleblower awards range from:

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

73. Whistleblower mandatory awards require dispute over:

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

74. Identity theft victims receive:

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

75. Taxpayer Bill of Rights includes how many rights:

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

76. Right to finality means statute of limitations on:

- A. Assessment only
- B. Collection only
- C. Assessment and collection
- D. Examination only

77. Summons can require:

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

78. John Doe summons applies to:

- A. Named individuals
- B. Specific taxpayers
- C. Known violators
- D. Ascertainable groups

79. Third-party recordkeeper summons notice provides:

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

80. Accuracy-related penalty applies to:

- A. Criminal fraud
- B. Negligence and substantial understatement
- C. Late filing
- D. Late payment

81. Civil fraud penalty is:

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

82. Failure-to-file penalty is:

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

83. Failure-to-pay penalty is:

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

84. Trust fund recovery penalty equals:

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

85. Responsible person for trust fund penalty has:

- A. Any involvement
- B. Signature authority

- C. Knowledge
- D. Authority and willfulness

86. Frivolous return penalty is:

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

87. Erroneous refund claim penalty is:

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

88. First-time abate applies to:

- A. All penalties
- B. Fraud penalties
- C. Failure-to-file, pay, deposit
- D. Accuracy penalties

89. Reasonable cause abatement requires:

- A. Ordinary care and prudence
- B. Professional advice
- C. Ignorance
- D. Financial hardship

90. Penalty appeals go to:

- A. Tax Court
- B. Appeals Office
- C. District Court
- D. Collection

91. Payment designation allows taxpayers to:

- A. Designate tax periods
- B. Reduce penalties
- C. Extend statute
- D. Defer payment

92. Partial payment installment agreements are based on:

- A. Minimum payment
- B. Fixed percentage
- C. Ability to pay
- D. Tax owed

93. Offer investigation includes:

- A. Limited review
- B. Informal inquiry
- C. Self-certification
- D. Comprehensive verification

94. Offer default results in:

- A. Renegotiation
- B. Reinstatement of liability
- C. Penalty only
- D. Extended terms

95. Offer compliance period is typically:

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

96. Appeals conference is:

- A. Formal hearing
- B. Trial
- C. Informal meeting
- D. Binding arbitration

97. Appeals can consider:

- A. New issues only
- B. Litigation hazards
- C. Policy matters only
- D. Legal issues only

98. Mitigation provisions prevent:

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

99. Protective claim preserves refund rights when:

- A. Amount unknown
- B. Time expired
- C. Claim denied
- D. Examination pending

100. Information Document Request (IDR) is:

- A. Mandatory summons
- B. Binding order
- C. Formal court order
- D. IRS examination request

Answer Explanations - Practice Test 9

Part 1: Individuals

1. Correct Answer: B (Married filing jointly or married filing separately)

When married taxpayers live apart but are not legally separated under a decree of divorce or separate maintenance, they are still considered married for tax purposes. They must file as either married filing jointly or married filing separately. They cannot file as single or head of household unless they obtain a legal separation decree. Living apart without legal separation doesn't change marital status for tax purposes.

2. Correct Answer: A (\$1,950 (MFJ, one spouse))

For 2024, taxpayers age 65 or older receive an additional standard deduction of approximately \$1,950 (for married filing jointly, per spouse age 65+) or \$1,550 for single filers. If both spouses are 65 or older, the couple gets \$3,900 additional. Blind taxpayers receive the same additional amounts. These additional amounts recognize increased expenses and reduced income for elderly taxpayers.

3. Correct Answer: D (Permanently and totally disabled)

A qualifying child must be younger than the taxpayer (and under age 19, or under age 24 if a full-time student) OR permanently and totally disabled (any age). The disability exception allows parents to claim disabled children as qualifying children regardless of age, recognizing lifelong dependency. The child must also meet relationship, residency, and support tests.

4. Correct Answer: C (Half of support)

To claim someone as a qualifying relative, the taxpayer must provide over half (more than 50%) of the person's total support for the year. Support includes food, shelter, clothing, medical care, education, and similar items. The support test ensures the taxpayer is the primary financial supporter, justifying the dependency exemption and related tax benefits.

5. Correct Answer: B (Both must itemize)

When married filing separately, if one spouse itemizes deductions, the other spouse must also itemize—both cannot take the standard deduction. This prevents couples from getting the benefit of both itemizing and standard deduction by filing separately. This is one of several restrictions on married filing separately that encourage joint filing or make separate filing less beneficial.

6. Correct Answer: D (Tuition and required fees)

Scholarship and fellowship income is excludable from gross income if the recipient is a degree candidate and the funds are used for qualified education expenses: tuition and fees required for enrollment or attendance, and fees, books, supplies, and equipment required for courses. Amounts used for room, board, travel, or other living expenses are taxable, even for degree candidates.

7. Correct Answer: A (Fully taxable)

Unemployment compensation is fully taxable as ordinary income and must be reported on the tax return. Recipients receive Form 1099-G showing the amount received. The American Rescue Plan temporarily excluded \$10,200 of unemployment for 2020 only, but this exclusion expired. State unemployment, federal unemployment (CARES Act benefits), and pandemic-related unemployment are all taxable.

8. Correct Answer: A (Not deductible by payor)

Alimony paid under divorce or separation agreements executed after December 31, 2018, is not deductible by the payor and not taxable to the recipient. The Tax Cuts and Jobs Act eliminated the alimony deduction for post-2018 agreements. Agreements executed before 2019 retain the old rules (deductible/taxable) unless modified to adopt new treatment. This fundamental change shifts tax burden to higher-earning payors.

9. Correct Answer: C (85%)

Social Security benefits may be taxable up to 85% of the benefits received, depending on provisional income (adjusted gross income plus tax-exempt interest plus one-half of Social Security benefits). The taxation ranges from 0% (low income) to 50% (moderate income) to 85% (higher income). No one pays tax on more than 85% of benefits, ensuring at least 15% remains tax-free.

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

For single filers, Social Security benefits become taxable when provisional income exceeds \$25,000. Between \$25,000 and \$34,000, up to 50% of benefits are taxable. Above \$34,000, up to 85% of benefits

are taxable. For married filing jointly, the thresholds are \$32,000 (50% taxation begins) and \$44,000 (85% taxation begins). These thresholds have never been indexed for inflation.

11. Correct Answer: B (Tax-exempt for federal purposes)

Interest on state and local government bonds (municipal bonds) is excluded from federal gross income under Section 103. This tax exemption allows state and local governments to borrow at lower interest rates. While exempt from federal tax, the interest may be taxable by states (except usually the issuing state). Private activity bond interest is a preference item for AMT purposes.

12. Correct Answer: D (Long-term capital gains)

Qualified dividends are taxed at the same preferential rates as long-term capital gains: 0%, 15%, or 20%, depending on taxable income. To qualify, dividends must be from U.S. corporations or qualified foreign corporations, and the stock must be held for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. This favorable treatment encourages equity investment.

13. Correct Answer: A (Physical presence test)

To claim the foreign earned income exclusion, taxpayers must meet either the bona fide residence test (bona fide resident of foreign country for uninterrupted period including entire tax year) or the physical presence test (physically present in foreign country 330 full days during any 12-month period). Most taxpayers use the physical presence test because it's easier to satisfy and prove through documentation.

14. Correct Answer: C (330 days in 12 months)

The physical presence test requires being physically present in a foreign country or countries for at least 330 full days during any consecutive 12-month period. The 330 days need not be consecutive. The 12-month period can begin on any day and doesn't have to align with the tax year. Full days mean 24-hour periods; travel days when departing or arriving in the U.S. don't count.

15. Correct Answer: B (Taxable as ordinary income)

Canceled or forgiven debt is generally taxable as ordinary income under the discharge of indebtedness rules. The debtor receives Form 1099-C and must report the canceled amount as income. Exceptions include insolvency (exclusion limited to amount insolvent), bankruptcy, qualified farm debt, qualified real property business debt, and certain student loans. The income reflects the benefit of not having to repay borrowed funds.

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

Employer-provided dependent care assistance under Section 129 is excludable up to \$5,000 per year (\$2,500 if married filing separately). The assistance must be provided under a written, non-discriminatory plan. Amounts excluded reduce dollar-for-dollar the expenses eligible for the dependent care credit. The exclusion helps working parents pay for care while reducing both income and employment taxes.

17. Correct Answer: C (\$5,250)

Employer-provided educational assistance under Section 127 is excludable up to \$5,250 per year. The exclusion covers tuition, fees, books, supplies, and equipment for both undergraduate and graduate courses. The courses need not be job-related. Assistance over \$5,250 is taxable unless it qualifies as a working condition fringe benefit (job-related education maintaining or improving skills). The exclusion encourages employee education and skill development.

18. Correct Answer: B (\$18,000)

The annual gift tax exclusion for 2024 is \$18,000 per donee (adjusted periodically for inflation). Individuals can give up to this amount to any number of recipients without gift tax consequences or filing requirements. Married couples can give \$36,000 per donee through gift-splitting. Gifts exceeding the annual exclusion require filing Form 709 and reduce lifetime exemption. The exclusion facilitates wealth transfer and family support.

19. Correct Answer: A (Excluded from income)

Meals provided to employees on the employer's business premises for the employer's convenience are excluded from the employee's gross income under Section 119. "Employer's convenience" means there's a substantial non-compensatory business reason (such as requiring employees to be available during meals). The exclusion recognizes these meals primarily benefit the employer. Lodging can also be excluded under similar rules.

20. Correct Answer: D (10% penalty)

Traditional IRA distributions taken before age 59½ are subject to a 10% early distribution penalty in addition to regular income tax, unless an exception applies. Exceptions include death, disability, substantially equal periodic payments, first-time home purchase (\$10,000 lifetime), qualified education expenses, unreimbursed medical expenses exceeding 7.5% of AGI, health insurance premiums while unemployed, IRS levy, and qualified birth or adoption expenses.

21. Correct Answer: B (5 years)

Roth IRA qualified distributions (tax-free and penalty-free) require the account to have been open for at least 5 tax years AND the distribution to occur after age 59½, death, disability, or for first-time home purchase (\$10,000 lifetime). The 5-year period begins January 1 of the year the first contribution is made. Earnings distributed before meeting both requirements are taxable and may be subject to the 10% penalty.

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

The maximum contribution to traditional or Roth IRAs for 2024 for individuals under age 50 is \$7,000 (increased from \$6,500 in 2023, adjusted for inflation). Contributions can be split between traditional and Roth IRAs but total contributions cannot exceed the limit. The contribution cannot exceed earned income. The limit is per individual, so married couples can each contribute up to the limit if both have sufficient earned income.

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

Catch-up contributions for taxpayers age 50 or older add \$1,000 to the IRA contribution limit, allowing total contributions of \$8,000 for 2024. The catch-up amount is not indexed for inflation and has remained \$1,000 since it was introduced. This additional contribution helps older workers boost retirement savings as they approach retirement with less time to save.

24. Correct Answer: A (April 1 following the year turning 73)

Required minimum distributions (RMDs) from traditional IRAs must begin by April 1 of the year following the year the account owner reaches age 73 (under SECURE 2.0 Act). Previously age 72, then 70½. Subsequent RMDs are due by December 31 of each year. Taking the first RMD in the following year means two distributions in that year, potentially increasing tax burden. Roth IRAs have no RMDs during the owner's lifetime.

25. Correct Answer: D (Net self-employment earnings)

Self-employed SEP IRA contributions are based on net self-employment earnings (Schedule C profit or partnership/LLC distributive share). The contribution limit is the lesser of 25% of compensation (20% of net self-employment earnings after deducting one-half of SE tax and the SEP contribution itself) or \$69,000 for 2024. The calculation is complex due to the circular nature of deducting the contribution to calculate the contribution.

26. Correct Answer: B (\$16,000)

The SIMPLE IRA employee contribution limit for 2024 is \$16,000 for employees under age 50 (increased from \$15,500 in 2023). Employees age 50 or older can contribute an additional \$3,500 catch-up, totaling \$19,500. Employers must either match employee contributions up to 3% of compensation or contribute 2% for all eligible employees. SIMPLE IRAs are available to small employers (100 or fewer employees).

27. Correct Answer: C (Retirement accounts)

The saver's credit (retirement savings contributions credit) is available to low- and moderate-income taxpayers who contribute to retirement accounts including traditional and Roth IRAs, 401(k)s, 403(b)s, governmental 457 plans, SIMPLE IRAs, SEPs, and other qualified plans. The credit is 50%, 20%, or 10% of contributions up to \$2,000, depending on AGI. The credit is nonrefundable and phases out at higher income levels.

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

The student loan interest deduction is limited to \$2,500 per year. The deduction is taken as an adjustment to income on Schedule 1, not as an itemized deduction. It applies to interest on qualified education loans used for qualified higher education expenses. The deduction phases out at higher income levels (\$80,000-\$95,000 for single filers in 2024). The loan must be for the taxpayer, spouse, or dependent.

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

The student loan interest deduction begins phasing out for single filers at modified AGI of approximately \$80,000 (complete phase-out at \$95,000) for 2024. For married filing jointly, the range is \$165,000-\$195,000. The phase-out reduces the maximum \$2,500 deduction proportionally. Above the upper threshold, no deduction is available. The limits are adjusted periodically for inflation.

30. Correct Answer: C (Tuition and required fees)

Qualified higher education expenses for education tax credits (American Opportunity and Lifetime Learning Credits) include tuition and fees required for enrollment or attendance at eligible institutions. For the American Opportunity Credit only, required course materials (books, supplies, equipment) also qualify. Room, board, transportation, and optional fees don't qualify. The expenses must be for the taxpayer, spouse, or dependent.

31. Correct Answer: B (4 years)

The American Opportunity Tax Credit applies to the first 4 years of post-secondary education. The credit is available per eligible student, not per return. Students must be enrolled at least half-time in a degree or credential program. The 4-year limit generally covers undergraduate education. Graduate students and those who've completed 4 years don't qualify for AOTC but may qualify for Lifetime Learning Credit.

32. Correct Answer: A (40%)

Of the \$2,500 American Opportunity Credit, 40% (\$1,000) is refundable, meaning it can be received as a refund even if the taxpayer has no tax liability. The remaining 60% (\$1,500) is nonrefundable and can only reduce tax to zero. The refundable portion makes the AOTC particularly valuable for low-income students and families. The credit phases out at higher income levels.

33. Correct Answer: B (Unlimited years)

The Lifetime Learning Credit can be claimed for an unlimited number of years. Unlike the American Opportunity Credit (limited to 4 years), there's no limit on how many years LLC can be claimed. The credit applies to undergraduate, graduate, and professional degree courses, plus courses to acquire or improve job skills. The unlimited nature makes LLC valuable for lifelong learners and graduate students.

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

The Lifetime Learning Credit maximum is \$2,000 per tax return (not per student), equal to 20% of up to \$10,000 in qualified education expenses. The credit is completely nonrefundable. Multiple students in one family share the \$2,000 maximum. The per-return limit contrasts with the American Opportunity Credit's per-student structure. LLC phases out at higher income levels.

35. Correct Answer: A (Tax return due date excluding extensions)

Coverdell ESA contributions for a tax year must be made by the tax return due date (generally April 15), not including extensions. This mirrors the IRA contribution deadline. Contributions can be made from

January 1 through April 15 of the following year and designated for the prior year. The contribution limit is \$2,000 per beneficiary (not per contributor), and contributions aren't deductible.

36. Correct Answer: D (Qualified long-term care insurance)

Medical expenses include premiums for qualified long-term care insurance, subject to age-based limits (\$470 for age 40 or under to \$5,880 for over age 70 in 2024). Other deductible medical insurance includes health insurance (if not paid pre-tax), dental insurance, and vision insurance. Life insurance and disability insurance premiums are personal expenses and not deductible. Long-term care insurance recognizes significant health costs for elderly or disabled individuals.

37. Correct Answer: C (21 cents per mile)

The standard mileage rate for medical transportation for 2024 is 21 cents per mile (same as for military moving expenses). This rate is set by the IRS and is lower than the business rate because it covers only costs, not profit. Medical transportation can also be deducted using actual costs. Parking fees and tolls are separately deductible in addition to mileage. Medical mileage is subject to the 7.5% of AGI floor with other medical expenses.

38. Correct Answer: B (Taxpayer itemized in prior year)

State income tax refunds are taxable in the year received if the taxpayer itemized deductions in the prior year and the state tax deduction reduced tax liability (provided a tax benefit). If the taxpayer used the standard deduction in the prior year, the refund is not taxable because no tax benefit was received. The tax benefit rule ensures refunds are taxed only when the original deduction saved taxes.

39. Correct Answer: D (When paid)

Real estate taxes are deductible by cash-basis taxpayers when paid, not when assessed, billed, or when the lien attaches. Taxes paid through mortgage escrow are deductible when the lender pays them from the escrow account. This timing differs from when the taxpayer pays into the escrow account. Prepaid taxes for future years aren't deductible until the year to which they apply.

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

The home mortgage interest deduction applies to acquisition debt up to \$750,000 (\$375,000 if married filing separately) for loans taken out after December 15, 2017. Acquisition debt is debt to buy, build, or substantially improve a qualified residence. Loans originated before December 15, 2017, are grandfathered at the \$1 million limit. The reduction from \$1 million to \$750,000 was part of the Tax Cuts and Jobs Act.

41. Correct Answer: D (Net investment income)

Investment interest expense is deductible only to the extent of net investment income (investment income minus investment expenses other than interest). Investment income includes interest, non-qualified dividends, short-term capital gains, and other investment income. Qualified dividends and long-term

capital gains can be included if the taxpayer elects to forgo preferential rates. Disallowed interest carries forward indefinitely to future years.

42. Correct Answer: A (\$250 or more)

Cash charitable contributions of \$250 or more require contemporaneous written acknowledgment from the charity to be deductible. The acknowledgment must describe any goods or services provided in exchange and state their value. "Contemporaneous" means obtained by the earlier of filing date or return due date including extensions. Canceled checks alone don't satisfy the requirement for \$250+ contributions. Bank records suffice for contributions under \$250.

43. Correct Answer: C (70½ or older)

Qualified charitable distributions (QCDs) from IRAs are available to taxpayers age 70½ or older. QCDs allow direct transfers from IRAs to qualified charities up to \$100,000 annually. The distribution is excluded from income and counts toward required minimum distributions but doesn't generate a charitable deduction. This provides tax benefits for those not itemizing deductions and reduces adjusted gross income affecting other tax calculations.

44. Correct Answer: A (Federally declared disaster areas)

Personal casualty and theft losses are deductible for 2018-2025 only if they occur in federally declared disaster areas. The Tax Cuts and Jobs Act suspended casualty loss deductions except for disasters receiving federal declaration. Each loss must exceed \$500 (indexed), and total losses must exceed 10% of AGI. This limitation targets relief to major disasters while preventing deduction for typical personal losses.

45. Correct Answer: D (\$500 (previously \$100))

Each personal casualty loss must exceed \$500 per event for 2024 (this amount is indexed for inflation; it was \$100 before indexing began). After applying this floor, all casualty losses for the year are combined and must exceed 10% of adjusted gross income for any deduction. The floors ensure only significant losses generate deductions and prevent administrative burden of small loss claims.

46. Correct Answer: C (Form 1040)

Gambling winnings are reported as other income on Form 1040 (Schedule 1). Gambling losses are deductible as itemized deductions on Schedule A, but only to the extent of gambling winnings. Professional gamblers report on Schedule C. Casual gamblers must report all winnings as income but can only deduct losses if itemizing and only up to winnings, preventing creation of overall losses from gambling.

47. Correct Answer: B (\$3,000 (\$1,500 MFS))

Net capital losses can be deducted against ordinary income up to \$3,000 per year (\$1,500 if married filing separately). Capital losses first offset capital gains. Excess losses beyond the \$3,000 annual limit carry forward indefinitely to future years, retaining their character as short-term or long-term. This limitation

prevents excessive use of capital losses against ordinary income while allowing some offset for investment losses.

48. Correct Answer: A (1 year)

The long-term capital gains holding period requires holding the asset for more than one year (over 12 months). The holding period begins the day after acquisition and includes the day of sale. Assets held one year or less generate short-term capital gains taxed at ordinary income rates. Long-term gains receive preferential rates (0%, 15%, or 20%), encouraging long-term investment.

49. Correct Answer: D (28%)

Collectibles (art, antiques, gems, stamps, coins, precious metals) held long-term are taxed at a maximum capital gains rate of 28%, higher than the regular long-term capital gains rates of 0%, 15%, or 20%. The higher rate recognizes that collectibles have special characteristics. If the taxpayer's ordinary income tax bracket is below 28%, the lower rate applies. Collectibles held short-term are taxed at ordinary income rates.

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

Section 1244 stock allows ordinary loss treatment (rather than capital loss) up to \$50,000 per year for single filers (\$100,000 for married filing jointly). The stock must meet requirements: domestic C corporation, issued for money or property (not services), total capitalization under \$1 million, and more than 50% of gross receipts from active business. Ordinary loss treatment allows offset against ordinary income, providing significant tax benefit when small businesses fail.

51. Correct Answer: B (5 years)

Section 1202 qualified small business stock exclusion requires holding the stock for more than 5 years. The exclusion percentage depends on acquisition date: 50% for stock acquired before February 18, 2009; 75% for stock acquired February 18, 2009 through September 27, 2010; 100% for stock acquired after September 27, 2010. The corporation must meet requirements including aggregate gross assets under \$50 million and active business operation.

52. Correct Answer: D (30 days before or after)

Wash sale rules disallow losses when substantially identical securities are purchased within 30 days before or after the sale (a 61-day window total). The disallowed loss is added to the basis of the replacement securities, deferring loss recognition. This prevents taxpayers from claiming tax losses while maintaining the same investment position. The rule applies to stocks and securities but not to traders making mark-to-market elections.

53. Correct Answer: C (Available without restriction)

The constructive receipt doctrine requires cash-method taxpayers to include income when it's credited to their account, set apart for them, or otherwise made available without substantial limitations or restrictions,

even if not physically possessed. Mere bookkeeping entries don't create constructive receipt if the taxpayer can't access the funds. The doctrine prevents taxpayers from deferring income by simply not collecting it when available.

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

Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, must be filed when receiving more than \$10,000 cash in one transaction or related transactions. "Cash" includes currency, cashier's checks, money orders, and bank drafts under \$10,000. The form helps detect money laundering and tax evasion. It must be filed within 15 days of receiving the cash. Failure to file can result in significant penalties.

55. Correct Answer: B (Fair market value)

Bartering income (exchange of property or services) is taxable at the fair market value of property or services received. Both parties to a barter recognize income equal to the value received. Barter exchanges issue Form 1099-B reporting transactions. The taxation at FMV ensures bartering doesn't avoid tax that would apply to cash transactions. Basis in property received through barter equals the amount reported as income.

56. Correct Answer: D (Both A and B)

Prizes and awards are excludable from income when (1) the recipient was selected without any action on their part to enter the contest or proceeding, (2) the recipient is not required to render substantial future services as a condition of receiving the prize, AND (3) the prize is transferred directly to a governmental unit or qualified charity designated by the recipient without the recipient ever actually accepting or receiving the funds. Both conditions A and B must be met—the recipient doesn't accept the prize personally (it goes directly to charity) AND the recipient was selected without taking action (like winning the Nobel Prize or Pulitzer Prize based on achievements, not entering a contest). This exclusion under Section 74(b) allows recognition of achievement without tax consequences when recipients donate their awards to charity.

57. Correct Answer: D (Turned over to employer)

Jury duty pay is taxable income and must be reported. However, if the employer continues paying salary during jury duty and requires the employee to turn over the jury pay to the employer, the employee can deduct the jury pay turned over as an adjustment to income on Schedule 1. This prevents double taxation—the jury pay is included in income but the deduction offsets it, resulting in no net tax on pay given to the employer.

58. Correct Answer: C (Taxable)

Alaska Permanent Fund dividends are taxable income to Alaska residents. These annual payments from Alaska's oil revenue savings are reported on Form 1099-MISC and must be included in federal gross income. The dividends represent the state sharing resource wealth with residents, but they don't qualify

for any special federal tax exclusion. They're taxed as ordinary income, similar to other state-source income like lottery winnings.

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

The adoption assistance exclusion for 2024 is approximately \$16,810 (adjusted annually for inflation). Employer adoption assistance programs can exclude this amount for qualified adoption expenses including fees, court costs, attorney fees, and travel. The exclusion phases out at higher income levels. Taxpayers cannot claim both the exclusion and the adoption credit for the same expenses. The exclusion helps offset significant adoption costs.

60. Correct Answer: C (\$8,300)

The Health Savings Account family coverage contribution limit for 2024 is approximately \$8,300 (adjusted annually for inflation). For self-only coverage, the limit is \$4,150. Individuals age 55 or older can contribute an additional \$1,000 catch-up. Both employer and employee contributions count toward the limit. To contribute to an HSA, taxpayers must have a high-deductible health plan and no other health coverage.

61. Correct Answer: B (Qualified medical expenses)

HSA funds can be used tax-free for qualified medical expenses including deductibles, copayments, prescription drugs, insulin, dental care, vision care, and many other medical services and supplies. Insurance premiums generally don't qualify except for COBRA, long-term care insurance, health insurance while receiving unemployment, and Medicare premiums for those 65 or older. Using funds for non-qualified expenses creates taxable income plus 20% penalty (no penalty after age 65).

62. Correct Answer: B (\$640)

Flexible Spending Account (FSA) carryover amount is \$640 for 2024 (indexed for inflation). Employers can offer either the carryover OR a 2.5-month grace period, but not both. The carryover allows participants to roll over up to \$640 of unused FSA funds to the next plan year, mitigating the "use it or lose it" rule. Not all employers offer the carryover option—it's at the employer's discretion.

63. Correct Answer: A (\$315)

Qualified transportation fringe benefits for parking are limited to \$315 per month for 2024 (adjusted for inflation). The same \$315 monthly limit applies to transit passes and vanpooling combined. These amounts can be excluded from employee income. Bicycle commuting benefits were suspended for 2018-2025. The limits help employees save on commuting costs while encouraging use of public transportation and reducing traffic congestion.

64. Correct Answer: D (50 employees)

Archer Medical Savings Accounts are available to employees of small employers with an average of 50 or fewer employees during either of the two preceding years. The employer must maintain a high-

deductible health plan. No new Archer MSAs can be established after 2007, but existing accounts can continue. Archer MSAs have largely been replaced by Health Savings Accounts, which have more favorable rules and no employer size restriction.

65. Correct Answer: C (Minimal administrative tracking difficulty)

De minimis fringe benefits are defined as those so small in value that accounting for them would be unreasonable or administratively impracticable. There's no specific dollar threshold—it's based on frequency and value. Examples include occasional personal use of office copy machine, holiday gifts of nominal value, occasional meals or tickets, and coffee/snacks. Cash and cash equivalents (gift cards) are never de minimis except for occasional meal money or transportation fare.

66. Correct Answer: B (On employer premises)

Athletic facility fringe benefit exclusion requires the facility to be on premises owned or leased by the employer and operated by the employer. The facility must be used primarily by employees, their spouses, and dependent children. Off-site gym memberships generally don't qualify for exclusion (they're taxable). The on-premises requirement ensures the exclusion applies to facilities primarily benefiting the employer through employee health and morale.

67. Correct Answer: D (Qualified benefits)

Section 125 cafeteria plans allow employees to choose between taxable cash compensation and qualified benefits on a pre-tax basis. Qualified benefits include health insurance, dependent care assistance, adoption assistance, HSA contributions, and other specific benefits. The ability to choose provides flexibility while the pre-tax treatment reduces income and FICA taxes. Plans must be written and cannot discriminate in favor of highly compensated employees.

68. Correct Answer: A (2008-2010)

The first-time homebuyer credit was available for home purchases in 2008-2010 under economic stimulus legislation. The 2008 credit (\$7,500) required repayment over 15 years. The enhanced 2009-2010 credit (\$8,000, \$6,500 for repeat buyers) didn't require repayment unless the home was sold within 3 years. The credits helped stabilize the housing market during the financial crisis. The program has since expired.

69. Correct Answer: C (30%)

The energy efficient home improvement credit rate for 2024 is 30% of qualified expenditures including energy-efficient windows, doors, insulation, heating and cooling systems, water heaters, and biomass stoves. The Inflation Reduction Act increased the rate from prior lower percentages and extended the credit through 2032 (then decreasing to 26% in 2033, 22% in 2034). Annual and lifetime limits apply to certain improvements.

70. Correct Answer: B (No dollar limit)

The residential solar energy credit (and credits for solar water heating, geothermal heat pumps, small wind energy, fuel cells, and battery storage) has no annual or lifetime dollar limit for most technologies. The credit equals 30% of costs for property placed in service through 2032, then 26% (2033), 22% (2034), expiring after 2034. Fuel cells have a per-kilowatt limit, but solar has no cap, strongly incentivizing renewable energy adoption.

71. Correct Answer: A (7 kilowatt-hours)

The electric vehicle credit requires new qualifying plug-in electric vehicles to have battery capacity of at least 7 kilowatt-hours. The maximum credit is \$7,500, with separate \$3,750 components for battery component requirements and critical mineral requirements. Additional requirements include MSRP limits, buyer income limits, and final assembly in North America. The battery capacity requirement ensures credits go to vehicles with substantial electric range.

72. Correct Answer: D (100%-400% of poverty line)

Premium tax credit eligibility requires household income between 100% and 400% of the federal poverty line. The Inflation Reduction Act extended eligibility above 400% through 2025, limiting premium contributions to 8.5% of income. Below 100% of poverty, Medicaid coverage is expected (though the Medicaid coverage gap in non-expansion states creates issues). The sliding scale subsidies make health insurance affordable across a wide income range.

73. Correct Answer: C (400% of poverty line)

Excess advance premium tax credit repayment caps apply to taxpayers with household income below 400% of the federal poverty line. The caps range from \$350 for single filers with income under 200% of poverty to \$2,800 for married filing jointly with income between 300% and 400% of poverty. Above 400% of poverty, full repayment of excess advance credits is required. The caps protect lower-income taxpayers from large repayment obligations.

74. Correct Answer: B (13)

The child and dependent care credit applies to care for qualifying individuals: children under age 13, or disabled dependents or spouses. The care must allow the taxpayer to work or look for work. The age 13 threshold recognizes that younger children require supervision. Care for older children qualifies only if they're disabled and incapable of self-care. Qualifying expenses are limited to \$3,000 for one individual or \$6,000 for two or more.

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

The dependent care FSA limit for 2024 is \$5,000 per household (\$2,500 if married filing separately). Amounts contributed to a dependent care FSA reduce dollar-for-dollar the expenses eligible for the dependent care credit. Most families benefit more from the credit than the FSA, but high-income families phased out of the credit can still use FSAs. The FSA uses pre-tax dollars, reducing both income and FICA taxes.

76. Correct Answer: A (\$11,600)

The EITC investment income limit for 2024 is approximately \$11,600 (adjusted annually for inflation). Investment income includes interest, dividends, capital gains, rents, and royalties. Taxpayers with investment income exceeding this limit don't qualify for EITC. The limit ensures the credit targets working families who primarily earn income from work, not passive investors. The relatively high threshold allows modest investment income without disqualification.

77. Correct Answer: C (Wages and self-employment income)

EITC requires earned income, which includes wages, salaries, tips, self-employment income, and certain disability payments received before minimum retirement age. It does NOT include interest, dividends, capital gains, pensions, annuities, Social Security, unemployment, alimony, or child support. The earned income requirement ensures the credit functions as a work incentive, supplementing income from employment or self-employment.

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

The additional child tax credit (refundable portion of the child tax credit) for 2024 is \$1,700 per child (adjusted for inflation). The additional CTC equals the lesser of (1) unused child tax credit or (2) 15% of earned income exceeding \$2,500. The refundable feature makes the credit valuable to low-income working families with little tax liability. The \$1,700 refundable amount represents most of the \$2,000 total child tax credit.

79. Correct Answer: A (Don't qualify for child tax credit)

The credit for other dependents applies to dependents who don't qualify for the \$2,000 child tax credit. This includes dependents age 17 or older, dependents without Social Security numbers (with ITINs instead), and other qualifying relatives. The credit is \$500 per qualifying dependent and is nonrefundable. It's subject to the same income phase-outs as the child tax credit, providing some tax benefit for supporting older or other dependents.

80. Correct Answer: D (\$252,150)

The adoption credit begins phasing out at modified adjusted gross income of approximately \$252,150 for 2024 (adjusted for inflation), with complete phase-out at approximately \$292,150. The \$40,000 phase-out range reduces the credit proportionally. The adoption credit maximum is approximately \$16,810 for 2024. The phase-out limits the credit to low- and middle-income families, though the threshold is relatively high recognizing adoption costs affect families across income levels.

81. Correct Answer: B (Income taxes paid to foreign countries)

The foreign tax credit applies to income taxes (or taxes in lieu of income tax) paid or accrued to foreign countries and U.S. possessions. It generally does NOT include sales taxes, VAT (unless in lieu of income tax), property taxes, or other non-income taxes. The credit prevents double taxation of foreign-source

income by allowing credit for foreign income taxes against U.S. tax on the same income. The credit is limited to U.S. tax on foreign-source income.

82. Correct Answer: C (\$126,500)

The foreign earned income exclusion for 2024 is approximately \$126,500 (adjusted annually for inflation). Qualifying taxpayers meeting the bona fide residence or physical presence test can exclude this amount of foreign earned income from U.S. taxation. The exclusion applies only to earned income (wages, self-employment), not passive income. A separate housing exclusion or deduction may also be available. The exclusion helps U.S. citizens working abroad compete in foreign labor markets.

83. Correct Answer: D (\$133,300)

The AMT exemption for married filing jointly for 2024 is approximately \$133,300 (adjusted annually for inflation). For single filers, it's approximately \$85,700. The exemption phases out at higher income levels (\$1,218,700 for MFJ, \$609,350 for single). The exemption reduces alternative minimum taxable income before applying AMT rates. Without the exemption, many more taxpayers would pay AMT. The higher exemption for joint filers reflects larger income.

84. Correct Answer: A (26% and 28%)

AMT rates are 26% on the first \$220,700 of alternative minimum taxable income (for 2024, half for married filing separately) and 28% on amounts above that threshold. These rates are lower than the top ordinary income rates (37%) but higher than preferential capital gains rates. The two-tier rate structure provides some progressivity. Taxpayers pay the higher of regular tax or AMT, ensuring minimum tax payment on economic income.

85. Correct Answer: B (Investment income)

The net investment income tax (NIIT) applies to investment income including interest, dividends, capital gains, rents, royalties, annuities, and passive activity income. It does NOT apply to wages, self-employment income, active business income, Social Security benefits, pensions, or tax-exempt interest. The 3.8% tax applies to the lesser of net investment income or modified AGI exceeding threshold amounts (\$200,000 single, \$250,000 MFJ).

86. Correct Answer: C (\$250,000)

The additional Medicare tax threshold for married filing jointly is \$250,000. For single filers and head of household, it's \$200,000. For married filing separately, it's \$125,000. The 0.9% additional Medicare tax applies to wages, railroad retirement compensation, and self-employment income exceeding these thresholds. Employers withhold additional Medicare tax when individual wages exceed \$200,000, regardless of filing status, which can create underwithholding or overwithholding for married couples.

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

The self-employment tax Social Security portion (12.4%) applies to net self-employment earnings up to \$168,600 for 2024 (adjusted annually for inflation). This is the same wage base as for employees. The Medicare portion (2.9%) applies to all net self-employment earnings with no cap. An additional 0.9% Medicare tax applies to self-employment income exceeding \$200,000 (single) or \$250,000 (MFJ). The wage base ensures comparable treatment of employees and self-employed.

88. Correct Answer: D (5 times)

The nonfarm optional method for computing self-employment earnings can be used in no more than 5 years (not necessarily consecutive). This limitation prevents indefinite use to artificially increase earnings and Social Security credits. The method allows reporting two-thirds of gross nonfarm income (up to \$6,107 for 2024) as net earnings when actual net earnings are low. The 5-time limit balances helping those with low earnings while preventing abuse.

89. Correct Answer: B (Unlimited times)

The farm optional method for computing self-employment earnings can be used in unlimited years. This recognizes the volatility and unpredictability of farm income. The method allows reporting two-thirds of gross farm income (up to \$6,107 for 2024) as net earnings when actual net farm earnings are below \$6,560. Unlike the nonfarm optional method (limited to 5 uses), farm optional method has no limit.

90. Correct Answer: C (\$2,700)

The household employment tax threshold for 2024 is \$2,700 (adjusted for inflation). When household employers pay cash wages of \$2,700 or more to any household employee during the calendar year, they must pay Social Security and Medicare taxes (FICA). For federal unemployment tax (FUTA), a lower threshold applies (\$1,000 in any calendar quarter). Household employment taxes are reported on Schedule H filed with Form 1040.

91. Correct Answer: A (100% of prior year tax)

The estimated tax safe harbor for the prior year method requires payment of 100% of the prior year's tax liability (shown on prior year's return). High-income taxpayers (AGI over \$150,000, or \$75,000 MFS) must pay 110% of prior year tax. This safe harbor provides certainty regardless of current year income fluctuations. The alternative safe harbor is 90% of current year tax. Payments must be made timely throughout the year.

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

Estimated tax payments are not required if the total tax liability after withholding and credits is less than \$1,000. This de minimis rule prevents requiring estimated payments for small amounts. The \$1,000 threshold recognizes administrative burden of quarterly payments. Taxpayers owing less than \$1,000 can pay the entire amount when filing their return without estimated tax penalties. The rule simplifies compliance for those with adequate withholding.

93. Correct Answer: C (Reasonable cause)

The underpayment penalty can be waived for reasonable cause, such as casualty, disaster, unusual circumstances, or inability to obtain records due to circumstances beyond the taxpayer's control. Mere inability to pay isn't reasonable cause. Retirement or disability in the current or prior year can be reasonable cause if sufficient withholding or estimated payments couldn't reasonably be made. The IRS considers all facts and circumstances in evaluating reasonable cause requests.

94. Correct Answer: B (Due date of return)

Interest on underpayment of tax is calculated from the due date of the return (generally April 15 for individuals, not including extensions) until the date paid. Interest accrues daily using the federal short-term rate plus 3%. Filing an extension extends the filing deadline but not the payment deadline—interest accrues from the original due date. Overpayments also earn interest, creating symmetrical treatment of underpayments and overpayments.

95. Correct Answer: D (Inability to pay full amount)

Offers in compromise based on doubt as to collectibility are appropriate when the taxpayer cannot pay the full tax liability based on current income and assets. The IRS calculates reasonable collection potential (RCP) from asset equity and future income over a collection period (typically 12 or 24 months). The offer amount must equal or exceed RCP. This type addresses collectibility, not whether tax is owed (doubt as to liability) or fairness concerns (effective tax administration).

96. Correct Answer: A (Economic hardship)

Currently not collectible status is granted when collection would cause economic hardship—the taxpayer cannot pay any amount toward the liability while meeting basic necessary living expenses. "Hardship" is defined narrowly: the IRS uses allowable living expense standards. Reduced lifestyle, delayed retirement, or general inconvenience don't qualify. CNC temporarily suspends collection but doesn't forgive the liability. Interest and penalties continue accruing, and the collection statute runs.

97. Correct Answer: C (Other spouse)

Innocent spouse relief under Section 6015(b) requires the understatement to be attributable to erroneous items of the other spouse (the spouse from whom relief is sought). The requesting spouse must not have known or had reason to know of the understatement when signing the return, and considering all facts, it must be inequitable to hold the requesting spouse liable. Relief is from liability for the other spouse's errors, not the requesting spouse's own items.

98. Correct Answer: B (Other spouse's separate debt)

Injured spouse relief applies when a joint refund is offset to pay the other spouse's separate debt incurred before marriage or separately after marriage, including past-due federal or state taxes, child support, spousal support, or federal non-tax debt like student loans. Form 8379 allocates the refund between spouses based on their contributions (income, withholding, payments, credits), allowing the injured spouse to recover their share not responsible for the debt.

99. Correct Answer: D (Taxpayer Advocate)

Taxpayer Assistance Orders (TAOs) can be issued by the Taxpayer Advocate Service when taxpayers are experiencing significant hardship or when the IRS hasn't responded to their problems through normal channels. TAOs can require the IRS to cease actions causing hardship or take specific corrective actions. They're issued by the National Taxpayer Advocate or Local Taxpayer Advocates and are binding on the IRS, providing emergency relief from improper IRS actions.

100. Correct Answer: A (250% of poverty level)

Low Income Taxpayer Clinics serve individuals with income at or below 250% of the federal poverty level. LITCs provide free or low-cost representation in disputes with the IRS, education on taxpayer rights and responsibilities, and advocacy on behalf of limited English proficient taxpayers. The 250% threshold targets services to low- and moderate-income taxpayers who cannot afford private representation, ensuring access to justice in tax matters.

Part 2: Businesses

1. Correct Answer: D (Right to income fixed)

The all events test for accrual method income recognition requires (1) all events have occurred that fix the right to receive the income, and (2) the amount can be determined with reasonable accuracy. The right to income is fixed when the taxpayer has done everything required to earn it and has an unconditional right to payment, regardless of when payment is actually received. This matching principle ensures income is recognized when earned, not when cash is received.

2. Correct Answer: B (Services or property provided)

For accrual method taxpayers, the economic performance test generally requires deductions to wait until the related services or property are provided to the taxpayer, not when liability is incurred or invoice is received. For services or property provided to the taxpayer, economic performance occurs when the services are performed or property is provided. For services or property the taxpayer provides to others, performance occurs when the taxpayer provides them. This ensures proper matching of expenses with related activities.

3. Correct Answer: A (End of next tax year)

Accrual method taxpayers can elect to defer advance payments for services to the next tax year if the services will be performed by the end of that next year under Revenue Procedure 2004-34. For goods, advance payments can be deferred using the method for financial accounting. This limited deferral recognizes practical difficulties in allocating prepayments while preventing indefinite deferral. Advance payments for rent, insurance, and certain other items follow different rules.

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

Small business taxpayers with average annual gross receipts of \$29 million or less (for the three preceding tax years, adjusted for inflation in 2024) can use the cash method of accounting, are exempt from inventory accounting requirements (can treat inventory as non-incidental materials and supplies), exempt from UNICAP, and can use percentage of completion method exceptions. This significant simplification reduces compliance burden for smaller businesses.

5. Correct Answer: D (Last in, first out)

LIFO (last in, first out) inventory method assumes the most recently purchased or produced items are sold first, leaving older inventory on hand. This contrasts with FIFO (first in, first out) which assumes oldest items sell first. During inflation, LIFO results in higher cost of goods sold (recent, higher-cost inventory) and lower ending inventory values, reducing taxable income. LIFO requires IRS approval to adopt and conformity with financial reporting.

6. Correct Answer: B (Dollars and price indexes)

Dollar-value LIFO uses dollars and price indexes rather than tracking specific units. The method converts ending inventory to base-year dollars using price indexes, compares to beginning inventory, and adjusts for inflation. This simplifies LIFO by pooling items and using indexes instead of unit counts. Dollar-value LIFO is common for businesses with many inventory items, providing LIFO tax benefits with less administrative burden than unit LIFO.

7. Correct Answer: C (Replacement cost)

Lower of cost or market for inventory compares cost to market, where "market" generally means replacement cost (cost to replace the inventory). However, market cannot exceed net realizable value (selling price minus selling costs) or be less than net realizable value minus normal profit margin. The lower of cost or market method prevents overstating inventory values when market declines. LIFO taxpayers cannot use this method—they use lower of cost or market at time of LIFO adoption.

8. Correct Answer: A (Current deduction)

Inventory writedowns to lower market value create current deductions (increase cost of goods sold or create direct deduction). The writedown recognizes loss of value in the current year, reducing taxable income. The lower value becomes the new basis for the inventory. Writedowns must be based on actual market conditions, not mere estimates or anticipated losses. This conservative accounting prevents overstating asset values and income.

9. Correct Answer: D (Resellers under threshold)

UNICAP (uniform capitalization) exceptions include (1) small business taxpayers with average gross receipts of \$29 million or less, (2) retailers (resellers) with average gross receipts of \$29 million or less, and (3) personal property acquired for resale if average gross receipts don't exceed \$10 million. Service providers are generally exempt because they don't produce tangible property. These exceptions reduce compliance burden for smaller businesses while maintaining UNICAP for larger producers and resellers.

10. Correct Answer: B (Production costs)

Section 263A uniform capitalization rules require capitalizing direct production costs (direct materials and labor) and allocable indirect production costs (overhead, storage, purchasing, handling, production-related administrative costs). Selling, advertising, and marketing costs are not capitalized under UNICAP. General and administrative costs are capitalized only if allocable to production. The rules ensure proper matching of production costs with inventory sales or asset use.

11. Correct Answer: A (Percentage depletion)

Natural resource depletion methods include (1) cost depletion, based on units extracted relative to total reserves, recovering the property's cost, and (2) percentage depletion, a statutory percentage of gross income from the property. Percentage depletion can exceed the property's cost (unlike cost depletion) but is limited to 50% (or 100% for oil and gas) of taxable income from the property. Percentage depletion is available for certain resources and taxpayers.

12. Correct Answer: C (15%)

Percentage depletion for independent oil and gas producers is 15% of gross income from the property. Independent producers are those not engaged in refining or retail sales exceeding thresholds. The 15% rate applies to average daily production not exceeding depletable quantities (1,000 barrels of oil or 6,000 cubic feet of gas per day). Integrated oil companies (refiners and large retailers) must use cost depletion, not percentage depletion.

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

Percentage depletion cannot exceed 50% of taxable income from the property (computed without the depletion deduction). For oil and gas, the limit is increased to 100% of taxable income. This limitation prevents depletion from creating losses from profitable properties. When the limitation applies, taxpayers use the lesser of (1) percentage of gross income or (2) 50% (or 100%) of taxable income. Cost depletion has no such income limitation.

14. Correct Answer: B (Expensed or capitalized)

Intangible drilling and development costs (IDCs) for oil and gas can be (1) currently expensed (deducted immediately), or (2) capitalized and amortized over 60 months, or (3) capitalized and recovered through depletion. Most integrated oil companies must capitalize and amortize 70% of IDCs over 60 months (30% can be expensed). Independent producers can elect to expense IDCs. The election provides flexibility in managing taxable income from oil and gas operations.

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

The Section 179 expensing limit for 2024 is approximately \$1,220,000 (adjusted annually for inflation). This allows businesses to immediately expense (rather than depreciate) qualifying property placed in service during the year. Qualifying property includes tangible personal property, off-the-shelf computer

software, and certain improvements to nonresidential real property. The limit is reduced dollar-for-dollar when total qualifying property placed in service exceeds the phase-out threshold.

16. Correct Answer: D (\$3,050,000)

Section 179 expensing begins phasing out dollar-for-dollar when total qualifying property placed in service during the year exceeds approximately \$3,050,000 (2024, adjusted for inflation). When property placed in service reaches approximately \$4,270,000, the deduction is completely phased out. This phase-out targets the immediate expensing benefit to smaller businesses with moderate equipment purchases, while larger businesses must depreciate over recovery periods.

17. Correct Answer: A (Tangible personal property)

Section 179 property includes tangible personal property (machinery, equipment, furniture, vehicles used for business), off-the-shelf computer software, and qualified real property (certain improvements to nonresidential real property: roofs, HVAC, fire protection systems, alarm systems, security systems). Land, land improvements, buildings, inventory, and property held for investment don't qualify. The property must be acquired for business use (not personal use or rental to others in some cases).

18. Correct Answer: C (60%)

Bonus depreciation for 2024 is 60% of the cost of qualified property placed in service. The Tax Cuts and Jobs Act provided 100% bonus for property placed in service from September 27, 2017 through 2022, then phases down: 80% (2023), 60% (2024), 40% (2025), 20% (2026), and 0% (2027 and later). Bonus applies to new and used qualifying property. The phase-down was designed to transition businesses back to traditional depreciation.

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

Bonus depreciation applies to property with MACRS recovery periods of 20 years or less (includes 3, 5, 7, 10, 15, and 20-year property). This includes most personal property, qualified improvement property (15 years), and certain other property. Residential and nonresidential real property (27.5 and 39 years) don't qualify. Water utility property (25 years) and railroad structures (30 years) also don't qualify. The 20-year threshold captures property with reasonable useful lives while excluding buildings.

20. Correct Answer: A (15 years)

Qualified improvement property (improvements to nonresidential real property interior made after the building was placed in service) has a MACRS recovery period of 15 years (straight-line, half-year or mid-quarter convention). A drafting error in the Tax Cuts and Jobs Act initially gave QIP a 39-year life, but the CARES Act corrected this to 15 years retroactively. The 15-year life makes QIP eligible for bonus depreciation (for property with 20-year or less recovery periods).

21. Correct Answer: D (July 1)

The MACRS half-year convention treats all property placed in service during the year as placed in service at the midpoint of the year (July 1 for calendar year taxpayers). This averages out actual placement dates, allowing half-year's depreciation in the year placed in service and half-year in the final recovery year. The convention simplifies depreciation calculations. The mid-quarter convention overrides half-year when more than 40% of property is placed in service in the fourth quarter.

22. Correct Answer: C (Fourth quarter)

The mid-quarter convention applies when more than 40% of total depreciable personal property (by basis) is placed in service during the fourth quarter (October-December). When triggered, all property placed in service during the year uses mid-quarter convention (depreciation based on quarter placed in service) instead of half-year convention. This anti-abuse rule prevents loading up depreciation deductions by purchasing property late in the year. Real property uses mid-month convention regardless.

23. Correct Answer: A (Straight-line method)

The Alternative Depreciation System (ADS) uses the straight-line method over longer recovery periods than regular MACRS. ADS is required for certain property (tax-exempt use property, tax-exempt bond financed property, farming property electing out of interest limitation, and property used predominantly outside the U.S.). Taxpayers can elect ADS to avoid AMT adjustments or for other reasons. ADS recovery periods are generally longer than regular MACRS.

24. Correct Answer: B (ADS straight-line)

Listed property (including passenger automobiles, computers not at regular business establishment, and certain other property) used 50% or less for qualified business use must use ADS straight-line depreciation over the ADS recovery period. Such property cannot use accelerated depreciation, Section 179 expensing, or bonus depreciation. This restrictive treatment prevents taxpayers from claiming full depreciation benefits for property used primarily for personal purposes. Proper records must be maintained to document business use percentage.

25. Correct Answer: D (Luxury auto limits)

Passenger automobiles are subject to annual depreciation limits commonly called luxury auto limits or passenger automobile depreciation caps. For 2024, first-year depreciation without bonus is approximately \$12,200; with 60% bonus approximately \$20,400. Subsequent years have lower limits. These caps significantly restrict depreciation on expensive vehicles. Trucks and vans have slightly higher limits. Vehicles over 6,000 pounds gross weight are generally exempt from these limits.

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

The first-year luxury auto depreciation limit without bonus depreciation for 2024 is approximately \$12,200 (adjusted periodically). With 60% bonus depreciation available for 2024, the limit increases to approximately \$20,400. These limits apply to passenger automobiles (defined as 4-wheeled vehicles designed for highway use, primarily for transporting people, with gross vehicle weight under 6,000

pounds). The limits prevent excessive depreciation deductions on expensive personal vehicles used partially for business.

27. Correct Answer: B (\$29,200)

Heavy SUVs, trucks, and vans with gross vehicle weight over 6,000 pounds are exempt from passenger automobile depreciation limits but Section 179 expensing is capped at approximately \$29,200 for 2024 (adjusted for inflation) if the vehicle is rated at more than 6,000 pounds but not more than 14,000 pounds. Vehicles over 14,000 pounds have no Section 179 limit. Regular depreciation and bonus depreciation (if available) can be claimed on amounts exceeding the Section 179 limit.

28. Correct Answer: A (15 years)

Patents and copyrights purchased as part of acquiring a trade or business are Section 197 intangibles amortized over 15 years, regardless of their remaining legal life. Self-created patents and copyrights aren't amortizable (costs are expensed or capitalized under other rules). Patents and copyrights purchased separately (not with a business) are amortized over remaining legal life. The 15-year mandatory amortization for business acquisitions simplifies treatment and prevents disputes about useful lives.

29. Correct Answer: C (15 years)

Goodwill acquired in a business acquisition is amortized over 15 years under Section 197, using the straight-line method beginning with the month of acquisition. The 15-year period is mandatory regardless of actual expected useful life. Self-created goodwill is not amortizable because it wasn't acquired in a transaction. The standardized 15-year period prevents disputes about goodwill valuation and useful life, recognizing goodwill's indefinite nature.

30. Correct Answer: D (15 years)

Customer-based intangibles (customer lists, customer relationships, customer contracts) acquired in connection with a trade or business acquisition are Section 197 intangibles amortized over 15 years. Self-created customer lists and relationships aren't amortizable. The 15-year period applies regardless of actual customer turnover or contract terms. This treatment prevents disputes about useful lives while allowing cost recovery for purchased customer bases.

31. Correct Answer: A (Section 197 intangible)

Going concern value (the additional value of a business beyond individual assets due to it being an operating concern) is a Section 197 intangible when acquired in a business acquisition, amortized over 15 years. Going concern is similar to goodwill—it represents organizational advantages, operating systems, and the ability to generate income without interruption. The 15-year amortization applies whether the value is classified as going concern or goodwill, both being Section 197 intangibles.

32. Correct Answer: B (15 years)

Covenants not to compete acquired in connection with acquiring a trade or business are Section 197 intangibles amortized over 15 years, regardless of the actual term of the covenant. Before Section 197, covenants were amortized over actual terms, creating planning opportunities through negotiated long terms. The mandatory 15-year period eliminates this planning and standardizes treatment. The restriction must be in connection with a business acquisition to be Section 197.

33. Correct Answer: C (15 years)

Franchise fees paid to acquire a franchise in connection with acquiring a trade or business are Section 197 intangibles amortized over 15 years. Contingent franchise fees (royalties based on revenue or other measures) are deductible as paid. Renewal fees are also Section 197 intangibles amortized over 15 years from renewal. The 15-year period applies regardless of the actual franchise term, providing standardized treatment and preventing disputes over useful lives.

34. Correct Answer: D (Not amortizable)

Self-created intangibles (such as self-created goodwill, customer relationships, or workforce in place developed through business operations) are not amortizable under Section 197. Only acquired intangibles qualify for amortization. This distinction prevents businesses from currently deducting costs of developing intangible assets internally while allowing recovery of costs paid to acquire intangibles from others. Research costs, advertising, and similar expenses creating self-created intangibles are deductible or capitalized under other rules.

35. Correct Answer: D (Amortized over 5 years)

Research and experimentation costs under Section 174 for amounts paid or incurred in tax years beginning after December 31, 2021, must be capitalized and amortized over 5 years for U.S. research (15 years for foreign research), beginning at the midpoint of the tax year. Previously, R&E could be currently expensed. This change was part of the Tax Cuts and Jobs Act and generates significant revenue but is controversial for reducing innovation incentives.

36. Correct Answer: A (36 months)

Software development costs (or costs of acquiring software not acquired with hardware or a business) are amortized over 36 months (3 years) under Section 167(f), beginning with the month the software is placed in service. Off-the-shelf software costing less than de minimis thresholds can be expensed immediately. Software acquired with hardware is depreciated with the hardware. Software acquired in a business acquisition is a Section 197 intangible amortized over 15 years. The 36-month period recognizes software's shorter useful life.

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

Organizational costs (costs of organizing a corporation or partnership, such as legal fees, state filing fees, and organizational meeting costs) can be deducted up to \$5,000 in the first year, reduced dollar-for-dollar when total organizational costs exceed \$50,000. When costs reach \$55,000, no first-year deduction is

available. Costs exceeding the first-year deduction are amortized over 180 months (15 years) beginning with the month business begins.

38. Correct Answer: B (180 months)

Organizational costs exceeding the first-year deduction (\$5,000 reduced by excess over \$50,000 threshold) are amortized over 180 months (15 years), beginning with the month the business begins. The amortization uses the straight-line method. Syndication costs (for partnerships) are neither deductible nor amortizable and cannot be recovered until the partnership terminates. The 180-month period balances recognizing that organizational costs benefit the entity's entire life against administrative practicality.

39. Correct Answer: A (Before business begins)

Business startup costs under Section 195 are costs paid or incurred before the business begins (investigating creating or acquiring a business, creating an active trade or business, and activities in anticipation of business). Once the business begins, costs are currently deductible or capitalized under normal rules. Startup costs can be deducted up to \$5,000 (reduced when total costs exceed \$50,000), with excess amortized over 180 months. The deduction and amortization begin when business starts.

40. Correct Answer: D (Not deductible or amortizable)

Partnership syndication costs (costs of promoting and marketing partnership interests, including commissions, professional fees for issuing and marketing interests, and printing offering materials) are neither deductible nor amortizable under Section 709. They're capitalized and not recovered unless the partnership terminates. This treatment differs from organizational costs (amortizable over 180 months) because syndication relates to raising capital rather than organizing the entity. The distinction prevents deduction of capital-raising expenses.

41. Correct Answer: C (Liabilities)

A partner's basis in a partnership interest includes the partner's share of partnership liabilities. When partnership liabilities increase (borrowing), partners' bases increase. When liabilities decrease (debt repayment), bases decrease. This treatment reflects that partners are at risk for recourse debt or share in leverage for nonrecourse debt. Basis is also increased by capital contributions and share of income, and decreased by distributions and share of losses.

42. Correct Answer: A (Ordinary income)

Guaranteed payments to partners are fixed payments for services or use of capital, determined without regard to partnership income. They're treated as ordinary income to the receiving partner (reported separately on Schedule K-1, not as distributive share) and are generally deductible by the partnership. Guaranteed payments are subject to self-employment tax if for services. The treatment is similar to salary, ensuring partners are compensated before profit allocation.

43. Correct Answer: B (Capital gain)

Partnership distributions of cash exceeding the partner's basis create capital gain (typically long-term if the partnership interest was held long-term). The gain represents recovery exceeding the partner's investment, similar to sales proceeds exceeding basis. Distributions at or below basis are tax-free returns of investment. Property distributions generally don't create gain (except in liquidations with only cash, receivables, and inventory received, which can create loss).

44. Correct Answer: D (Unrealized receivables and inventory)

Section 751 property includes unrealized receivables (for cash-method partnerships or accounts receivable for any partnership, plus depreciation recapture) and inventory items substantially appreciated in value (FMV exceeds 120% of basis). When Section 751 property is present in distributions or sales of partnership interests, ordinary income treatment applies to prevent conversion of ordinary income into capital gain. The rules ensure character is preserved when Section 751 assets change hands.

45. Correct Answer: D (Elective)

Section 754 basis adjustments for partnerships are elective—partnerships can choose whether to make the election. The election allows the partnership to adjust the basis of partnership assets when distributions are made to partners or when partnership interests are transferred (sold or inherited). Once the Section 754 election is made (on the partnership return for the year of distribution or transfer), it applies to all future distributions and transfers unless revoked with IRS consent. The election is beneficial when it prevents inequities—such as when inside basis (partnership asset basis) differs from outside basis (partner's basis in partnership interest). Without the election, these basis differences can create unfair tax results. The elective nature gives partnerships flexibility to make the election when beneficial.

46. Correct Answer: C (Substantial economic effect)

Special allocations (allocations different from ownership percentages) in partnerships must have substantial economic effect to be respected for tax purposes. This requires (1) maintenance of capital accounts according to regulations, (2) liquidation distributions according to capital accounts, and (3) deficit capital account restoration obligations. If allocations lack substantial economic effect, they're reallocated according to partners' interests in the partnership. The requirement ensures allocations reflect economic reality, not tax avoidance.

47. Correct Answer: B (Distributions creating negative capital)

Partnership minimum gain represents gain that would be recognized if property subject to nonrecourse debt were sold for the debt amount. Partners' shares of minimum gain prevent distributions (or other decreases in minimum gain) that would create or increase negative capital account balances attributable to nonrecourse debt. The minimum gain chargeback requires allocating income when minimum gain decreases, ensuring partners who benefited from losses funded by nonrecourse debt bear the ultimate tax burden.

48. Correct Answer: D (Partnerships and S corporations)

At-risk limitations apply to individuals, partnerships, S corporations, certain closely held C corporations, and certain closely held service corporations. The limitations prevent taxpayers from deducting losses exceeding amounts at risk—amounts they could actually lose. Amounts at risk include cash and property contributed, recourse debt (where the taxpayer bears economic risk), and qualified nonrecourse financing for real property. Regular C corporations (other than closely held) aren't subject to at-risk rules.

49. Correct Answer: C (Passive income)

Passive activity losses can offset only passive income—they cannot offset active income (wages, business income from material participation) or portfolio income (interest, dividends, capital gains). The passive loss limitations prevent high-income taxpayers from using tax shelter losses to offset unrelated income. Suspended passive losses carry forward indefinitely and can offset passive income in future years or any income when the activity is fully disposed of in a taxable transaction.

50. Correct Answer: A (750 hours in real property trades)

Real estate professionals must satisfy two tests: (1) more than half of personal services performed during the year are in real property trades or businesses, and (2) they perform more than 750 hours of services in real property trades or businesses. Meeting these tests allows rental real estate activities to escape automatic passive treatment and be tested for material participation. Without real estate professional status, rental activities are passive regardless of participation level.

51. Correct Answer: D (500 hours)

Material participation tests include seven alternative tests, one of which is participating more than 500 hours during the year. This is the most common and straightforward test. Other tests include substantially all participation, more than 100 hours with no one else participating more, significant participation activities totaling over 500 hours, material participation in 5 of prior 10 years, personal service activities with material participation in 3 prior years, and facts and circumstances test.

52. Correct Answer: B (\$100,000-\$150,000)

The \$25,000 rental real estate loss allowance for active participation phases out ratably for taxpayers with AGI between \$100,000 and \$150,000 (completely phased out at \$150,000). The allowance is reduced by 50 cents for each dollar of AGI over \$100,000. This special allowance for rental real estate recognizes that rental activities are often passive but allows limited offset for actively participating landlords. Real estate professionals can avoid passive limitations entirely if they materially participate.

53. Correct Answer: C (100)

S corporations are limited to 100 shareholders maximum. For this count, family members (up to 6 generations) can elect to be treated as one shareholder. Spouses are automatically counted as one shareholder. Exceeding 100 shareholders terminates the S election, converting the corporation to C corporation status. The limit distinguishes S corporations from publicly traded corporations and ensures they remain closely held with flow-through taxation.

54. Correct Answer: A (Voting rights)

S corporations can have only one class of stock, meaning all shares must have identical rights to distribution and liquidation proceeds. However, differences in voting rights are permitted—an S corporation can have voting and non-voting common stock without creating a second class. This flexibility allows control to vest in some shareholders while others have economic interests without voting power, facilitating estate planning and business succession.

55. Correct Answer: A (5 years)

The S corporation built-in gains tax applies to gains recognized within 5 years after converting from C to S corporation (reduced from 10 years). When appreciated assets are sold during this recognition period, the S corporation pays corporate-level tax (21% rate) on built-in gain (appreciation existing at conversion). This tax prevents C corporations from converting to S status solely to avoid corporate tax on appreciated assets. After 5 years, no built-in gains tax applies.

56. Correct Answer: B (3 consecutive years)

S corporation election terminates if the corporation has accumulated earnings and profits from C corporation years AND passive investment income exceeds 25% of gross receipts for 3 consecutive tax years. The termination is effective the first day of the year following the third year. The rule prevents S corporations from being used as personal holding companies. Corporations can avoid termination by distributing accumulated E&P or reducing passive income below the 25% threshold.

57. Correct Answer: D (Direct shareholder loans only)

S corporation shareholder basis includes stock basis (capital contributions plus income minus losses and distributions) plus debt basis from direct loans from the shareholder to the corporation. Unlike partnerships, S corporation entity liabilities don't increase shareholder basis—only direct shareholder loans create debt basis. Guarantees of corporate debt don't create basis. This limitation makes loss deductions more restricted for S corporations than partnerships, where entity liabilities increase partner basis.

58. Correct Answer: A (Accumulated income taxed but not distributed)

The Accumulated Adjustments Account (AAA) represents the S corporation's accumulated income that has been taxed to shareholders but not yet distributed. AAA is increased by income items (other than tax-exempt income) and decreased by distributions, losses, and deductions. AAA can have a negative balance from losses but distributions can't reduce it below zero. AAA determines whether distributions are tax-free returns of previously taxed income or taxable dividends (if C corporation E&P exists).

59. Correct Answer: C (AAA)

S corporation distributions come first from AAA (tax-free to extent of stock basis), then from accumulated E&P if the corporation has C corporation history (taxable as dividends), then as return of stock basis (tax-free), and finally as capital gain if basis is zero. This ordering ensures income already taxed at the

shareholder level isn't taxed again on distribution, while preserving dividend treatment for C corporation earnings. Corporations without C corporation history don't have E&P.

60. Correct Answer: D (3 years)

Corporate capital loss carrybacks are allowed for 3 years. Losses are carried back to the earliest year first, then forward if not fully absorbed. The 3-year carryback can create refund claims for taxes paid in prior years. After exhausting the carryback, unused losses carry forward 5 years. This provides an 8-year window to use capital losses, but it's much shorter than the indefinite carryforward for individuals.

61. Correct Answer: B (5 years)

Corporate capital loss carryforwards are allowed for 5 years after the 3-year carryback period. Unused losses expire if not used within this time frame. The limitation is more restrictive than for individuals (who have indefinite carryforwards). Corporate capital losses can offset only capital gains, not ordinary income, making the expiration particularly problematic for corporations without regular capital gain activity. The limited carryforward encourages current use of losses.

62. Correct Answer: A (10% of taxable income)

Corporate charitable contribution deductions are limited to 10% of taxable income (computed before the charitable deduction, dividends received deduction, capital loss carrybacks, and certain other items). Contributions exceeding the 10% limit carry forward 5 years. This limit is more restrictive than the individual limits (60% for cash to public charities, 30% for appreciated property). The lower percentage reflects different corporate tax considerations and capacity to benefit from deductions.

63. Correct Answer: C (65%)

The dividends received deduction for corporations owning 20% or more (but less than 80%) of another corporation's stock is 65% of dividends received. For ownership under 20%, the DRD is 50%. For ownership of 80% or more, the DRD is 100%. The percentage tiers recognize different levels of corporate affiliation. The DRD prevents or reduces multiple taxation as income passes through corporate chains, encouraging corporate investment.

64. Correct Answer: D (100%)

The dividends received deduction for corporations owning 80% or more of another corporation's stock is 100% of dividends received. This full deduction prevents triple taxation when income passes through controlled corporate groups. The 80% ownership threshold aligns with consolidated return eligibility and recognizes affiliated corporate relationships. The 100% DRD allows complete dividend flow between affiliated corporations without additional taxation.

65. Correct Answer: B (20%)

The personal holding company tax is 20% on undistributed personal holding company income. This penalty tax is in addition to the regular 21% corporate tax, creating a combined rate that encourages

distribution of passive income. A PHC is a corporation where more than 50% of stock value is owned by five or fewer individuals AND 60% or more of adjusted ordinary gross income is PHC income (dividends, interest, rents, royalties, certain other passive income).

66. Correct Answer: C (5 or fewer individuals)

The personal holding company ownership test requires more than 50% of stock value to be owned by five or fewer individuals (directly or indirectly through attribution rules). Combined with the income test (60% or more PHC income), this identifies closely held corporations accumulating passive income to avoid shareholder taxation. The ownership threshold is designed to catch true personal holding companies while excluding widely held corporations. The test uses individuals only, not corporations.

67. Correct Answer: A (20%)

The accumulated earnings tax is 20% on accumulated taxable income (taxable income minus income tax, excess charitable contributions, capital gains, and reasonable accumulation needs). The tax is in addition to regular corporate tax and applies to corporations formed or availed of to avoid shareholder income tax through accumulation rather than distribution. The 20% rate (same as PHC tax) encourages dividend distributions. The tax doesn't apply to PHCs (different penalty applies) or certain other corporations.

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

The accumulated earnings credit (minimum amount deemed reasonable to accumulate) is at least \$250,000 for most corporations. Personal service corporations have a lower credit of \$150,000. This credit represents the amount a corporation can accumulate without showing specific business needs to avoid the accumulated earnings tax. Actual reasonable needs can justify larger accumulations. The credit targets the tax at corporations unreasonably accumulating earnings rather than distributing them.

69. Correct Answer: B (\$150,000)

Personal service corporations (corporations substantially engaged in health, law, accounting, engineering, architecture, actuarial science, performing arts, or consulting, with substantially all stock owned by employee-owners) have an accumulated earnings credit of \$150,000 (compared to \$250,000 for other corporations). The lower credit reflects that service corporations have less need for large capital accumulations than manufacturing or other capital-intensive businesses. The credit is the minimum; larger accumulations require showing reasonable business needs.

70. Correct Answer: A (Section 179 limits)

Controlled groups must share certain tax benefits including Section 179 expensing limits, accumulated earnings credit, and AMT exemption (if applicable). Each benefit is divided among group members, preventing multiplication of benefits through multiple corporations. The default is equal allocation, but members can elect unequal allocation by agreement. This prevents taxpayers from obtaining multiple benefits by creating multiple corporations without real business substance. Other limits and benefits also require sharing.

71. Correct Answer: C (50% with identical ownership test)

Brother-sister controlled groups require the same five or fewer individuals, estates, or trusts to own (1) more than 50% of voting power or value of each corporation, AND (2) at least 80% of voting power or value counted only to the extent ownership is identical. The 50% test ensures common control. The 80% identical ownership test ensures substantial overlap. These tests prevent avoidance through nominal differences in ownership while identifying true controlled groups.

72. Correct Answer: D (80%)

Parent-subsidiary controlled groups require the common parent to own stock possessing at least 80% of voting power or 80% of value of at least one subsidiary, with the same ownership throughout the chain (80% at each level). Chains of ownership can create multi-level controlled groups. The 80% threshold is lower than the 100% required for qualified subchapter S subsidiaries but higher than the 50% for other control tests. This definition captures substantial control relationships.

73. Correct Answer: B (80%)

Section 351 nonrecognition on corporate formation or contribution requires transferors of property to control the corporation immediately after the exchange. Control means owning stock possessing at least 80% of total combined voting power of all voting stock classes AND at least 80% of total number of shares of all other stock classes. The 80% threshold ensures transferors have substantial control, justifying nonrecognition of gain or loss on the exchange.

74. Correct Answer: C (Cash and other property)

Section 351 boot includes cash and other property (property other than stock or securities of the transferee corporation) received by transferors in the exchange. Boot triggers gain recognition to the extent of lesser of boot received or realized gain. Liabilities assumed by the corporation are generally not treated as boot except when total liabilities assumed exceed total basis of property transferred (creating gain). The boot rules limit tax-free treatment to stock-for-property exchanges.

75. Correct Answer: A (Gain recognized)

The corporation's basis in property received in a Section 351 exchange equals the transferor's basis plus gain recognized by the transferor on the exchange (including gain from liabilities exceeding basis). This carryover basis plus gain recognized preserves built-in gain or loss for the corporation. The corporation steps into the transferor's shoes regarding basis, ensuring any deferred gain will be recognized when the corporation disposes of the property. This prevents elimination of gain through incorporation.

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

Section 1244 stock allows ordinary loss treatment (instead of capital loss) up to \$50,000 per year for single filers (\$100,000 for married filing jointly). To qualify, the corporation must be a domestic C corporation with total capitalization (money and property) not exceeding \$1 million when the stock was issued, and more than 50% of gross receipts must be from active business (not passive investments). The stock must

be issued for money or property (not services). Ordinary loss treatment significantly benefits investors in failed small businesses.

77. Correct Answer: B (100%)

Section 1202 provides 100% exclusion of gain from qualified small business stock acquired after September 27, 2010, and held more than 5 years. For stock acquired February 18, 2009 through September 27, 2010, the exclusion is 75%. For earlier acquisitions, 50%. The excluded gain is limited to the greater of \$10 million or 10 times the stock's adjusted basis. The 100% exclusion strongly incentivizes investment in qualifying small businesses, encouraging entrepreneurship and job creation.

78. Correct Answer: A (Depreciable personal property)

Section 1245 recapture applies to gain from disposition of depreciable personal property (and certain other property including amortizable Section 197 intangibles and single-purpose agricultural structures). Recapture equals the lesser of (1) gain realized or (2) total depreciation taken. The recaptured amount is ordinary income; excess gain is Section 1231 gain (potentially capital gain). Recapture ensures depreciation deductions offsetting ordinary income are recovered as ordinary income on disposition.

79. Correct Answer: C (Zero (no additional depreciation))

Section 1250 recapture for real property placed in service after 1986 is zero because only straight-line depreciation has been allowed since 1987, and recapture applies only to additional depreciation (depreciation exceeding straight-line). While there's no Section 1250 recapture for post-1986 property, unrecaptured Section 1250 gain (total depreciation, not just excess) is taxed at a maximum 25% rate for individuals. For pre-1987 property, accelerated depreciation over straight-line would be recaptured as ordinary income.

80. Correct Answer: D (25%)

Unrecaptured Section 1250 gain (the portion of gain on real property attributable to straight-line depreciation taken) is taxed at a maximum rate of 25% for individuals. This is higher than the 0%, 15%, or 20% long-term capital gains rates but lower than ordinary income rates. The 25% rate applies to all depreciation on real property, even though there's no Section 1250 recapture (which applies only to additional depreciation). This creates an intermediate tax rate between capital gain and ordinary income for real estate gains.

81. Correct Answer: B (20% of lesser of gain or depreciation)

Section 291 corporate recapture requires C corporations to recapture as ordinary income 20% of the lesser of (1) gain realized or (2) total Section 1250 depreciation taken. This "corporate recapture" converts 20% of what would otherwise be Section 1231 gain into ordinary income. The recapture is in addition to regular Section 1250 recapture (typically zero for post-1986 property). This rule ensures corporations pay some ordinary income tax on real property gains, partially offsetting the benefit of depreciation deductions.

82. Correct Answer: C (80%)

Section 332 liquidation of a subsidiary by its parent corporation requires the parent to own stock possessing at least 80% of voting power and 80% of value of each class of stock (other than nonvoting, nonconvertible preferred). The liquidation must be complete within a short period or pursuant to a plan adopted within a taxable year. When requirements are met, the parent recognizes no gain or loss, and the subsidiary recognizes no gain or loss on distributing property to the parent. Carryover basis applies to assets received.

83. Correct Answer: A (Asset acquisition)

A Section 338 election treats a qualified stock purchase (80% or more of target corporation stock acquired by purchase in a 12-month period) as an asset acquisition for tax purposes, even though it's actually a stock purchase. The target is deemed to sell all assets at fair market value (recognizing gain or loss), then deemed to purchase the assets at that value. This provides stepped-up basis but triggers gain. A Section 338(h)(10) election (for S corporations or targets in consolidated groups) requires joint buyer-seller election.

84. Correct Answer: D (7.65%)

The employer FICA tax rate is 7.65%, consisting of 6.2% Social Security tax (on wages up to \$168,600 for 2024) and 1.45% Medicare tax (on all wages). Employees pay matching amounts through withholding. Employers also pay FUTA (0.6% on first \$7,000 of wages after credits). Employers must withhold and remit both the employer and employee portions of FICA, making total FICA 15.3%. Additional 0.9% Medicare tax applies to employee wages exceeding thresholds, without employer match.

85. Correct Answer: B (0.6%)

The FUTA (Federal Unemployment Tax Act) tax rate after the standard credit for state unemployment taxes is 0.6%. The gross FUTA rate is 6.0% on the first \$7,000 of each employee's annual wages, but employers receive credit of up to 5.4% for state unemployment taxes paid, reducing the net federal rate to 0.6%. In states with outstanding federal unemployment loan balances, the credit is reduced, increasing the FUTA rate. FUTA is paid entirely by employers, not withheld from employees.

86. Correct Answer: A (\$7,000)

The FUTA wage base is \$7,000 per employee per calendar year. FUTA tax (0.6% after credits) applies only to the first \$7,000 of each employee's annual wages. This threshold has remained unchanged for decades and is not indexed for inflation. Once an employee's wages exceed \$7,000, no additional FUTA tax is owed for that employee for the remainder of the year. The low wage base significantly limits FUTA tax liability for most employers.

87. Correct Answer: B (Quarterly)

Form 941, Employer's Quarterly Federal Tax Return, is filed quarterly to report income tax withholding and FICA taxes (Social Security and Medicare) for the quarter. The quarters end March 31, June 30, September 30, and December 31, with returns due by the last day of the following month (April 30, July

31, October 31, January 31). Very small employers may qualify to file annually on Form 944. Though reporting is quarterly, deposits may be required monthly or semi-weekly depending on tax liability.

88. Correct Answer: C (Annually)

Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, is filed annually for the calendar year. The return is due by January 31 of the following year (or February 10 if all required FUTA deposits were made timely). Employers must deposit FUTA tax quarterly if liability exceeds \$500 per quarter. Form 940 reports FUTA tax liability, deposits made, and any balance due or overpayment. The annual filing reflects FUTA's role as long-term unemployment funding.

89. Correct Answer: A (24%)

The backup withholding rate for 2024 is 24%, which is the fourth-lowest individual income tax bracket. Backup withholding applies when payees fail to provide correct taxpayer identification numbers, the IRS notifies payors that TINs are incorrect or missing, or payees fail to certify they're not subject to backup withholding. It applies to various payments including interest, dividends, and nonemployee compensation. The withheld amounts are credited against the payee's income tax liability.

90. Correct Answer: D (\$600 or more)

Information returns (Forms 1099) are generally required for payments of \$600 or more to non-corporate service providers and certain other payments. This threshold applies to nonemployee compensation (Form 1099-NEC), rents, royalties, prizes and awards, and other payments. Some payments have different thresholds: \$10 for dividends and royalties reported on Form 1099-DIV or 1099-MISC. The \$600 threshold balances information reporting needs with administrative burden of reporting small payments.

91. Correct Answer: C (Rents and royalties)

Form 1099-MISC reports miscellaneous income including rents, royalties, prizes and awards, medical and healthcare payments, crop insurance proceeds, fishing boat proceeds, and certain other payments. Previously, nonemployee compensation was reported on Form 1099-MISC, but starting in 2020, it's reported on Form 1099-NEC. The separate forms clarify reporting and allow different due dates, with 1099-NEC due earlier (January 31) to facilitate tax return filing.

92. Correct Answer: B (Nonemployee compensation)

Form 1099-NEC (Nonemployee Compensation) reports payments of \$600 or more for services performed by non-corporate independent contractors and other nonemployees. Previously reported on Form 1099-MISC (box 7), nonemployee compensation was moved to a separate form starting in 2020. Form 1099-NEC is due to recipients and the IRS by January 31 (or March 31 if filed electronically), earlier than most other information returns. The early deadline facilitates EITC processing.

93. Correct Answer: D (January 31)

Employers must provide Form W-2 to employees by January 31 of the year following the wage payment year. For example, 2024 wages require W-2s by January 31, 2025. If January 31 falls on a weekend or holiday, the due date extends to the next business day. Employers must also file copies with the Social Security Administration by January 31 (no extension available). The uniform January 31 deadline was implemented to reduce fraud and speed tax return processing.

94. Correct Answer: A (Common law factors)

Independent contractor classification is determined under common law, examining the degree of control and independence in the relationship. The IRS considers (1) behavioral control (who directs how work is performed), (2) financial control (who controls business aspects like payment method, expense reimbursement, who provides tools), and (3) relationship type (written contracts, employee benefits, permanency, whether work is key to business). No single factor is determinative. The determination affects employment tax obligations and worker protections.

95. Correct Answer: B (Certain drivers and salespeople)

Statutory employees are workers who would be independent contractors under common law but are treated as employees for FICA purposes by statute. Categories include full-time life insurance agents, certain home workers, traveling or city salespersons, and certain drivers. Statutory employees receive Form W-2 (with box 13 checked) but can deduct business expenses on Schedule C. This hybrid treatment addresses workers in specific industries where classification has historically been unclear.

96. Correct Answer: C (60 days)

Accountable plan reimbursements must meet three requirements: (1) business connection (expenses are business-related), (2) substantiation (employee adequately accounts for expenses within a reasonable time, generally 60 days), and (3) return of excess (amounts exceeding substantiated expenses are returned within reasonable time, generally 120 days). Meeting these requirements makes reimbursements excludable from wages (not subject to income or employment taxes). Nonaccountable plan payments are taxable wages.

97. Correct Answer: B (Taxable wages)

Nonaccountable plan reimbursements (reimbursements that don't meet accountable plan requirements) are treated as taxable wages, included in the employee's Form W-2, and subject to income tax withholding and FICA taxes. Employees cannot deduct the related business expenses (except for statutory employees and certain others) due to suspension of miscellaneous itemized deductions for 2018-2025. This makes nonaccountable plans particularly unfavorable, as employees pay tax on reimbursements without offsetting deductions.

98. Correct Answer: C (Fair market value)

Fringe benefits are valued at fair market value—the price a willing buyer would pay a willing seller in an arm's-length transaction. Special valuation rules exist for certain benefits (automobile lease value, commuting valuation, cents-per-mile rules). The FMV standard ensures employees are taxed on the actual

economic value received as compensation. Employer's cost is irrelevant if it differs from FMV. The valuation must be reasonable and based on facts and circumstances.

99. Correct Answer: D (\$1,600)

Employee achievement awards maximum for qualified plans is \$1,600 per employee per year. For non-qualified plans, the limit is \$400. Awards must be tangible personal property (not cash, gift cards, securities, or vacations) given for length of service (at least 5 years, not more often than every 5 years) or safety achievement. The award must be presented as part of a meaningful presentation. The limits balance encouraging employee recognition with preventing excessive tax-free compensation.

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

Group term life insurance coverage up to \$50,000 provided by employers is excludable from employee income. Coverage exceeding \$50,000 results in taxable income (imputed income) equal to the cost of excess coverage based on IRS Uniform Premium Table rates according to the employee's age. The \$50,000 threshold provides reasonable employer-provided life insurance without tax while limiting the benefit for excessive coverage. The threshold has remained unchanged for decades.

Part 3: Representation, Practices, And Procedures

1. Correct Answer: D (IRS)

Circular 230 governs practice before the Internal Revenue Service, not other forums like Tax Court, state agencies, or Appeals (though Appeals is part of the IRS). The regulations set standards for enrolled agents, attorneys, CPAs, and other practitioners who represent taxpayers before the IRS. Circular 230 is found in Title 31 of the Code of Federal Regulations, Part 10, and is issued by the Department of Treasury. The regulations cover who may practice, duties and restrictions, sanctions, and disciplinary proceedings.

2. Correct Answer: B (Treasury Department)

Enrolled agents are licensed by the Treasury Department after passing the Special Enrollment Examination (SEE) or qualifying through former IRS employment. The Office of Professional Responsibility, which operates under Treasury Department authority, administers the EA program. EAs are not licensed by state boards (like CPAs), the AICPA (which licenses CPAs), or directly by the IRS Commissioner. Treasury Department licensure gives EAs federal tax practice authority nationwide.

3. Correct Answer: C (16 hours annually)

Enrolled agent continuing education requires a minimum of 16 hours per year, totaling 72 hours per 3-year enrollment cycle. The 16-hour annual minimum prevents clustering all CE in one year of the cycle. The requirement ensures EAs maintain current knowledge of tax law changes and professional responsibilities. CE must cover federal tax law, regulations, and related matters, with at least 2 hours annually devoted to ethics.

4. Correct Answer: A (2 hours annually)

Ethics continuing education for enrolled agents is 2 hours annually, totaling 6 hours per 3-year enrollment cycle. The ethics requirement must cover Circular 230 regulations and professional conduct standards. Providers must specifically designate courses as ethics CE. The annual ethics requirement emphasizes the importance of professional standards and ensures EAs receive regular updates on their professional responsibilities and obligations to clients and the IRS.

5. Correct Answer: D (3 years)

The enrollment cycle for enrolled agents is 3 years. EAs must renew their enrollment every 3 years by filing Form 8554 and certifying completion of continuing education requirements (72 hours including 6 hours of ethics). The cycle begins on the date enrollment is granted or renewed. Failure to renew by the expiration date results in inactive status and loss of practice rights until renewal is completed with any applicable late fees.

6. Correct Answer: C (Revenue agents on prepared returns)

Annual Filing Season Program participants can represent taxpayers before revenue agents, customer service representatives, and similar IRS employees, but only on returns or claims the AFSP participant prepared and signed. AFSP participants cannot represent clients before Appeals, Collection, Counsel, or Tax Court. The limited representation right recognizes AFSP participants' voluntary completion of continuing education while maintaining distinctions between AFSP and full enrollment as an EA.

7. Correct Answer: B (Prepared and signed)

Unenrolled preparers have limited practice rights for returns they prepared and signed. Simply reviewing, filing, or supervising preparation isn't sufficient—the preparer must be the signing preparer (or nonsigning preparer who prepared a substantial portion) and must have signed the return. This limited authority allows preparers to represent taxpayers before revenue agents, customer service representatives, and similar employees, but not before Appeals, Collection, or Tax Court.

8. Correct Answer: A (Appeals)

Limited practice (for unenrolled preparers and AFSP participants) does NOT include representation before Appeals, Collection, Counsel, or Tax Court. Limited practice allows representation before revenue agents, customer service representatives, and similar examination and customer service employees, but only on returns or claims the practitioner prepared and signed. Appeals and collection matters require authorized practitioners (EAs, attorneys, CPAs) or taxpayer personal appearance.

9. Correct Answer: D (Annually)

Preparer Tax Identification Numbers (PTINs) must be renewed annually. The renewal period opens in mid-October, and PTINs expire December 31 each year. Preparers renew online at IRS.gov and pay a renewal fee. Without a current PTIN, preparers cannot prepare tax returns for compensation. Annual

renewal ensures the IRS has current contact information and can suspend or revoke PTINs for practitioners who become ineligible due to conduct issues or criminal convictions.

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

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

11. Correct Answer: B (\$10,000 or 20%)

A substantial portion for nonsigning preparers is a schedule or entry affecting tax liability of at least the lesser of \$10,000 or 20% of the gross income (or gross proceeds in some cases) shown on the return. For individuals and certain other returns, the test is \$10,000 or 20% of gross income. For business returns, the threshold is \$400,000 or 20% of gross income. The substantial portion test determines when assistants become subject to preparer penalties.

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

Due diligence requirements apply to returns claiming Earned Income Tax Credit (EITC), Child Tax Credit (CTC), American Opportunity Tax Credit (AOTC), Additional Child Tax Credit (ACTC), and Head of Household filing status. Preparers must complete Form 8867, Paid Preparer's Due Diligence Checklist, for each applicable credit or filing status, retain the form and supporting documentation for 3 years, and make reasonable inquiries when information appears incorrect or incomplete.

13. Correct Answer: A (\$590)

The due diligence penalty per failure is \$590 (for 2024, adjusted for inflation). The penalty is assessed for each failure—if a return claims multiple covered credits or HOH status, the penalty is \$590 for each item. For example, a return claiming EITC, CTC, and HOH could result in \$1,770 in penalties ($\590×3) for due diligence failures. The significant penalty encourages careful compliance with due diligence requirements.

14. Correct Answer: C (Covered credits and HOH)

Form 8867, Paid Preparer's Due Diligence Checklist, must be completed for returns claiming Earned Income Tax Credit, Child Tax Credit (including Additional CTC), American Opportunity Tax Credit, and Head of Household filing status. A separate Form 8867 must be completed for each applicable credit or filing status claimed. The form documents the preparer's compliance with due diligence requirements including eligibility determinations, computation verification, and record retention.

15. Correct Answer: D (3 years)

Tax return preparers must retain copies of returns prepared, lists of returns prepared, or other records for 3 years from the later of the return due date or the date the return was filed. Due diligence records (Form 8867 and supporting documentation) must also be retained for 3 years. The retention requirement allows the IRS to verify preparer compliance and investigate potential preparer penalties. Records must be available for IRS inspection upon request.

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

The unreasonable position penalty under Section 6694(a) is the greater of \$1,000 or 50% of the income derived from preparing the return. The penalty applies when a position lacks substantial authority (or reasonable basis with adequate disclosure) and the preparer knew or reasonably should have known of the position. The 50% of income calculation can result in substantial penalties for preparers who earn significant fees, creating strong incentives for proper position vetting.

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

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

18. Correct Answer: A (Upon request)

Practitioners must return client records upon request, regardless of fees owed for work performed. Client records include original documents provided by the client and records that must be provided to enable the client to comply with federal tax obligations. Practitioners can retain copies and working papers but cannot hold client records hostage for unpaid fees. This requirement ensures clients can meet tax obligations and obtain representation from other practitioners when needed.

19. Correct Answer: D (Examinations and judicial proceedings)

Contingent fees are generally prohibited under Circular 230 but are permitted for services in connection with IRS examinations or audits of original returns, claims for refund or credit (except preparing original returns), and judicial proceedings arising under the Internal Revenue Code. The exceptions recognize that contingent arrangements are appropriate for dispute resolution where outcomes are uncertain. Preparing original returns for contingent fees remains prohibited regardless of anticipated results.

20. Correct Answer: C (Aspirational)

Best practices under Circular 230 Section 10.33 are aspirational guidelines, not mandatory enforceable standards. They recommend practices such as clearly communicating engagement terms, establishing facts through reasonable inquiry, advising clients of engagement limitations, and acting fairly and with integrity. Violations of best practices alone don't result in discipline, though they may be considered in disciplinary

proceedings for other violations. Following best practices helps practitioners maintain high professional standards.

21. Correct Answer: B (More likely than not)

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

22. Correct Answer: A (Personally and substantially participated in)

Former government employees cannot represent clients on matters in which they personally and substantially participated while government employees. The restriction is permanent for those specific matters. Personal and substantial participation means direct involvement through decision-making, approval, investigation, or similar active roles. Merely supervising, reviewing, or knowing about matters doesn't constitute personal substantial participation. Former employees can represent clients on other matters not involving their personal participation.

23. Correct Answer: D (Monetary penalties)

Circular 230 sanctions include censure (public or private reprimand), suspension (prohibition from practice for a specified period), disbarment (indefinite prohibition from practice), and monetary penalties. Monetary penalties can be assessed per violation: \$1,000 for practitioners and up to \$50,000 for firms. Criminal charges and license revocation are separate matters handled outside Circular 230. The sanctions enforce professional standards and protect taxpayers and tax system integrity.

24. Correct Answer: C (Written consent)

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

25. Correct Answer: B (Tax advice)

The federally authorized tax practitioner privilege applies to confidential communications between taxpayers and federally authorized practitioners (attorneys, CPAs, enrolled agents) regarding tax advice in noncriminal tax matters before the IRS or federal courts. The privilege does NOT apply to return preparation, criminal matters, state proceedings, or communications not related to tax advice. The privilege is narrower than attorney-client privilege, reflecting its statutory creation limited to tax advice.

26. Correct Answer: D (Criminal matters and tax shelters)

The federally authorized practitioner privilege does NOT apply to criminal tax matters or written communications regarding tax shelters. The privilege also doesn't apply to return preparation, state proceedings, or communications with persons other than federally authorized practitioners. These significant limitations narrow the privilege's scope substantially compared to attorney-client privilege. The exclusion for criminal matters recognizes the government's strong interest in prosecuting tax crimes.

27. Correct Answer: A (Representation)

Form 2848, Power of Attorney and Declaration of Representative, authorizes the representative to represent the taxpayer before the IRS and receive confidential tax information for specified matters and years. Representatives can advocate positions, negotiate settlements, sign certain agreements, and generally act on the taxpayer's behalf within the scope of authority granted. Form 2848 doesn't automatically authorize signing returns or binding the taxpayer to settlements unless specifically stated in the power of attorney.

28. Correct Answer: C (Receiving information)

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

29. Correct Answer: B (3 years)

The Centralized Authorization File (CAF) retains Forms 2848 for 3 years from the date recorded, unless earlier revoked or superseded by new authorizations. After 3 years, the authorization expires and representatives must submit new Forms 2848 to continue representation. Taxpayers can check CAF status online and revoke authorizations at any time. The 3-year retention balances accessibility with ensuring current authorizations while allowing taxpayers to maintain long-term representation relationships through renewal.

30. Correct Answer: A (Specific tax years)

Powers of attorney can be limited to specific tax years, specific tax forms, specific issues, or specific matters, or they can be general covering all matters and years. The scope should match the representation needs and protect taxpayer interests by preventing access to unrelated information or unauthorized actions. Limiting the POA provides flexibility while maintaining appropriate boundaries. The authorization must clearly state what authority is granted to avoid confusion about representation scope.

31. Correct Answer: D (3 years)

The statute of limitations for assessment is generally 3 years from the later of the return due date or the date the return was filed. Returns filed before the due date are deemed filed on the due date. The IRS generally cannot assess additional tax after this period expires. Exceptions extend the statute: 6 years if

gross income omitted exceeds 25%, indefinitely for fraud or failure to file, and by agreement (Form 872). The statute starts running when a valid return is filed.

32. Correct Answer: C (25% of gross income)

The six-year assessment statute of limitations applies when gross income omitted exceeds 25% of the gross income shown on the return. This extended period gives the IRS additional time to discover substantial omissions. The 25% threshold identifies significant underreporting warranting longer examination periods. For basis overstatements, special rules apply. The extension recognizes that substantial omissions are harder to detect and may indicate more serious compliance issues requiring additional examination time.

33. Correct Answer: B (Indefinite)

Fraud extends the statute of limitations indefinitely—there is no time limit for assessment when fraud is proven. The IRS must prove fraud by clear and convincing evidence (higher than the usual preponderance standard), showing the taxpayer intended to evade tax through intentional wrongdoing. The burden of proof is on the IRS. Because fraud opens the statute indefinitely, the IRS carefully evaluates fraud determinations and provides substantial evidence before asserting fraud.

34. Correct Answer: D (2 years from payment)

The refund statute of limitations is the later of 3 years from the date the return was filed or 2 years from the date the tax was paid. Returns filed before the due date are deemed filed on the due date. The refund is limited to tax paid within the applicable period (3 years plus extensions before filing claim, or 2 years from payment). This dual limitation ensures adequate time whether taxpayers filed early or paid late.

35. Correct Answer: A (10 years from assessment)

The collection statute of limitations is 10 years from the date of assessment. The IRS generally cannot collect tax after 10 years from assessment. The statute can be suspended during certain events: offers in compromise, collection due process hearings, bankruptcy, innocent spouse requests, installment agreement requests, and litigation. Each suspension adds the suspension period plus additional time (30-90 days), potentially extending collection beyond 10 years after assessment.

36. Correct Answer: C (OIC and CDP proceedings)

The collection statute is suspended during offers in compromise, collection due process hearings, bankruptcy proceedings, innocent spouse relief requests, installment agreement requests, and certain other events. During these suspensions, the 10-year collection period doesn't run. The suspension period plus additional time (typically 30-90 days) is added to the collection statute. This prevents taxpayers from running out the statute while pursuing collection alternatives or relief.

37. Correct Answer: B (Agreed period)

Form 872, Consent to Extend the Time to Assess Tax, extends the statute by an agreed period negotiated between the taxpayer and the IRS. Extensions can be for fixed periods (such as 1 year or 2 years) or indefinite (until occurrence of specified events). The consent requires signatures from both the taxpayer (or authorized representative with specific authority) and the IRS. Taxpayers aren't required to agree but refusing may result in immediate assessment.

38. Correct Answer: D (Field)

IRS examination types include correspondence examinations (conducted by mail), office examinations (conducted at IRS offices), and field examinations (conducted at the taxpayer's place of business, home, or representative's office). Field audits are the most comprehensive, conducted by revenue agents for complex returns, businesses, or high-income individuals. The examination type is based on the issues, complexity, and resources required, with field audits reserved for cases warranting intensive review.

39. Correct Answer: C (90 days)

The statutory notice of deficiency (90-day letter) provides taxpayers 90 days (150 days if the notice is addressed outside the United States) to petition the Tax Court. The period begins on the date of the notice. If no petition is filed within 90 days, the IRS can assess the deficiency and begin collection. The 90-day period is jurisdictional—missing it eliminates Tax Court jurisdiction, leaving only the pay-and-sue option (paying tax and filing refund suit in District Court or Court of Federal Claims).

40. Correct Answer: A (Assessment)

Failure to respond to the statutory notice of deficiency within 90 days results in the IRS assessing the deficiency. Once assessed, the tax becomes due and the IRS can pursue collection through levies and liens. After assessment, the taxpayer loses the opportunity for prepayment judicial review in Tax Court. The only option becomes paying the tax and filing a refund suit in District Court or Court of Federal Claims, requiring payment first.

41. Correct Answer: B (90 days)

Tax Court petitions must be filed within 90 days of the date of the statutory notice of deficiency (150 days if addressed outside the United States). The petition must be filed (postmarked or e-filed) within this period. The 90-day deadline is jurisdictional—Tax Court lacks jurisdiction if the petition is late, and the case will be dismissed. The deadline cannot be extended for any reason, making timely filing critical for prepayment judicial review.

42. Correct Answer: D (\$50,000 or less)

Small case procedures in Tax Court apply to disputes of \$50,000 or less per tax year. Decisions under small case procedures are final and not appealable by either party—neither the taxpayer nor the IRS can appeal. This trade-off provides simplified procedures, relaxed evidence rules, informal hearings, and faster resolution in exchange for finality. Small case decisions have no precedential value and cannot be cited as authority.

43. Correct Answer: C (Final and not appealable)

Small case Tax Court decisions are final and not appealable. Neither the taxpayer nor the IRS can appeal small case decisions to Circuit Courts or the Supreme Court. This finality is the key characteristic distinguishing small cases from regular Tax Court proceedings. The non-appealable nature is the trade-off for simplified procedures, lower costs, and faster resolution. Small case decisions are designated as "Summary Opinions" and have no precedential value.

44. Correct Answer: A (Payment first)

District Court jurisdiction for tax refund suits requires the taxpayer to first pay the disputed tax and file a refund claim. After the claim is denied or deemed denied (by inaction for 6 months), the taxpayer can sue for refund in District Court. This "pay first" requirement distinguishes District Court from Tax Court (which has prepayment jurisdiction). District Court is the only tax forum offering jury trials, making it attractive for cases where jury sympathy may be beneficial.

45. Correct Answer: D (Nationwide jurisdiction)

The U.S. Court of Federal Claims has nationwide jurisdiction for tax refund suits. Like District Court, it requires payment first (pay-and-sue jurisdiction). The Court of Federal Claims sits in Washington, D.C., but has jurisdiction over cases throughout the country. Cases are heard by judges (no jury option). The court offers an alternative to District Court when taxpayers prefer the specialized tax expertise of Court of Federal Claims judges or want to avoid local District Courts.

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

The Golsen rule requires Tax Court to follow the precedent of the Circuit Court of Appeals where the taxpayer resides (and where the case would be appealed if appealed). This prevents the futility of Tax Court ruling contrary to controlling appellate authority. The Golsen rule can create different Tax Court results for identical facts depending on taxpayer residence, reflecting circuit splits. Tax Court follows its own decisions except when reversed by the controlling appellate court.

47. Correct Answer: C (90%)

Approximately 90% of cases settle in IRS Appeals without proceeding to litigation. The high settlement rate reflects Appeals' independence from examination, authority to consider hazards of litigation, and expertise in facilitating settlements. Both taxpayers and the IRS generally prefer settlement to the cost, time, and uncertainty of litigation. Appeals provides an effective forum for negotiated resolution, balancing both parties' interests in achieving reasonable outcomes without trial.

48. Correct Answer: D (Appeals mediator)

Fast Track Settlement uses an Appeals mediator while the case remains in examination (before formal Appeals referral). Both the examination team and taxpayer must agree to participate. The mediator facilitates discussion and helps reach settlement expeditiously, typically within 60 days. FTS provides

independent Appeals input without waiting for the case to close in examination and be referred to Appeals through normal channels, reducing case resolution time.

49. Correct Answer: A (Factual issues)

Arbitration in Appeals applies to factual issues when Appeals cannot resolve disputes and both parties agree to arbitration. An arbitrator (typically a neutral expert) makes binding determinations on disputed facts. Arbitration does NOT apply to legal issues, policy determinations, or mixed questions of law and fact. The limitation to factual issues recognizes arbitrators' fact-finding expertise while preserving government authority over legal interpretations and policy decisions.

50. Correct Answer: B (Wages and bank accounts)

Levies can seize wages, bank accounts, accounts receivable, retirement accounts, Social Security benefits (up to 15%), vehicles, real estate (with restrictions), and other property and rights to property. Certain property is exempt: necessary clothing and schoolbooks, limited household goods, unemployment benefits, workers' compensation, certain pension benefits, and principal residence without court approval. Wage levies are continuous (affecting future wages), while bank levies capture only the balance on the date served.

51. Correct Answer: C (Federal court)

Principal residence levy requires written approval from a U.S. District Court judge or magistrate. This judicial oversight protects homes from seizure without court approval, recognizing the special importance of principal residences. The IRS must demonstrate that other collection methods have been exhausted and that levy on the residence is necessary and appropriate. The court approval requirement prevents homes from being seized without independent judicial review and authorization.

52. Correct Answer: A (30 days)

Notice of Intent to Levy (Form 1058 or Letter 1058) must be given at least 30 days before levy and provides the right to a Collection Due Process (CDP) hearing. The CDP hearing allows taxpayers to challenge collection actions, raise defenses, propose alternatives (installment agreements, offers in compromise), and contest underlying liability if no prior opportunity. Requesting a CDP hearing within 30 days suspends levy action during the hearing process.

53. Correct Answer: D (Assessment and demand)

The federal tax lien arises automatically when (1) the IRS assesses tax, (2) the IRS sends notice and demand for payment, and (3) the taxpayer fails to pay. The lien arises on these three events without any filing or additional IRS action. However, the lien is not effective against certain third parties (purchasers, secured creditors, judgment lien holders) until Notice of Federal Tax Lien is filed, providing public notice of the government's claim.

54. Correct Answer: B (Appropriate government office)

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

55. Correct Answer: C (Date filed or perfected)

Lien priority is generally determined by the "first in time, first in right" rule—the first perfected interest has priority. For federal tax liens, perfection generally occurs when Notice of Federal Tax Lien is filed. Competing interests (mortgages, judgment liens) are prioritized based on when they were perfected. The lien amount or tax type doesn't affect priority—timing of perfection determines which creditor has priority in property proceeds.

56. Correct Answer: D (30 days)

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

57. Correct Answer: A (Effective tax administration)

Offer in compromise types include (1) doubt as to collectibility (taxpayer cannot pay full amount), (2) doubt as to liability (genuine dispute about whether tax is owed), and (3) effective tax administration (collection would create economic hardship or be unfair due to exceptional circumstances). ETA offers are the most discretionary, requiring showing that collection, while possible, would be unconscionable or inequitable due to special circumstances warranting compromise on equity grounds.

58. Correct Answer: C (\$205)

The offer in compromise application fee is \$205 (subject to adjustment). Low-income taxpayers meeting certain thresholds are exempt from the fee. The fee is submitted with Form 656, Offer in Compromise, and payment (lump sum offers require 20% payment with application; periodic payment offers require first payment with application). The fee is non-refundable even if the offer is rejected, withdrawn, or returned, partially covering IRS investigation costs.

59. Correct Answer: B (Form 433-A or 433-B)

Offers in compromise based on doubt as to collectibility require detailed financial statements on Form 433-A (individuals) or Form 433-B (businesses) showing all assets, income, expenses, and liabilities. The IRS uses this information to calculate reasonable collection potential—the amount collectible through other means. The offer must equal or exceed RCP for acceptance. The detailed financial disclosure is essential to the collectibility analysis determining appropriate offer amounts.

60. Correct Answer: A (\$31 to \$225)

Installment agreement user fees range from \$31 (for direct debit agreements by low-income taxpayers) to \$225 (for standard non-direct-debit agreements). Direct debit agreements receive reduced fees because they're more reliable and reduce IRS costs. Low-income taxpayers receive additional fee reductions. The fees can be reimbursed if certain low-income criteria are met. The fee structure encourages direct debit and provides relief for low-income taxpayers.

61. Correct Answer: D (\$50,000 or less)

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

62. Correct Answer: C (\$10,000 or less)

Guaranteed installment agreements apply to individual liabilities of \$10,000 or less, requiring full payment within 3 years (36 months). Taxpayers must meet filing and payment requirements for the past 5 years and can't have had installment agreements or offers during that period. The agreement is guaranteed—the IRS must accept it if conditions are met. No financial statement is required. This ensures small balance taxpayers can easily arrange payment without IRS discretion.

63. Correct Answer: B (Hardship)

Currently not collectible (CNC) status requires showing economic hardship—that paying any amount would prevent the taxpayer from meeting basic necessary living expenses. The IRS uses financial analysis to determine whether collection would create undue hardship. CNC temporarily suspends collection but doesn't forgive liability—interest and penalties continue accruing and the collection statute continues running. The IRS periodically reviews CNC accounts to determine if circumstances improved allowing collection resumption.

64. Correct Answer: A (Contest collection and liability)

Collection Due Process hearings provide rights to challenge the collection action (levy or lien), raise collection defenses (statute of limitations, innocent spouse), propose collection alternatives (installment agreement, offer in compromise, currently not collectible), and contest underlying liability if the taxpayer didn't have a prior opportunity to dispute it. CDP hearings are conducted by Appeals Settlement Officers independent from collection. Determinations are appealable to Tax Court.

65. Correct Answer: D (30 days)

Collection Due Process hearing requests must be made within 30 days of the Notice of Intent to Levy or Notice of Federal Tax Lien. Timely requests suspend levy action and provide Tax Court appeal rights if the taxpayer disagrees with the CDP determination. Missing the 30-day deadline doesn't eliminate all

review—taxpayers can request equivalent hearings, which provide similar Appeals review but without levy suspension or Tax Court appeal rights.

66. Correct Answer: C (Has no Tax Court review)

Equivalent hearings differ from CDP hearings because they don't provide the right to Tax Court review of the determination. Equivalent hearings are available when taxpayers miss the 30-day CDP request deadline. They provide similar Appeals review and opportunity to propose collection alternatives, but the determination is final with no judicial review. The lack of Tax Court appeal rights is the critical difference, making timely CDP requests valuable.

67. Correct Answer: B (Equitable relief)

Innocent spouse relief types include (1) traditional innocent spouse relief under Section 6015(b), (2) separation of liability relief under Section 6015(c), and (3) equitable relief under Section 6015(f). Equitable relief is available when traditional or separation relief don't apply but it would be inequitable to hold the requesting spouse liable considering all facts and circumstances. The three types provide comprehensive relief addressing different situations where joint liability would be unfair.

68. Correct Answer: D (Divorced, separated, or living apart)

Separation of liability relief under Section 6015(c) requires the requesting spouse to be divorced, legally separated, or not living in the same household as the other spouse for the 12-month period ending on the date relief is requested. Legal separation under a decree or living apart for 12 months satisfies the requirement. The relief allocates liability between spouses as if they had filed separately, limiting each spouse's liability to their own items.

69. Correct Answer: A (Separate debt)

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

70. Correct Answer: C (Economic harm and hardship)

Taxpayer Advocate Service assists taxpayers experiencing economic harm, significant hardship, or when the IRS hasn't responded to problems through normal channels. TAS also identifies and addresses systemic issues affecting multiple taxpayers. Economic harm means suffering or about to suffer significant hardship as a result of IRS actions or inaction. TAS provides independent advocacy within the IRS when normal processes fail or create undue hardship.

71. Correct Answer: B (Taxpayer Assistance Orders)

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

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

Whistleblower awards for qualifying cases (meeting monetary thresholds) range from 15% to 30% of collected proceeds. The IRS Whistleblower Office determines the percentage based on the significance and value of information provided, the whistleblower's contribution to the case, and other factors. The percentage rewards vary based on the quality and completeness of information, encouraging high-value disclosures while providing discretion to appropriately reward contributions.

73. Correct Answer: B (\$2 million)

Whistleblower mandatory awards under Section 7623(b) require the tax, penalties, interest, and other amounts in dispute to exceed \$2 million, AND the taxpayer's gross income to exceed \$200,000 (for individual taxpayers). Cases meeting these thresholds qualify for awards of 15-30% of collected proceeds. Cases not meeting the thresholds may qualify for discretionary awards up to 15% under Section 7623(a). The high thresholds target mandatory awards to significant cases.

74. Correct Answer: D (IP PIN)

Identity theft victims receive Identity Protection PINs (IP PINs) from the IRS. The six-digit IP PIN is required on tax returns for e-filing authentication, preventing fraudulent returns from being processed using stolen identities. Victims also receive assistance from the IRS Identity Theft specialized unit, which helps resolve account issues and prevent future identity theft problems. The IP PIN is a key tool preventing processing of fraudulent returns using stolen Social Security numbers.

75. Correct Answer: A (10)

The Taxpayer Bill of Rights includes 10 rights: (1) the right to be informed, (2) the right to quality service, (3) the right to pay no more than the correct amount of tax, (4) the right to challenge the IRS's position and be heard, (5) the right to appeal an IRS decision in an independent forum, (6) the right to finality, (7) the right to privacy, (8) the right to confidentiality, (9) the right to retain representation, and (10) the right to a fair and just tax system.

76. Correct Answer: C (Assessment and collection)

The right to finality means taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position and the maximum time the IRS has to audit a particular year or collect a tax debt. This encompasses both the assessment statute of limitations (generally 3 years) and the collection statute of limitations (10 years from assessment). The right to finality provides certainty about when tax matters are concluded.

77. Correct Answer: D (Testimony and records)

Summons can require taxpayers or third parties to appear and testify under oath and produce books, records, and other data relevant to tax liabilities. The summons power is broad and extends to both testimony and documents. However, summons cannot require self-incrimination (Fifth Amendment protections apply), production of privileged information (attorney-client privilege, limited tax practitioner privilege), or unreasonable searches. Refusal to comply can result in court enforcement through contempt.

78. Correct Answer: D (Ascertainable groups)

John Doe summonses allow the IRS to obtain information about unknown taxpayers who are members of an ascertainable group or class. The IRS must obtain court approval by demonstrating: (1) the summons relates to investigation of an ascertainable group, (2) there's reasonable basis to believe the group may have failed to comply, and (3) the information isn't readily available from other sources. John Doe summonses help identify noncompliant taxpayers when names are unknown.

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

Third-party recordkeeper summonses (issued to banks, accountants, attorneys for records regarding taxpayers) require notice to the taxpayer whose records are summoned. The taxpayer has 20 days from the notice date to petition to quash the summons (not 15, 30, or 60 days). If no petition is filed within 20 days, the recordkeeper must comply. The 20-day notice period protects taxpayers' rights to challenge summonses for their records before production.

80. Correct Answer: B (Negligence and substantial understatement)

The accuracy-related penalty under Section 6662 applies to portions of underpayments attributable to negligence or disregard of rules or regulations, substantial understatement of income tax, substantial valuation misstatement, substantial overstatement of pension liabilities, or substantial estate or gift tax valuation understatements. The penalty is 20% of the portion attributable to these causes. Reasonable cause and good faith can provide defense against the penalty.

81. Correct Answer: D (75%)

The civil fraud penalty is 75% of the portion of underpayment attributable to fraud. Fraud requires proving the taxpayer intended to evade tax through intentional wrongdoing. The burden of proof is on the IRS using clear and convincing evidence (higher than normal preponderance standard). The 75% rate reflects the serious nature of intentional fraud. The fraud penalty also opens the statute of limitations indefinitely for assessment.

82. Correct Answer: A (5% per month)

The failure-to-file penalty is 5% of the unpaid tax per month (or partial month) the return is late, up to a maximum of 25%. The penalty accrues from the return due date (including extensions). When both failure-to-file and failure-to-pay penalties apply, the failure-to-file penalty is reduced by the failure-to-pay penalty.

for the same month, preventing total monthly penalties from exceeding 5% until the failure-to-file penalty reaches its 25% maximum.

83. Correct Answer: C (0.5% per month)

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

84. Correct Answer: B (100%)

The trust fund recovery penalty equals 100% of the unpaid trust fund taxes (income tax withholding and employee share of FICA taxes). The penalty is assessed against responsible persons who willfully failed to pay over collected taxes to the government. The 100% rate ensures full collection even when the business cannot pay. The penalty is severe because it addresses funds that were collected from employees and held in trust for the government.

85. Correct Answer: D (Authority and willfulness)

A responsible person for trust fund recovery penalty purposes is one who has authority over financial affairs (signature authority, decision-making power over which creditors to pay) AND who willfully failed to pay over the taxes. "Willfully" means knowing about the duty and intentionally failing to perform it, or recklessly disregarding it—knowledge of the failure or reckless disregard, not necessarily intent to defraud. Both authority and willfulness must be proven to assess the penalty.

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

The frivolous return penalty is \$5,000 for returns based on frivolous positions (tax protester arguments claiming taxes are unconstitutional, wages aren't income, etc.) or designed to delay or impede tax administration. The penalty applies to both original returns and amended returns. It's assessed immediately and is in addition to other penalties. Frivolous positions include arguments specifically identified by the IRS in notices listing frivolous positions. The penalty deters tax protester filings.

87. Correct Answer: C (20%)

The penalty for erroneous claims for refund or credit is 20% of the excessive claim amount. This penalty applies when the amount claimed exceeds the amount allowable, unless there's reasonable basis for the claim. The penalty deters frivolous or inflated refund claims. It applies to both original claims and amended returns claiming refunds. The 20% rate provides meaningful deterrence while allowing reasonable claims without penalty when there's legitimate uncertainty about entitlement.

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

First-time abate (FTA) penalty relief applies to failure-to-file, failure-to-pay, and failure-to-deposit penalties. FTA is available for taxpayers with clean compliance history (no penalties in prior 3 years) who

are currently compliant (all returns filed, all taxes paid or payment arrangements made). FTA is administrative relief granted without showing reasonable cause. It doesn't apply to accuracy-related penalties, fraud penalties, or other non-compliance penalties.

89. Correct Answer: A (Ordinary care and prudence)

Reasonable cause penalty abatement requires showing the taxpayer exercised ordinary business care and prudence but nevertheless failed to comply due to circumstances beyond their control. This is a facts-and-circumstances determination. Examples include serious illness, death in family, unavoidable absence, destruction of records by casualty, or reasonable reliance on competent tax professional's advice. The standard recognizes that penalties shouldn't apply when failure wasn't due to willful neglect despite reasonable efforts.

90. Correct Answer: B (Appeals Office)

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

91. Correct Answer: A (Designate tax periods)

Payment designation allows taxpayers to designate how payments are applied to specific tax periods or types when they have multiple liabilities. Without designation, the IRS applies payments according to its procedures (generally oldest liability first). Taxpayer designation must be made at the time of payment. This control helps taxpayers minimize interest and penalties by strategically applying payments to liabilities where they'll have the greatest benefit.

92. Correct Answer: C (Ability to pay)

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

93. Correct Answer: D (Comprehensive verification)

Offer in compromise investigation includes comprehensive verification of all financial information submitted. The IRS reviews bank statements, verifies asset values, confirms income sources, analyzes expenses, and may conduct interviews, field visits, and third-party contacts. The thorough investigation ensures the offer amount represents the maximum the IRS could collect through other means. Investigation can take several months as the IRS verifies all financial data before deciding whether to accept the offer.

94. Correct Answer: B (Reinstatement of liability)

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

95. Correct Answer: A (5 years)

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

96. Correct Answer: C (Informal meeting)

Appeals conferences are informal meetings—not formal hearings or trials. The atmosphere is cooperative rather than adversarial. Appeals Officers review the case file, hear both parties' positions, and work to facilitate settlement. Rules of evidence don't apply, and the proceedings aren't recorded or transcribed. The informal nature encourages open discussion and negotiation. Appeals Officers have authority to settle based on hazards of litigation and practical considerations.

97. Correct Answer: B (Litigation hazards)

Appeals can consider litigation hazards—the likelihood of success if the case goes to court—in reaching settlements. This "hazards of litigation" authority allows Appeals to compromise cases based on practical assessment of potential trial outcomes. Appeals evaluates the strength of both the IRS and taxpayer positions, considering evidence, legal precedents, and credibility issues. This authority makes Appeals settlements realistic and encourages resolution without costly litigation.

98. Correct Answer: B (Double taxation or deduction)

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

99. Correct Answer: A (Amount unknown)

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

is determinable, the taxpayer files a complete claim. Protective claims prevent loss of refund rights due to timing constraints.

100. Correct Answer: D (IRS examination request)

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