

Practice Exams for All Three Parts

Part 1 (Individuals)

1. John, age 32, is single with no dependents. In 2025, he had wages of \$25,000 and received a \$2,000 distribution from his traditional IRA that was fully taxable. What is his filing status and is he required to file a tax return?

- a) Single; not required to file because his gross income is below the threshold
- b) Single; required to file because his gross income exceeds the filing threshold
- c) Head of household; required to file because his gross income exceeds the filing threshold
- d) Single; required to file only if he wants to claim a refund of withheld taxes

2. Which of the following taxpayers would qualify for Head of Household filing status?

- a) Albert, who is divorced and maintains a home for himself and his dog
- b) Barbara, who is unmarried and maintains a home for herself and her 19-year-old son who is a full-time student
- c) Carlos, who is married but lived apart from his spouse for the last 3 months of the year and maintains a home for his dependent mother
- d) Diana, who is unmarried and maintains a home for her boyfriend's 10-year-old child whom she has not adopted

3. Mark and Julie were legally married on December 30, 2025. For the 2025 tax year, they:

- a) Must file as Married Filing Jointly
- b) Must file as Married Filing Separately
- c) May file as Single since they were married for only two days
- d) May file as either Married Filing Jointly or Married Filing Separately

4. Which of the following is NOT considered earned income for tax purposes?
- a) Wages reported on Form W-2
 - b) Net earnings from self-employment
 - c) Unemployment compensation
 - d) Tips reported to employer
5. Robert received a \$75,000 life insurance payment after his wife's death. Which of the following statements is correct regarding the taxation of this payment?
- a) The entire \$75,000 is taxable as ordinary income
 - b) The entire \$75,000 is tax-exempt
 - c) \$25,000 is tax-exempt, and \$50,000 is taxable
 - d) The payment is tax-exempt only if Robert was the original policy owner
6. Sally sold her primary residence for \$450,000. She purchased it 10 years ago for \$200,000 and has lived in it continuously since purchase. What is the amount of gain that Sally must report on her tax return if she is single?
- a) \$0
 - b) \$250,000
 - c) \$200,000
 - d) \$50,000

7. Which of the following is NOT an applicable factor in determining whether a child qualifies as a dependent under the qualifying child test?

- a) Age
- b) Relationship
- c) Income level
- d) Residency

8. Tom and Jane are divorced. Their divorce decree specifies that Tom will claim their 10-year-old son as a dependent in even-numbered years, and Jane will claim him in odd-numbered years. For tax year 2025, if their son lived with Jane for 8 months and with Tom for 4 months, who is entitled to claim the child as a dependent?

- a) Jane, because she had physical custody for more than half the year
- b) Tom, because 2025 is an odd-numbered year
- c) Jane, because 2025 is an odd-numbered year
- d) Either parent can claim the child, but not both

9. Which of the following deductions is considered "above-the-line" and can be taken whether or not a taxpayer itemizes?

- a) Mortgage interest
- b) Student loan interest
- c) Property taxes
- d) Charitable contributions

10. A self-employed individual paying for their own health insurance would claim this deduction:

- a) As an itemized deduction on Schedule A, subject to 7.5% AGI limitation
- b) As a business expense on Schedule C
- c) As an adjustment to income on Schedule 1
- d) As a tax credit on Form 8962

11. Which of the following is NOT a qualifying expense for the American Opportunity Credit?

- a) Tuition for the first four years of undergraduate education

- b) Required course materials
- c) Room and board
- d) Required fees

12. Paul and Mary file a joint return. Paul is 67 and Mary is 64. Their AGI is \$85,000. They had unreimbursed medical expenses of \$11,000. How much of their medical expenses can they deduct as an itemized deduction?

- a) \$0
- b) \$4,625
- c) \$5,500
- d) \$11,000

13. What is the maximum Child Tax Credit per qualifying child for 2025?

- a) \$1,000
- b) \$1,600
- c) \$2,000
- d) \$3,000

14. Jennifer, age 42, contributes to a traditional IRA. She is covered by a retirement plan at work. Her modified AGI is \$80,000 and she is single. What is the maximum deductible IRA contribution she can make for 2025?

- a) \$0
- b) \$3,500
- c) \$3,850
- d) \$7,000

15. David, who is 55 years old, received a \$25,000 early distribution from his traditional IRA. None of the exceptions to the early withdrawal penalty apply. What is the amount of the additional tax (penalty) on this early distribution?

- a) \$0

- b) \$1,000
- c) \$2,500
- d) \$5,000

16. Which of the following is NOT required for a taxpayer to be eligible to contribute to a Roth IRA?

- a) The taxpayer must have earned income
- b) The taxpayer's modified AGI must be below certain thresholds
- c) The taxpayer must be under age 70½
- d) The taxpayer must not be covered by an employer retirement plan

17. Sarah sold stock for \$15,000 that she purchased two years ago for \$8,000. How is this transaction reported on her tax return?

- a) \$7,000 of ordinary income on Schedule 1
- b) \$7,000 of short-term capital gain on Schedule D
- c) \$7,000 of long-term capital gain on Schedule D
- d) No reporting required since the gain is less than \$10,000

18. Which of the following statements regarding the taxation of Social Security benefits is correct?

- a) Social Security benefits are always tax-free
- b) Up to 50% of Social Security benefits may be taxable, depending on the taxpayer's provisional income
- c) Up to 85% of Social Security benefits may be taxable, depending on the taxpayer's provisional income
- d) 100% of Social Security benefits are taxable for taxpayers whose AGI exceeds \$100,000

19. James, a cash basis taxpayer, received an \$800 check from a client on December 31, 2025, but did not deposit it until January 2, 2026. When should James include this amount in income?

- a) 2025, because he had constructive receipt in 2025
- b) 2026, because he did not deposit the check until 2026

- c) Either 2025 or 2026, at James's discretion
- d) Half in 2025 and half in 2026

20. Which of the following education-related tax benefits can be claimed in the same year for the same student?

- a) American Opportunity Credit and Lifetime Learning Credit
- b) American Opportunity Credit and student loan interest deduction
- c) Lifetime Learning Credit and tuition and fees deduction
- d) American Opportunity Credit and qualified tuition program (529 plan) distributions

21. Harold, age 74, is required to take Required Minimum Distributions (RMDs) from his traditional IRA. What happens if Harold fails to take the full required amount in a given year?

- a) He must pay a penalty of 10% of the amount not withdrawn
- b) He must pay a penalty of 25% of the amount not withdrawn
- c) He must pay a penalty of 50% of the amount not withdrawn
- d) There is no penalty, but he must withdraw the missed amount in the following year

22. Which of the following is NOT a requirement for claiming the Child and Dependent Care Credit?

- a) The care must be for a qualifying person
- b) The taxpayer must have earned income
- c) The care must enable the taxpayer to work or look for work
- d) The qualifying person must be claimed as a dependent by the taxpayer

23. Emily received a \$10,000 scholarship. \$8,000 was for tuition and \$2,000 was for room and board. How much of the scholarship is taxable?

- a) \$0
- b) \$2,000
- c) \$8,000

d) \$10,000

24. Which filing status has the highest standard deduction for 2025?

- a) Single
- b) Married Filing Jointly
- c) Head of Household
- d) Qualifying Widow(er)

25. Allen and Barbara are married but file separate returns. If Allen itemizes deductions, what must Barbara do?

- a) Barbara must also itemize deductions
- b) Barbara may still claim the standard deduction
- c) Barbara must file as Head of Household
- d) Barbara must file a joint return with Allen

26. Which of the following capital losses can be used to offset ordinary income on an individual tax return?

- a) Up to \$1,500
- b) Up to \$3,000
- c) Up to \$1,500 for single filers, \$3,000 for joint filers
- d) None; capital losses can only offset capital gains

27. Nancy received a \$20,000 gift from her uncle. How should Nancy report this gift on her tax return?

- a) As taxable income on Form 1040
- b) As tax-exempt income on Form 1040
- c) On Schedule D as a capital gain
- d) The gift does not need to be reported on Nancy's income tax return

28. Which of the following is considered a nondeductible expense for tax purposes?

- a) State income taxes
- b) Mortgage interest on a primary residence
- c) Federal income taxes
- d) Property taxes on rental property

29. Richard works from home and uses a dedicated room exclusively for his business. The room represents 10% of his home's square footage. His total housing expenses are \$24,000 for the year. Using the regular method for the home office deduction, what is the maximum amount he can deduct?

- a) \$1,500
- b) \$2,400
- c) \$5,000
- d) \$24,000

30. Janet converted her traditional IRA worth \$50,000 to a Roth IRA. Her basis in the traditional IRA was \$15,000 due to nondeductible contributions. How much is included in her gross income as a result of the conversion?

- a) \$0
- b) \$15,000
- c) \$35,000
- d) \$50,000

31. Which of the following is NOT an eligible expense for the medical expense deduction?

- a) Prescription medications
- b) Health insurance premiums
- c) Cosmetic surgery for purely aesthetic reasons
- d) Dental treatments

32. Tom sold his personal residence for \$500,000, resulting in a \$300,000 gain. He and his wife have owned and lived in the home for the past 8 years. How much of the gain must they report on their joint tax return?

- a) \$0
- b) \$50,000
- c) \$250,000
- d) \$300,000

33. Which of the following taxpayers would MOST LIKELY be subject to the Alternative Minimum Tax (AMT)?

- a) A single taxpayer with \$55,000 in wages and \$5,000 in student loan interest
- b) A married couple with \$95,000 in combined wages and \$10,000 in mortgage interest
- c) A single taxpayer with \$85,000 in wages and \$5,000 in charitable contributions
- d) A married couple with \$350,000 in combined wages, \$50,000 in state and local taxes, and \$40,000 in private activity bond interest

34. What is the maximum annual contribution limit to a Health Savings Account (HSA) for family coverage in 2025?

- a) \$4,150
- b) \$7,500
- c) \$8,300
- d) \$9,100

35. Martha is the custodial parent of her 12-year-old son. She properly executed Form 8332 to release the claim of exemption to her ex-husband for 2025. Which of the following tax benefits can Martha's ex-husband claim?

- a) Child Tax Credit only
- b) Child and Dependent Care Credit
- c) Earned Income Credit
- d) Head of Household filing status

36. Kevin won \$5,000 in the state lottery and incurred \$2,000 in gambling losses during the year. How can Kevin treat these items on his tax return if he itemizes deductions?

- a) Report \$5,000 as income and deduct \$2,000 as an itemized deduction
- b) Report \$5,000 as income with no deduction for the losses
- c) Report the net amount of \$3,000 as income
- d) Exclude the entire transaction from his tax return

37. Linda paid \$4,500 in qualified tuition for her son's third year of undergraduate education. Which education benefit would likely provide the greatest tax benefit?

- a) Student loan interest deduction
- b) Lifetime Learning Credit
- c) American Opportunity Credit
- d) Tuition and fees deduction

38. Which of the following statements regarding alimony is correct for divorce agreements executed after December 31, 2018?

- a) Alimony is deductible by the payer and taxable to the recipient
- b) Alimony is not deductible by the payer and not taxable to the recipient
- c) Alimony is deductible by the payer only if the recipient includes it in income
- d) Alimony is always considered child support for tax purposes

39. Rachel inherited stock from her father who died in 2025. The stock was purchased by her father for \$10,000 and was worth \$50,000 on the date of his death. If Rachel sells the stock one month later for \$52,000, what is her taxable gain?

- a) \$0
- b) \$2,000
- c) \$42,000
- d) \$52,000

40. Mark and Julie are married and file a joint return. In 2025, they made cash donations to qualified charities totaling \$22,000. Their AGI is \$100,000. What is the maximum charitable contribution they can deduct on their 2025 tax return?

- a) \$22,000
- b) \$60,000
- c) \$50,000
- d) \$30,000

41. Sam has a traditional IRA and a 401(k) through his employer. Which of the following statements is correct?

- a) Sam cannot contribute to both a traditional IRA and a 401(k) in the same year
- b) Sam's traditional IRA contributions are automatically fully deductible
- c) Sam's ability to deduct traditional IRA contributions is limited based on his income because he participates in a 401(k)
- d) Sam's 401(k) contributions are subject to the same limits as IRA contributions

42. For purposes of the Earned Income Credit, which of the following is NOT considered earned income?

- a) Wages
- b) Net earnings from self-employment
- c) Taxable scholarship or fellowship grants
- d) Interest and dividends

43. Brian and Lisa are married and considering their filing options. In which situation would Married Filing Separately be more beneficial than Married Filing Jointly?

- a) When one spouse has significant medical expenses that would not exceed the AGI threshold on a joint return
- b) When both spouses have similar incomes and similar deductions
- c) When one spouse has significant capital losses
- d) When both spouses want to claim the Earned Income Credit

44. Tim has a home office that qualifies for the home office deduction. Using the simplified method for 2025, what is the maximum deduction Tim can claim?

- a) \$1,000

- b) \$1,200
- c) \$1,500
- d) \$5,000

45. Jessica received a Form 1099-MISC showing \$700 in box 3 for a prize she won in a contest at work. How should this be reported on her tax return?

- a) As wages on Form 1040
- b) As business income on Schedule C
- c) As other income on Schedule 1
- d) It is not taxable and does not need to be reported

46. Which of the following CANNOT be claimed as a qualifying relative for dependency purposes?

- a) A parent who does not live with the taxpayer but receives more than half of their support from the taxpayer
- b) An unrelated person who lived with the taxpayer all year and received more than half of their support from the taxpayer
- c) A cousin who lives with the taxpayer all year and receives more than half of their support from the taxpayer
- d) A qualifying child of another taxpayer

47. Jack and Diane are married and file jointly. Jack is 67 and Diane is 65. What is their standard deduction for 2025?

- a) \$29,200
- b) \$30,600
- c) \$32,000
- d) \$32,700

48. Which of the following is true regarding the Child Tax Credit (CTC) for 2025?

- a) The CTC is fully refundable regardless of earned income
- b) The CTC begins to phase out at \$200,000 for single filers and \$400,000 for joint filers

- c) A qualifying child must be under age 13 at the end of the tax year
- d) The CTC cannot be claimed by taxpayers subject to the AMT

49. Karen, a self-employed individual, paid \$12,000 in health insurance premiums for herself and her family. Her net profit from self-employment was \$10,000. How much can she deduct as self-employed health insurance?

- a) \$0
- b) \$10,000
- c) \$12,000
- d) \$2,000

50. Which of the following would NOT be considered a qualifying child for Child Tax Credit purposes?

- a) A 16-year-old son who lives with the taxpayer
- b) A 19-year-old daughter who is a full-time student
- c) A 24-year-old son who is permanently disabled
- d) A 22-year-old nephew who is not disabled and not a student

51. Daniel sold his main home for \$400,000. His basis in the home was \$275,000, and he paid \$25,000 in selling expenses. He lived in the home for 2 out of the last 5 years before the sale. What amount must Daniel report as taxable gain if he is single?

- a) \$0
- b) \$25,000
- c) \$100,000
- d) \$125,000

52. Which of the following statements is correct regarding the taxation of unemployment compensation?

- a) Unemployment compensation is completely tax-free
- b) Unemployment compensation is fully taxable as ordinary income
- c) Only 50% of unemployment compensation is taxable

d) Unemployment compensation is only taxable if AGI exceeds certain thresholds

53. Which of the following is a requirement for claiming a dependent under the qualifying relative test?

- a) The person must be under age 19 at the end of the year
- b) The person's gross income must be less than the exemption amount
- c) The person must be a U.S. citizen or resident
- d) The person must not file a joint return with their spouse

54. Kyle, age 40, withdrew \$15,000 from his traditional IRA to help with a down payment on his first home. What is the tax treatment of this distribution?

- a) The entire \$15,000 is taxable as ordinary income with no additional tax
- b) The entire \$15,000 is taxable as ordinary income plus a 10% additional tax
- c) \$10,000 is taxable with no additional tax, and \$5,000 is taxable with a 10% additional tax
- d) The entire \$15,000 is tax-free

55. Rebecca, who is 67 years old, received Social Security benefits of \$18,000 in 2025. She had other income of \$12,000. What amount of her Social Security benefits is taxable?

- a) \$0
- b) \$9,000
- c) \$15,300
- d) \$18,000

56. Which of the following expenses is NOT allowed as a miscellaneous itemized deduction subject to the 2% AGI floor?

- a) Unreimbursed employee business expenses
- b) Investment expenses
- c) Tax preparation fees
- d) None of these expenses are allowed as miscellaneous itemized deductions for tax years 2018-2025

57. Maria received a \$2,000 qualified scholarship. She used \$1,500 for tuition and \$500 for room and board. How much of the scholarship is taxable?

- a) \$0
- b) \$500
- c) \$1,500
- d) \$2,000

58. Jim and Jane are married and file jointly. Their AGI is \$120,000. During the year, they had the following itemized deductions: medical expenses of \$9,000, state and local taxes of \$15,000, mortgage interest of \$12,000, and charitable contributions of \$5,000. What is their total itemized deduction amount?

- a) \$26,000
- b) \$27,000
- c) \$32,000
- d) \$41,000

59. Melissa has a traditional IRA with a basis of \$10,000 due to nondeductible contributions. The current value of the IRA is \$50,000. If she withdraws \$5,000, how much is taxable?

- a) \$0
- b) \$1,000
- c) \$4,000
- d) \$5,000

60. Which of the following is NOT a requirement for claiming the American Opportunity Credit?

- a) The student must be pursuing a degree or other recognized education credential
- b) The student must be enrolled at least half-time for at least one academic period
- c) The student must not have completed the first four years of post-secondary education
- d) The student must not have any felony drug convictions

61. John inherited his father's home with a fair market value of \$300,000 on the date of death. His father's adjusted basis was \$150,000. Six months later, John sold the home for \$320,000. What is John's taxable gain on the sale?

- a) \$0
- b) \$20,000
- c) \$150,000
- d) \$170,000

62. Sara worked in France for 11 months in 2025 and earned \$95,000. She paid \$15,000 in French income taxes. Assuming Sara qualifies for the Foreign Earned Income Exclusion, how much foreign income can she exclude on her U.S. tax return?

- a) \$0
- b) \$80,000
- c) \$95,000
- d) \$124,300

63. Mark and Linda are married and file jointly. Their modified AGI is \$210,000. What is the maximum amount they can contribute to Roth IRAs for 2025?

- a) \$0
- b) \$7,000
- c) \$8,000
- d) \$14,000

64. Charles is divorced and pays \$1,000 per month in alimony to his ex-wife pursuant to a divorce decree finalized in 2017. What is the tax treatment of these payments for 2025?

- a) Charles can deduct \$12,000 and his ex-wife must include \$12,000 in income
- b) Charles cannot deduct the payments and his ex-wife does not include the payments in income
- c) Charles can deduct \$12,000 only if his ex-wife includes it in her income
- d) Charles can deduct \$12,000, but his ex-wife only includes 50% in income

65. Susan paid the following expenses for her dependent 19-year-old son who is a full-time college student: \$12,000 for tuition, \$8,000 for room and board, \$1,000 for books, and \$500 for student activity fees. What is the maximum amount of qualified education expenses for purposes of the American Opportunity Credit?

- a) \$12,000
- b) \$13,000
- c) \$13,500
- d) \$21,500

66. Which of the following is NOT eligible for the 0% long-term capital gains rate in 2025?

- a) A single taxpayer with taxable income of \$40,000
- b) A married couple filing jointly with taxable income of \$85,000
- c) A head of household with taxable income of \$55,000
- d) A single taxpayer with taxable income of \$50,000

67. Bill's employer paid \$3,000 directly to Bill's landlord for rent while Bill was on temporary assignment in another city for 3 months. How should Bill treat this amount on his tax return?

- a) It is not taxable because it was paid directly to the landlord
- b) It is taxable income and reported on Form W-2
- c) It is taxable income but Bill can deduct it as an employee business expense
- d) It is taxable income but Bill can exclude it as a qualified moving expense

68. Janet has a home mortgage of \$800,000 that she obtained in 2023 to buy her primary residence. In 2025, she paid \$40,000 in mortgage interest. What is the maximum mortgage interest deduction she can claim?

- a) \$0
- b) \$37,500
- c) \$40,000
- d) \$32,000

69. Tom's employer provides group term life insurance coverage of \$85,000. What amount, if any, must Tom include in his gross income for this benefit?

- a) \$0
- b) The cost of coverage for \$35,000
- c) The cost of coverage for \$85,000
- d) A taxable fringe benefit amount determined by IRS tables

70. Ryan paid \$4,000 in qualified tuition and related expenses for his son's graduate school education. Which of the following education benefits might Ryan be eligible to claim?

- a) American Opportunity Credit
- b) Lifetime Learning Credit
- c) Tuition and fees deduction
- d) Coverdell Education Savings Account distribution exclusion

71. Lisa received \$12,000 in advance child tax credit payments during 2025. Her actual child tax credit based on her tax return is \$10,000. How must Lisa reconcile this difference?

- a) She must report \$2,000 as additional tax on her return
- b) She can carry the \$2,000 excess forward to future years
- c) She can request a refund of the \$2,000 excess
- d) She must amend her previous year's return

72. Mike, a CPA, prepared 10 hours of tax education materials for a professional seminar. He was paid \$2,000 for this work. How should Mike report this income?

- a) As wages on Form 1040
- b) As business income on Schedule C
- c) As other income on Schedule 1
- d) As royalty income on Schedule E

73. Which of the following is NOT considered a casualty loss for tax purposes?

- a) Damage from a sudden hailstorm
- b) Loss from theft
- c) Damage from a house fire
- d) Gradual deterioration of property due to a water leak

74. Jason and Mary are married and file jointly. They had a child who was born and died on the same day in 2025. Can they claim the child as a dependent for 2025?

- a) No, because the child did not live for at least one full day
- b) No, because the child did not meet the support test
- c) Yes, if they have a birth certificate for the child
- d) Yes, if they have both a birth certificate and a death certificate for the child

75. Robert has an HSA-eligible family health plan with a \$3,000 deductible. His employer contributed \$1,500 to his HSA in 2025. What is the maximum additional amount Robert can contribute to his HSA for 2025?

- a) \$1,500
- b) \$2,650
- c) \$6,800
- d) \$7,800

76. Which of the following is TRUE regarding the taxation of qualified dividends?

- a) They are taxed at ordinary income rates
- b) They are taxed at the preferential long-term capital gains rates
- c) They are exempt from tax if held in a taxable account for more than one year
- d) They are subject to an additional 3.8% Medicare surtax for all taxpayers

77. Larry and Megan are married and file jointly. They have AGI of \$150,000. During the year, they contributed \$10,000 to various qualifying charities. What is the maximum charitable contribution they can deduct on their 2025 tax return?

- a) \$90,000

- b) \$10,000
- c) \$75,000
- d) \$5,000

78. Which of the following is NOT a qualifying expense for the Child and Dependent Care Credit?

- a) Daycare costs for a qualifying child under age 13
- b) After-school care for a 10-year-old child
- c) Day camp fees
- d) Expenses for overnight camp

79. Melissa, a single taxpayer, received a Form 1099-MISC showing \$5,000 in box 3 for prize winnings from a radio contest. Her AGI without this income is \$45,000. How will this prize income affect her tax return?

- a) It is not taxable
- b) It is reported as other income on Schedule 1 and she will pay tax at her marginal rate
- c) It is reported as other income on Schedule 1 and subject to a flat 25% tax rate
- d) It is reported on Schedule C as business income

80. Frank, age 68, and his wife Ellen, age 65, file a joint return. Their AGI is \$25,000. What is their standard deduction for 2025?

- a) \$29,200
- b) \$30,600
- c) \$32,000
- d) \$32,700

81. Which of the following rental activities is NOT subject to the passive activity loss rules?

- a) A rental property managed by a property management company
- b) A vacation home rented for 20 days and used personally for 15 days during the year
- c) A rental property where the average rental period is less than 7 days
- d) A rental property where the taxpayer materially participates but spends less than 500 hours

82. John sold stock at a loss of \$10,000 on December 15, 2025. On January 5, 2026, he purchased identical stock for \$9,000. How should John treat the \$10,000 loss on his 2025 tax return?

- a) He can deduct the entire \$10,000 loss
- b) He cannot deduct any of the loss due to the wash sale rules
- c) He can deduct \$1,000 of the loss
- d) He must capitalize the \$10,000 loss and add it to the basis of the newly acquired stock

83. Sara received a \$15,000 distribution from her deceased husband's traditional IRA, of which she is the sole beneficiary. Sara is 60 years old. What is the tax treatment of this distribution?

- a) The entire \$15,000 is taxable as ordinary income, subject to a 10% early withdrawal penalty
- b) The entire \$15,000 is taxable as ordinary income, with no early withdrawal penalty
- c) The distribution is tax-free because it's from a deceased spouse's IRA
- d) Sara can roll over the distribution into her own IRA and defer taxation

84. Which of the following statements is correct regarding the taxability of municipal bond interest?

- a) Interest from all municipal bonds is exempt from federal income tax
- b) Interest from municipal bonds is exempt from federal income tax but may be subject to the Alternative Minimum Tax
- c) Interest from municipal bonds is taxable at preferential capital gains rates
- d) Interest from municipal bonds from states other than the taxpayer's state of residence is taxable

85. Tom and Sarah are divorced. Their divorce agreement, finalized in 2019, requires Tom to pay \$1,500 per month for child support. What is the tax treatment of these payments?

- a) Tom can deduct the payments and Sarah must report the payments as income
- b) Tom cannot deduct the payments and Sarah does not include the payments in income
- c) Tom can deduct half of the payments and Sarah must report half of the payments as income
- d) The tax treatment depends on whether Sarah has custody of the children

86. Martha inherited a traditional IRA from her brother, who died at age 72. Martha is 45 years old and not disabled. Under current law, what is the maximum time period over which Martha must withdraw the inherited IRA funds?

- a) 5 years
- b) 10 years
- c) Martha's life expectancy
- d) Martha's brother's remaining life expectancy

87. Which of the following is an above-the-line deduction for AGI rather than an itemized deduction?

- a) Mortgage interest
- b) State income taxes
- c) Student loan interest
- d) Charitable contributions

88. Robert and Susan are married and file jointly. In 2025, they had capital gains and losses as follows: short-term capital gain of \$3,000, long-term capital gain of \$7,000, short-term capital loss of \$5,000, and long-term capital loss of \$10,000. What is their net capital loss carryover to 2026?

- a) \$0
- b) \$2,000
- c) \$3,000
- d) \$5,000

89. Lisa's employer reimbursed her \$3,000 for business travel expenses under an accountable plan. Lisa properly substantiated \$2,800 of these expenses. How should the reimbursement be reported on Lisa's tax return?

- a) \$3,000 is reported as income and \$2,800 is deducted as an employee business expense
- b) \$200 is reported as income
- c) The entire \$3,000 is excluded from income
- d) \$2,800 is excluded from income and \$200 is reported as income

90. John and Mary are married. John is covered by a retirement plan at work, but Mary is not. Their modified AGI is \$115,000. What is the maximum deductible traditional IRA contribution Mary can make for 2025?

- a) \$0
- b) \$3,500
- c) \$7,000
- d) \$8,000

91. Which of the following would qualify as a deductible moving expense for an active duty member of the Armed Forces moving pursuant to a military order?

- a) Cost of house-hunting trips
- b) Security deposit on a new apartment
- c) Cost of shipping a personal automobile
- d) Meals consumed during the move

92. David sells handcrafted furniture at weekend craft fairs. In 2025, his gross sales were \$10,000 and his expenses were \$6,000. How should David report this activity on his tax return?

- a) As hobby income on Schedule 1, with no deduction for expenses
- b) As hobby income on Schedule 1, with expenses deductible as itemized deductions
- c) As business income on Schedule C, with expenses fully deductible
- d) As miscellaneous income with expenses deducted on Schedule A

93. Ann is single and owns a home with a fair market value of \$350,000. The home has a mortgage of \$200,000. Ann took out a home equity loan of \$30,000 and used the proceeds to pay for a vacation. What amount of interest on the home equity loan is deductible as qualified residence interest?

- a) \$0
- b) \$30,000
- c) The interest on the portion of the loan that does not exceed \$50,000
- d) The interest on the entire loan since the total debt is less than \$750,000

94. Which of the following is NOT a factor in determining whether an activity is a business or a hobby?
- a) Whether the activity is carried on in a businesslike manner
 - b) The time and effort expended by the taxpayer in carrying on the activity
 - c) The tax bracket of the taxpayer
 - d) The success of the taxpayer in carrying on other similar or dissimilar activities
95. Sarah has a traditional IRA valued at \$100,000, all of which represents deductible contributions and earnings. She wants to convert \$20,000 to a Roth IRA. What is the tax consequence of this conversion?
- a) \$20,000 is taxable as ordinary income
 - b) \$20,000 is taxable as a long-term capital gain
 - c) \$20,000 is not taxable as long as it remains in the Roth IRA for at least 5 years
 - d) No immediate tax consequence, but withdrawals from the Roth IRA will be fully taxable
96. Jim and Karen are married and file jointly. They have three qualifying children. Their earned income is \$25,000 and their AGI is \$26,000. What is the maximum Earned Income Credit they can claim for 2025?
- a) \$600
 - b) \$3,995
 - c) \$6,604
 - d) \$7,430
97. Which of the following is NOT a qualifying expense for the Lifetime Learning Credit?
- a) Tuition for undergraduate courses
 - b) Tuition for graduate courses
 - c) Room and board
 - d) Required fees
98. Bob and Carol are married and file jointly. In 2025, they had the following capital transactions: sold 100 shares of ABC Corp. at a \$5,000 gain (held 3 years) and sold 200 shares of XYZ Corp. at a \$8,000 loss (held 9 months). What is their net capital loss that can be deducted against ordinary income on their 2025 return?

- a) \$0
- b) \$3,000
- c) \$5,000
- d) \$8,000

99. Tom's employer provided him with health insurance coverage for the year at a cost of \$8,000. How should Tom treat this benefit on his tax return?

- a) Include \$8,000 in income
- b) Include \$8,000 in income but claim it as an itemized medical expense deduction
- c) Exclude the entire amount from income
- d) Include the amount in income but claim a credit for health insurance

100. Which of the following is a requirement for a child to be a qualifying child for the Child Tax Credit?

- a) The child must be under age 19 at the end of the year (or under 24 if a full-time student)
- b) The child must not have provided more than half of their own support
- c) The child must be a U.S. citizen, U.S. national, or U.S. resident alien
- d) All of the above

101. James, a cash basis taxpayer, performed services in December 2025 but did not bill his client until January 2026. He received payment in February 2026. In which tax year should James report this income?

- a) 2025
- b) 2026
- c) Either 2025 or 2026, at James's option
- d) Part in 2025 and part in 2026

102. Which of the following is NOT a qualifying child for the Earned Income Credit?

- a) A 17-year-old son who lives with the taxpayer all year
- b) A 23-year-old permanently disabled daughter who lives with the taxpayer all year
- c) A 25-year-old son who is not disabled

d) A 19-year-old full-time student who lives with the taxpayer while attending college

103. Lisa sold 100 shares of stock on December 28, 2025, at a \$5,000 loss. She repurchased the same stock on January 10, 2026. How should Lisa treat this transaction on her 2025 tax return?

- a) Deduct the \$5,000 loss on Schedule D
- b) Disallow the loss due to wash sale rules and add it to the basis of the repurchased stock
- c) Deduct \$3,000 of the loss on Schedule D and carry forward \$2,000
- d) Report the transaction as a short-term loss regardless of how long she owned the shares

104. Mark is 45 years old and withdrew \$30,000 from his traditional IRA to pay unreimbursed medical expenses of \$25,000. His AGI without the distribution is \$60,000. What amount of the early distribution is subject to the 10% additional tax?

- a) \$0
- b) \$5,000
- c) \$25,500
- d) \$30,000

105. John and Mary are divorced. They have a 12-year-old son who lived with Mary for 8 months and with John for 4 months during the year. Their divorce decree does not address which parent claims the child as a dependent. Who is entitled to claim the child as a dependent?

- a) John, because he is the father
- b) Mary, because the child lived with her for the longer period during the year
- c) Either parent, if the other parent signs a written declaration releasing the claim
- d) Neither parent, since the divorce decree does not specify

106. Richard is a cash basis sole proprietor. On December 31, 2025, he wrote checks for business expenses totaling \$5,000. The checks were mailed on January 2, 2026. In which year are these expenses deductible?

- a) 2025
- b) 2026
- c) Either 2025 or 2026, at Richard's option

d) Half in 2025 and half in 2026

107. Barbara owns a rental property that she actively manages. In 2025, her rental activity resulted in a \$12,000 loss. Her modified AGI is \$75,000. What amount of loss can Barbara deduct on her 2025 tax return?

- a) \$0
- b) \$12,000
- c) \$25,000
- d) \$3,000

108. Tom and Susan are married and file jointly. They sold their principal residence for \$500,000. They bought the home 25 years ago for \$200,000 and have lived in it continuously since then. What amount of gain must they report on their tax return?

- a) \$0
- b) \$50,000
- c) \$250,000
- d) \$300,000

109. Which of the following statements is correct regarding the Saver's Credit?

- a) It is available to all taxpayers regardless of income
- b) It is a nonrefundable credit that directly reduces tax liability
- c) It is available only for contributions to Roth IRAs
- d) The maximum credit is \$5,000 for joint filers

110. Janet received \$10,000 in tips during the year but reported only \$8,000 to her employer. How should Janet report her tip income on her tax return?

- a) Report \$8,000 as wage income and \$2,000 as other income
- b) Report \$10,000 as wage income
- c) Report \$8,000 as wage income
- d) Report \$10,000 as self-employment income

111. Which of the following is NOT a qualifying expense for the Health Coverage Tax Credit?

- a) Premiums for COBRA continuation coverage
- b) Premiums for health insurance purchased through a Health Insurance Marketplace
- c) Over-the-counter medications
- d) Premiums for qualified long-term care insurance

112. David inherited a traditional IRA from his father, who died at age 80 after beginning required minimum distributions. David is 50 years old. Under current law, how must David withdraw the funds?

- a) In a lump sum in the year of inheritance
- b) Over David's life expectancy
- c) By continuing his father's distribution schedule
- d) Within 10 years of his father's death

113. Sarah received a Form 1099-C showing cancellation of debt of \$5,000 for a credit card balance. Sarah was insolvent by \$3,000 immediately before the debt was cancelled. How much of the cancelled debt must Sarah include in income?

- a) \$0
- b) \$2,000
- c) \$3,000
- d) \$5,000

114. Which of the following statements is correct regarding the child and dependent care credit for 2025?

- a) The maximum credit is 35% of qualifying expenses
- b) The maximum amount of qualifying expenses is \$3,000 for one qualifying person
- c) Both spouses must have earned income to claim the credit on a joint return
- d) The credit is fully refundable for all taxpayers

115. Tom is self-employed and maintains an office in his home that he uses exclusively for business. The office occupies 20% of his home. His total mortgage interest for the year is \$15,000. What amount of mortgage interest is attributable to the business use of his home?

- a) \$0
- b) \$3,000
- c) \$15,000
- d) \$12,000

116. John and Mary are married. John is a U.S. citizen and Mary is a nonresident alien. What filing status can they use?

- a) Single
- b) Married Filing Jointly, only if Mary elects to be treated as a resident alien
- c) Married Filing Separately
- d) Head of Household

117. Which of the following expenses is deductible by an employee on Schedule A for tax years 2018-2025?

- a) Unreimbursed travel expenses for work
- b) Home office expenses for the convenience of the employer
- c) Professional license fees required for employment
- d) None of these expenses are deductible

118. Linda received a \$5,000 state income tax refund in 2025 for taxes paid in 2024. In 2024, Linda claimed itemized deductions of \$15,000, including \$7,000 in state income taxes. If she had not claimed the state income taxes, her itemized deductions would have been \$8,000, and her standard deduction was \$13,850. How much of the state tax refund must Linda include in income in 2025?

- a) \$0
- b) \$1,150
- c) \$5,000
- d) \$7,000

119. Which of the following is TRUE regarding the kiddie tax for 2025?

- a) It applies only to children under age 14

- b) It taxes a child's unearned income at the higher of the child's rate or the parents' rate
- c) It taxes a child's unearned income using the trust and estate tax rates
- d) It taxes a child's unearned income using the parents' tax rate

120. Bill and Mary are married and file jointly. They have one child who qualifies for the Child Tax Credit. Their modified AGI is \$425,000. What amount of Child Tax Credit can they claim?

- a) \$0
- b) \$1,000
- c) \$1,500
- d) \$2,000

121. Alan received a distribution from his Roth IRA that he established 3 years ago. The distribution included \$6,000 of contributions and \$1,000 of earnings. Alan is 40 years old. What amount of the distribution is subject to income tax and the 10% additional tax?

- a) \$0 taxable and \$0 subject to 10% additional tax
- b) \$1,000 taxable and \$0 subject to 10% additional tax
- c) \$1,000 taxable and \$1,000 subject to 10% additional tax
- d) \$7,000 taxable and \$7,000 subject to 10% additional tax

122. Rachel, a self-employed individual, contributed \$10,000 to a SEP IRA for 2025. Her net earnings from self-employment were \$50,000. How should Rachel treat this contribution on her tax return?

- a) As an adjustment to income on Schedule 1
- b) As a business expense on Schedule C
- c) As an itemized deduction on Schedule A
- d) As a nondeductible contribution to a retirement plan

123. Which of the following is NOT considered a disaster loss for tax purposes?

- a) Damage from a hurricane in a federally declared disaster area
- b) Damage from a fire that destroyed the taxpayer's home

- c) Theft of personal property from the taxpayer's home
- d) Damage from a flood in a federally declared disaster area

124. John donated stock that he had held for 3 years to a qualified charity. The stock had a fair market value of \$10,000 and a basis of \$4,000. What amount can John deduct as a charitable contribution?

- a) \$0
- b) \$4,000
- c) \$6,000
- d) \$10,000

125. Which of the following is NOT a requirement for the premium tax credit for health insurance purchased through a Health Insurance Marketplace?

- a) Household income must be between 100% and 400% of the federal poverty line
- b) The taxpayer cannot be eligible for affordable employer coverage
- c) The taxpayer must file a joint return if married
- d) The taxpayer must be a U.S. citizen or lawfully present in the U.S.

126. Sam, a single taxpayer, had the following income and deductions in 2025: wages of \$50,000, qualified business income of \$10,000, and a standard deduction of \$14,600. What is the maximum qualified business income deduction Sam can claim?

- a) \$0
- b) \$2,000
- c) \$2,500
- d) \$10,000

127. Which of the following statements is correct regarding the taxation of Social Security benefits?

- a) For purposes of determining the taxable portion, provisional income includes tax-exempt interest
- b) For a married couple filing jointly, up to 85% of benefits are taxable if provisional income exceeds \$44,000
- c) For a single taxpayer, benefits are not taxable if provisional income is less than \$32,000

d) Social Security benefits are fully taxable for high-income taxpayers

128. Paul is in the process of adopting a child. During 2025, he paid \$15,000 in qualified adoption expenses. The adoption was not finalized by the end of the year. What is the maximum adoption credit Paul can claim on his 2025 tax return?

- a) \$0
- b) \$7,500
- c) \$15,000
- d) \$16,810

129. Lisa's employer provided her with long-term disability insurance at a cost of \$500 for the year, which the employer paid. If Lisa becomes disabled and receives benefits under the policy, how will those benefits be taxed?

- a) The benefits will be fully taxable
- b) The benefits will be tax-free
- c) 50% of the benefits will be taxable
- d) The benefits will be taxable only to the extent they exceed Lisa's medical expenses

130. Which of the following is NOT a requirement for claiming head of household filing status?

- a) The taxpayer must be unmarried or considered unmarried on the last day of the year
- b) The taxpayer must have paid more than half the cost of keeping up a home for the year
- c) The qualifying person must be the taxpayer's dependent
- d) The taxpayer's home must be the main home for the qualifying person for more than half the year

131. Ted sustained a \$10,000 casualty loss to his personal residence from a federally declared disaster in 2025. The loss was not covered by insurance. Ted's AGI is \$50,000. What is the amount of Ted's deductible casualty loss for 2025?

- a) \$0
- b) \$4,900
- c) \$5,000

d) \$10,000

132. Which of the following taxpayers is eligible to contribute to a Health Savings Account (HSA) for 2025?

a) Sarah, who is enrolled in Medicare Part A

b) Tom, who has a high-deductible health plan with a \$1,400 deductible for self-only coverage

c) Mike, who has a high-deductible health plan and is not claimed as a dependent on anyone else's tax return

d) Lisa, who is covered by both a high-deductible health plan and her spouse's traditional health plan

133. Bob received a \$100,000 lump-sum distribution from his employer's qualified pension plan upon retirement. He contributed \$25,000 to the plan over his years of employment. How much of the distribution is taxable?

a) \$0

b) \$25,000

c) \$75,000

d) \$100,000

134. Which of the following statements is TRUE regarding the Net Investment Income Tax (NIIT)?

a) It applies to all taxpayers regardless of income level

b) It is a 3.8% tax on certain investment income of individuals with income above threshold amounts

c) It applies only to capital gains from the sale of a principal residence

d) It is a 0.9% tax on wages and self-employment income above certain thresholds

135. Jane and Robert are married and file jointly. In 2025, they paid \$5,000 in mortgage interest, \$4,000 in state income taxes, \$3,000 in real estate taxes, and \$4,000 in charitable contributions. Their AGI is \$100,000. What is their total itemized deduction amount?

a) \$16,000

b) \$15,000

c) \$13,000

d) \$12,000

136. Which of the following statements is correct regarding the taxation of gambling winnings and losses?

a) Gambling winnings are reported as income, and gambling losses are deductible as itemized deductions up to the amount of winnings

b) Gambling winnings are reported as income, and gambling losses are deductible as adjustments to income

c) Only net gambling winnings (winnings minus losses) are reported as income

d) Gambling winnings are tax-free if offset by equal or greater gambling losses

137. Sarah, a cash basis taxpayer, paid \$18,000 in state estimated tax payments for 2025. \$4,500 was paid in each quarter (April, June, September, and December 2025). In January 2026, she paid an additional \$2,000 with her state tax return for 2025. What is the maximum state and local tax deduction Sarah can claim on her 2025 federal return?

a) \$10,000

b) \$18,000

c) \$20,000

d) \$0

138. Which of the following education expenses qualifies for the Lifetime Learning Credit?

a) Room and board for a full-time student

b) Tuition for courses to acquire or improve job skills

c) Elementary school tuition

d) Expenses for non-credit courses related to sports or hobbies

139. Tom and Mary are married and file jointly. They have AGI of \$120,000. During the year, they paid college tuition of \$8,000 for their dependent son. What is the maximum Lifetime Learning Credit they can claim?

a) \$0

b) \$1,600

- c) \$2,000
- d) \$2,500

140. Which of the following is NOT a qualifying relative for dependency purposes?

- a) A parent who does not live with the taxpayer
- b) A foster child placed with the taxpayer by an authorized agency
- c) A cousin who lives with the taxpayer all year
- d) A qualifying child of another taxpayer

141. Richard received a Form 1099-R showing a \$40,000 distribution from his traditional IRA. Box 7 shows distribution code 2, indicating an early distribution exception applies. Richard is 40 years old and used the entire distribution for qualified higher education expenses for his dependent daughter. What amount of the distribution is subject to the 10% additional tax?

- a) \$0
- b) \$4,000
- c) \$10,000
- d) \$40,000

142. Which of the following is a qualifying expense for the American Opportunity Credit?

- a) Room and board
- b) Student health insurance
- c) Required course materials
- d) Travel expenses to and from school

143. Mary paid \$2,500 in real estate taxes on her personal residence in 2025. In January 2026, she received a \$500 refund for an overpayment of her 2025 real estate taxes. Mary claimed itemized deductions on her 2025 return. How should she treat this refund on her 2026 tax return?

- a) Include \$500 in income on her 2026 return
- b) Reduce her real estate tax deduction on her 2026 return by \$500
- c) File an amended return for 2025 to reduce her itemized deductions

d) No action is required

144. Paul, a single taxpayer, has AGI of \$200,000. He made a \$6,000 traditional IRA contribution for 2025. Paul actively participates in his employer's 401(k) plan. What amount of the IRA contribution can Paul deduct on his 2025 tax return?

- a) \$0
- b) \$3,000
- c) \$6,000
- d) Paul's contribution is not allowed due to his high income

145. Which of the following is a correct statement regarding the taxation of Social Security benefits received by a child?

- a) Benefits received by a child are always tax-free
- b) Benefits are included in the child's income regardless of who has the right to receive the benefits
- c) If the parent has the right to receive the benefits, the benefits are included in the parent's income
- d) Benefits are always split equally between the child and the parent

146. John, age 60, received a \$100,000 distribution from his deceased wife's 401(k) plan, for which he was the designated beneficiary. What is the tax treatment of this distribution?

- a) The distribution is tax-free
- b) The distribution is fully taxable as ordinary income
- c) Only the earnings portion is taxable
- d) The distribution is taxable as a long-term capital gain

147. Which of the following is TRUE regarding a qualifying child for the Earned Income Credit?

- a) The child must be under age 19 at the end of the year (or under 24 if a full-time student)
- b) The child must have lived with the taxpayer for more than half of the year
- c) The child must be a U.S. citizen, U.S. national, or U.S. resident alien
- d) All of the above

148. Jessica received a Form 1099-INT showing \$30 of interest earned and \$6 of federal income tax withheld. What is the minimum amount of gross income Jessica must have to be required to file a tax return if she is single and under age 65?

- a) \$30
- b) \$1,000
- c) \$6,000
- d) \$14,600

149. Mike's employer provided a group term life insurance policy with coverage of \$250,000. What amount must Mike include in his gross income for this benefit?

- a) \$0
- b) The cost of coverage for \$50,000
- c) The cost of coverage for \$150,000
- d) The cost of coverage for \$250,000

150. Alice sold her principal residence for \$400,000. She had purchased it 15 years ago for \$150,000 and made \$50,000 in improvements. During the 5-year period ending on the date of sale, she rented the house for 2 years and used it as her main home for 3 years. What amount of gain must Alice recognize on the sale?

- a) \$0
- b) \$80,000
- c) \$200,000
- d) \$300,000

Questions 151-200

151. Tom and Mary are married and file jointly. They have two children who qualify for the Child Tax Credit. Their modified AGI is \$430,000. What amount of Child Tax Credit can they claim?

- a) \$0
- b) \$1,000

- c) \$2,000
- d) \$4,000

152. Which of the following statements is correct regarding a 529 plan distribution?

- a) Distributions for qualified education expenses are tax-free
- b) Distributions for room and board are always taxable
- c) Distributions can only be used for undergraduate education
- d) Distributions for K-12 tuition are limited to \$5,000 per year

153. Sarah, age 40, took a \$20,000 distribution from her traditional IRA to purchase her first home. She has never owned a home before. What amount of the distribution is subject to the 10% additional tax?

- a) \$0
- b) \$10,000
- c) \$20,000
- d) \$2,000

154. Which of the following statements is correct regarding the deduction for qualified business income under Section 199A?

- a) It is available to all taxpayers regardless of income
- b) It is limited to 20% of qualified business income for eligible taxpayers
- c) It is only available for income from specified service trades or businesses
- d) It is taken as an itemized deduction on Schedule A

155. John and Lisa are married. John works and participates in his employer's 401(k) plan. Lisa does not work. Their modified AGI is \$110,000. What is the maximum deductible traditional IRA contribution Lisa can make for 2025?

- a) \$0
- b) \$3,500
- c) \$7,000
- d) \$14,000

156. Robert and Susan are married and file jointly. During 2025, they paid \$5,000 in qualified education expenses for their dependent son's first year of college. Which education benefit would likely provide the greatest tax benefit?

- a) Lifetime Learning Credit
- b) American Opportunity Credit
- c) Student loan interest deduction
- d) Tuition and fees deduction

157. Mary, age 68, took a \$15,000 distribution from her traditional IRA in 2025. Her required minimum distribution for 2025 was \$10,000. What amount of the distribution is subject to the 50% excise tax for failure to take required minimum distributions?

- a) \$0
- b) \$5,000
- c) \$10,000
- d) \$15,000

158. Tom received a Form W-2 showing \$50,000 in box 1 (Wages) and \$2,000 in box 12 with code D (401(k) contributions). What amount should Tom report as wages on his tax return?

- a) \$48,000
- b) \$50,000
- c) \$52,000
- d) \$2,000

159. Which of the following is NOT an acceptable method for substantiating a charitable contribution of \$250 or more?

- a) A canceled check and a receipt from the charity
- b) A written acknowledgment from the charity
- c) A credit card statement showing the donation
- d) A contemporaneous written acknowledgment from the charity

160. Susan sold her vacation home for \$350,000. She had purchased it 5 years ago for \$250,000. She never rented the property and used it only for personal purposes. What is the tax treatment of this sale?

- a) \$100,000 gain treated as a long-term capital gain
- b) \$100,000 gain excluded from income
- c) \$250,000 gain excluded from income
- d) No gain or loss is recognized

161. Richard and Lisa are married and file jointly. They have AGI of \$100,000. During the year, they incurred \$5,000 in unreimbursed medical expenses. What amount of medical expenses can they deduct as an itemized deduction?

- a) \$0
- b) \$2,500
- c) \$5,000
- d) The amount that exceeds 7.5% of their AGI

162. John and Mary are divorced. Their divorce agreement, finalized in 2020, specifies that John will pay Mary \$24,000 per year (\$2,000 per month) in alimony. What is the tax treatment of these payments for 2025?

- a) John can deduct \$24,000 and Mary must include \$24,000 in income
- b) John cannot deduct the payments and Mary does not include the payments in income
- c) John can deduct \$24,000 only if Mary includes it in her income
- d) John can deduct \$24,000, but Mary only includes 50% in income

163. Tom, a cash basis taxpayer, received a \$10,000 bonus on December 31, 2025, which he deposited on January 2, 2026. In which tax year should Tom report this income?

- a) 2025
- b) 2026
- c) Either 2025 or 2026, at Tom's option
- d) Half in 2025 and half in 2026

164. Which of the following is NOT a factor in determining whether a hobby is engaged in for profit?

- a) Whether the activity is carried on in a businesslike manner
- b) The taxpayer's income from other sources
- c) The expertise of the taxpayer or advisors
- d) The elements of personal pleasure or recreation

165. Sarah inherited a traditional IRA from her husband, who died at age 72. Sarah is 70 years old. What options does Sarah have regarding the inherited IRA?

- a) She must distribute the entire amount within 5 years
- b) She must continue taking her husband's required minimum distributions
- c) She can roll it over into her own IRA or treat it as her own
- d) She must take required minimum distributions based on her own life expectancy

166. Lisa received a \$5,000 scholarship. \$3,000 was for tuition and \$2,000 was for room and board. Lisa is a degree candidate at an eligible educational institution. How much of the scholarship must Lisa include in income?

- a) \$0
- b) \$2,000
- c) \$3,000
- d) \$5,000

167. Which of the following is NOT a qualifying expense for the premium tax credit?

- a) Premiums for health insurance purchased through a Health Insurance Marketplace
- b) Premiums for Medicare supplemental policies
- c) Premiums for dental insurance purchased through a Health Insurance Marketplace
- d) Premiums for catastrophic health plans purchased through a Health Insurance Marketplace

168. Janet sold stock at a loss of \$15,000. The stock was acquired 18 months ago. She has no other capital gains or losses for the year. What is the maximum amount of the loss that Janet can deduct against ordinary income on her current year tax return?

- a) \$0
- b) \$3,000
- c) \$15,000
- d) Unlimited

169. Sam and Janet are married. Sam is employed and covered by a retirement plan at work. Janet is not employed. Their modified AGI is \$200,000. What is the maximum deductible traditional IRA contribution that Janet can make for 2025?

- a) \$0
- b) \$3,500
- c) \$7,000
- d) Janet is not eligible to contribute to a traditional IRA

170. Which of the following statements is correct regarding the tax treatment of a qualified charitable distribution (QCD) from an IRA?

- a) A QCD is included in gross income but provides a charitable contribution deduction
- b) A QCD is excluded from gross income and no charitable contribution deduction is allowed
- c) A QCD is partially taxable based on the proportion of after-tax contributions in the IRA
- d) A QCD is treated as a minimum distribution but is not taxable

171. Robert, age 45, borrowed \$20,000 from his 401(k) plan. Under the plan terms, he must repay the loan within 5 years. What is the tax consequence of this transaction?

- a) The \$20,000 loan is included in Robert's gross income and subject to the 10% additional tax
- b) The loan is not taxable as long as it meets certain requirements, including timely repayment
- c) The loan is partially taxable based on Robert's contributions to the plan
- d) The loan is tax-free but Robert cannot deduct the interest paid on the loan

172. Mike, who is self-employed, contributed \$8,000 to a traditional IRA and \$20,000 to a SEP IRA for 2025. His net earnings from self-employment were \$100,000. What is the maximum retirement contribution deduction Mike can claim on his 2025 tax return?

- a) \$8,000
- b) \$20,000
- c) \$28,000
- d) \$25,000

173. Sarah owns a vacation home that she rented for 85 days and used personally for 25 days during the year. Her rental income was \$15,000 and her expenses were \$20,000 (\$8,000 for mortgage interest, \$3,000 for property taxes, \$2,000 for utilities, \$2,000 for insurance, \$3,000 for depreciation, and \$2,000 for repairs). What amount of rental expenses can Sarah deduct on Schedule E?

- a) \$15,000
- b) \$15,292
- c) \$20,000
- d) \$0

174. John and Mary file a joint return. John is 68 and Mary is 66. Their AGI is \$32,000. What is their standard deduction for 2025?

- a) \$29,200
- b) \$30,600
- c) \$32,000
- d) \$32,700

175. Which of the following is NOT a qualifying expense for the health coverage tax credit?

- a) COBRA continuation coverage
- b) Coverage under a state-qualified health plan
- c) Coverage under Medicare
- d) Insurance paid through a voluntary employees' beneficiary association

176. Tom has a traditional IRA valued at \$80,000, all of which represents deductible contributions and earnings. He rolled over \$30,000 to a Roth IRA in April 2025. In December 2025, he withdrew \$5,000 from the Roth IRA. Tom is 45 years old. What are the tax consequences of these transactions?

- a) The \$30,000 conversion is taxable as ordinary income, and the \$5,000 withdrawal is tax-free
- b) The \$30,000 conversion is taxable as ordinary income, and the \$5,000 withdrawal is taxable as ordinary income plus subject to a 10% additional tax
- c) The \$30,000 conversion is taxable as ordinary income, and the \$5,000 withdrawal is tax-free but subject to a 10% additional tax
- d) The \$30,000 conversion is taxable as ordinary income, and the \$5,000 withdrawal is tax-free and not subject to the 10% additional tax

177. Which of the following statements is correct regarding the tax treatment of disability income?

- a) Disability income is always tax-free
- b) If an employer paid for the disability insurance, the disability income is taxable to the employee
- c) If an employee paid for the disability insurance with after-tax dollars, the disability income is taxable
- d) Disability income is taxed at preferential capital gain rates

178. Sarah's employer provides health insurance for Sarah and her family at a cost of \$15,000 per year, which the employer pays. How should Sarah treat this benefit on her tax return?

- a) Include \$15,000 in income
- b) Include \$15,000 in income but claim it as an itemized medical expense deduction
- c) Exclude the entire amount from income
- d) Include the benefit in income but claim a credit for health insurance

179. John sold his personal residence for \$350,000, resulting in a \$150,000 gain. He had owned and lived in the home for 2 years, then rented it for 1 year before selling it. John is single. How much of the gain must John recognize on his tax return?

- a) \$0
- b) \$50,000
- c) \$100,000
- d) \$150,000

180. Which of the following is true regarding the requirement to have minimum essential health coverage under the Affordable Care Act for 2025?

- a) Individuals who do not maintain minimum essential coverage must pay a shared responsibility payment
- b) The individual shared responsibility payment has been reduced to zero effective January 1, 2019
- c) Individuals can claim a hardship exemption to avoid the shared responsibility payment
- d) The requirement applies only to individuals with income above certain thresholds

181. Martha, age 40, received a \$40,000 distribution from her deceased father's IRA, for which she is the beneficiary. Her father died at age 65. What is the tax treatment of this distribution?

- a) The distribution is tax-free
- b) The distribution is fully taxable as ordinary income with no 10% additional tax
- c) The distribution is fully taxable as ordinary income and subject to a 10% additional tax
- d) Only the earnings portion is taxable

182. Which of the following is NOT a qualifying expense for the student loan interest deduction?

- a) Loan origination fees
- b) Capitalized interest
- c) Interest on a loan from a relative
- d) Interest on refinanced student loans

183. Richard and Lisa are married and file jointly. They have AGI of \$250,000. During the year, they donated clothing with a fair market value of \$2,000 to a qualified charity. The clothing originally cost \$5,000. What amount can they deduct as a charitable contribution?

- a) \$0
- b) \$2,000
- c) \$5,000
- d) \$3,500

184. Which of the following statements is correct regarding the foreign earned income exclusion for 2025?

- a) The maximum exclusion is \$124,300
- b) The taxpayer must be a bona fide resident of a foreign country for at least 2 years
- c) The exclusion applies only to employees, not self-employed individuals
- d) The excluded amount is not subject to U.S. Social Security taxes

185. Bob and Mary are married and file jointly. They have AGI of \$150,000. During the year, they had gambling winnings of \$10,000 and gambling losses of \$12,000. What amount of gambling losses can they deduct on their tax return?

- a) \$0
- b) \$10,000
- c) \$12,000
- d) \$2,000

186. Sarah received a \$20,000 distribution from her traditional IRA to pay for unreimbursed medical expenses of \$18,000. Her AGI without the distribution is \$50,000. What amount of the early distribution is subject to the 10% additional tax?

- a) \$0
- b) \$2,000
- c) \$14,250
- d) \$20,000

187. Which of the following expenses is NOT deductible as an itemized medical expense?

- a) Dental expenses
- b) Contact lenses
- c) Cosmetic surgery to improve appearance
- d) Cost of a wheelchair for a disabled person

188. Tom, a cash basis taxpayer, paid \$12,000 in state estimated tax payments for 2025 (\$3,000 per quarter). In January 2026, before filing his 2025 tax return, he paid an additional \$3,000 with his state tax return for 2025. What is the maximum state tax deduction Tom can claim on his 2025 federal return?

- a) \$10,000
- b) \$12,000
- c) \$15,000
- d) \$3,000

189. Which of the following statements is correct regarding the premium tax credit for health insurance purchased through a Health Insurance Marketplace?

- a) The credit is available to all taxpayers regardless of income
- b) The credit can be taken as a reduction in premiums during the year or as a refundable credit on the tax return
- c) The credit is only available for bronze-level plans
- d) The credit is not available to taxpayers who are eligible for Medicare

190. Bill and Janet are married and file jointly. They have two children who are qualifying children for both the Child Tax Credit and the Earned Income Credit. Their earned income and AGI are \$38,000. What is the correct statement regarding these credits?

- a) They can claim both the Child Tax Credit and the Earned Income Credit
- b) They can claim either the Child Tax Credit or the Earned Income Credit, but not both
- c) They are not eligible for either credit because their income is too high
- d) They can claim the Child Tax Credit but not the Earned Income Credit

191. Sarah, a single taxpayer, has AGI of \$100,000. She made a \$6,000 Roth IRA contribution for 2025. What are the tax consequences of this contribution?

- a) Sarah's contribution is fully deductible
- b) Sarah's contribution is partially deductible
- c) Sarah's contribution is not deductible, but qualified distributions will be tax-free
- d) Sarah is not eligible to contribute to a Roth IRA due to her income level

192. Which of the following medical expenses is NOT deductible?

- a) Cost of a seeing-eye dog for a blind person
- b) Laser eye surgery to correct vision
- c) Over-the-counter medications
- d) Transportation costs to receive medical care

193. Tom and Mary are married and file jointly. In 2025, they had the following capital transactions: sold 100 shares of ABC Corp. at a \$10,000 gain (held 2 years) and sold 200 shares of XYZ Corp. at a \$15,000 loss (held 6 months). What is their net capital loss that can be deducted against ordinary income on their 2025 return?

- a) \$0
- b) \$3,000
- c) \$5,000
- d) \$15,000

194. James borrowed \$50,000 from his 401(k) plan in 2023. In 2025, he left his job with an outstanding loan balance of \$30,000. What is the tax treatment of the outstanding loan balance?

- a) The \$30,000 is treated as a taxable distribution
- b) The \$30,000 is not taxable if repaid within 60 days
- c) The \$30,000 can be rolled over to an IRA within 60 days to avoid taxation
- d) The \$30,000 is not taxable until James reaches age 59½

195. Which of the following statements is correct regarding the deduction for student loan interest?

- a) The maximum deduction is \$2,500 per return, not per student
- b) The interest must be paid on a loan taken out solely for the taxpayer or the taxpayer's spouse
- c) The deduction is an itemized deduction on Schedule A
- d) The deduction is available regardless of who actually paid the interest

196. Susan donated clothing with a fair market value of \$500 to a qualified charity. The clothing originally cost \$1,200. What amount can Susan deduct as a charitable contribution?

- a) \$0
- b) \$500
- c) \$1,200
- d) \$700

197. John, a single taxpayer, has modified AGI of \$80,000. He contributed \$6,000 to a traditional IRA for 2025. John actively participates in his employer's 401(k) plan. What amount of the IRA contribution can John deduct on his 2025 tax return?

- a) \$0
- b) \$3,000
- c) \$4,200
- d) \$6,000

198. Which of the following is a correct statement regarding the taxation of U.S. citizens working abroad?

- a) U.S. citizens are taxed only on income earned within the United States
- b) U.S. citizens must report worldwide income but may qualify for the foreign earned income exclusion
- c) U.S. citizens working abroad for more than 330 days are exempt from U.S. taxation
- d) U.S. citizens can exclude all foreign income regardless of amount

199. Lisa sold her main home for \$450,000. Her basis in the home was \$300,000. She lived in the home for 1 year and 10 months before the sale. Lisa is single. How much gain must Lisa recognize on her tax return?

- a) \$0
- b) \$150,000
- c) \$75,000
- d) \$200,000

200. Which of the following statements is correct regarding a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)?

- a) Reimbursements are always included in the employee's gross income
- b) Reimbursements for the employee's medical expenses are tax-free up to the annual limit
- c) Only employers with more than 50 full-time employees can offer a QSEHRA
- d) Employees participating in a QSEHRA cannot claim the premium tax credit

201. Robert and Susan are married but lived apart for the entire year. Neither is a dependent of the other, and they maintained separate households. They have one child who lived with Susan all year. If they file separate returns, what filing status should Susan use?

- a) Single
- b) Married Filing Separately
- c) Head of Household
- d) Qualifying Widow(er)

202. Which of the following is a requirement for claiming the American Opportunity Credit?

- a) The student must not have completed the first four years of post-secondary education before the tax year
- b) The student must be enrolled at least half-time for at least one academic period during the tax year
- c) The student must be pursuing a degree or other recognized education credential
- d) All of the above

203. John received \$10,000 from his traditional IRA. \$4,000 represents nondeductible contributions. What amount of the distribution is taxable?

- a) \$0
- b) \$4,000
- c) \$6,000
- d) \$10,000

204. Mary, age 40, withdrew \$8,000 from her Roth IRA that she established 3 years ago. The distribution included \$5,000 of contributions and \$3,000 of earnings. What amount of the distribution is subject to income tax and the 10% additional tax?

- a) \$0 taxable and \$0 subject to 10% additional tax
- b) \$3,000 taxable and \$0 subject to 10% additional tax
- c) \$3,000 taxable and \$3,000 subject to 10% additional tax
- d) \$8,000 taxable and \$8,000 subject to 10% additional tax

205. Bob and Carol are married and file jointly. They donated clothing with a fair market value of \$800 to a qualified charity. The clothing originally cost \$1,500. They received a written acknowledgment from the charity. What amount can they deduct as a charitable contribution?

- a) \$0
- b) \$800
- c) \$1,500
- d) The lesser of \$800 or 30% of their AGI

206. Sarah sold 100 shares of stock for \$5,000. She had purchased the stock 3 months earlier for \$7,000. How should Sarah report this transaction?

- a) \$2,000 short-term capital loss on Schedule D
- b) \$2,000 long-term capital loss on Schedule D
- c) \$2,000 ordinary loss on Schedule 1
- d) No reporting required since it resulted in a loss

207. Tom, age 72, has a traditional IRA. By what date must he take his first required minimum distribution?

- a) December 31 of the year he turns 72
- b) April 1 of the year following the year he turns 72
- c) April 1 of the year following the year he turns 73
- d) December 31 of the year he turns 73

208. John and Mary are married and file jointly. Their modified AGI is \$190,000. What is the maximum amount they can contribute to Roth IRAs for 2025?

- a) \$0
- b) \$7,000 each
- c) \$14,000 total
- d) \$7,000 total

209. Which of the following taxpayers would be eligible to claim the Lifetime Learning Credit for 2025?

- a) James, a married taxpayer filing jointly with modified AGI of \$200,000
- b) Susan, a single taxpayer with modified AGI of \$95,000
- c) Robert, a married taxpayer filing separately with modified AGI of \$60,000
- d) Lisa, a dependent student whose parents claim her on their tax return

210. Sarah, a cash basis taxpayer, performed services in December 2025 for which she received payment in January 2026. When should Sarah report this income?

- a) 2025
- b) 2026
- c) Either 2025 or 2026, at Sarah's option
- d) Half in 2025 and half in 2026

211. Which of the following statements regarding the taxation of qualified dividends is correct?

- a) Qualified dividends are taxed at a maximum rate of 15% for all taxpayers
- b) Qualified dividends are tax-free for taxpayers in the 10% and 12% ordinary income tax brackets
- c) Qualified dividends are subject to a maximum rate of 23.8% for high-income taxpayers
- d) Qualified dividends are always taxed at the same rate as ordinary income

212. Paul's employer provides dependent care benefits of \$5,000 per year through a flexible spending account. Paul has two qualifying children and paid \$6,000 in qualifying child care expenses. What amount of the dependent care benefits must Paul include in income?

- a) \$0
- b) \$1,000
- c) \$5,000
- d) \$6,000

213. Lisa sold her personal residence for \$400,000. Her basis in the home was \$250,000. She had owned and lived in the home for the past 3 years. Lisa is single. What amount of gain must Lisa report on her tax return?

- a) \$0
- b) \$150,000
- c) \$50,000
- d) \$100,000

214. Which of the following expenses is NOT deductible as an education expense for the Lifetime Learning Credit?

- a) Tuition
- b) Required fees
- c) Room and board
- d) Books required for enrollment

215. John, age 50, participates in his employer's 401(k) plan. What is the maximum contribution John can make to the plan for 2025?

- a) \$23,000
- b) \$30,500
- c) \$46,000
- d) \$7,000

216. Tom and Mary are married and file jointly. They made a \$10,000 contribution to their daughter's 529 plan in 2025. What is the tax treatment of this contribution?

- a) It is deductible as an itemized deduction
- b) It is deductible as an above-the-line deduction

- c) It is not deductible for federal income tax purposes
- d) It qualifies for a tax credit

217. Which of the following filing statuses has the highest standard deduction for a taxpayer who is legally blind and age 67?

- a) Single
- b) Married Filing Jointly
- c) Head of Household
- d) Qualifying Widow(er)

218. Susan withdrew \$12,000 from her traditional IRA. She had made nondeductible contributions of \$8,000 to the IRA, and the total value of all her IRAs is \$40,000. What amount of the distribution is taxable?

- a) \$0
- b) \$4,000
- c) \$8,000
- d) \$9,000

219. Joe and Ann are married and file jointly. They have one child who qualifies for the Child Tax Credit. Their modified AGI is \$415,000. What amount of Child Tax Credit can they claim?

- a) \$0
- b) \$500
- c) \$1,000
- d) \$2,000

220. Lisa received a Form 1099-NEC showing \$5,000 of nonemployee compensation for consulting work she performed. She had related expenses of \$2,000. How should Lisa report this on her tax return?

- a) Report \$5,000 as other income on Schedule 1, with no deduction for expenses
- b) Report \$5,000 as business income on Schedule C and deduct the \$2,000 of expenses on Schedule C
- c) Report \$3,000 as business income on Schedule C

d) Report \$5,000 as wages on Form 1040

221. Joe and Mary are divorced. Per their divorce agreement, Joe pays the mortgage on Mary's home where she lives with their children. The mortgage payment is \$2,000 per month. What is the tax treatment of these payments to Mary?

- a) Mary must report \$24,000 as alimony income
- b) Mary does not report the payments as income
- c) Mary reports the payments as rental income
- d) Mary can claim the mortgage interest deduction on her tax return

222. Which of the following is NOT a qualifying relative for dependency purposes?

- a) A parent who does not live with the taxpayer but receives more than half of their support from the taxpayer
- b) A niece who lives with the taxpayer all year
- c) An unrelated person who lived with the taxpayer for half the year
- d) A cousin who lives with the taxpayer all year

223. Sarah, age 45, took a \$30,000 distribution from her traditional IRA to pay medical expenses of \$25,000 that were not reimbursed by insurance. Her AGI without the distribution is \$70,000. What amount of the distribution is subject to the 10% additional tax?

- a) \$0
- b) \$5,000
- c) \$19,750
- d) \$30,000

224. Paul sold his vacation home for \$300,000. He had purchased it 10 years ago for \$200,000. He never rented the property and used it only for personal purposes. What is the tax treatment of this sale?

- a) \$100,000 gain treated as a long-term capital gain
- b) \$100,000 gain excluded from income
- c) \$100,000 loss treated as a personal loss, not deductible

d) No gain or loss is recognized

225. Richard, a self-employed individual, paid \$8,000 for health insurance for himself and his family in 2025. His net profit from self-employment was \$40,000. What amount can Richard deduct as self-employed health insurance?

- a) \$0
- b) \$4,000
- c) \$8,000
- d) \$40,000

226. Which of the following statements is correct regarding the taxation of a distribution from a Coverdell Education Savings Account?

- a) Distributions for qualified education expenses are tax-free
- b) Distributions for room and board are always taxable
- c) Distributions can only be used for college education
- d) Distributions for K-12 expenses are limited to \$2,000 per year

227. Bob and Mary are married and file jointly. They have AGI of \$75,000. During the year, they donated \$10,000 to their church. What is the maximum charitable contribution they can deduct on their 2025 tax return?

- a) \$7,500
- b) \$10,000
- c) \$37,500
- d) \$45,000

228. Tom received a Form 1099-R showing a \$20,000 distribution from his employer's qualified retirement plan. Box 7 of the form shows code 2, indicating an early distribution exception applies. Tom is 50 years old and separated from service with his employer at age 55. What amount of the distribution is subject to the 10% additional tax?

- a) \$0
- b) \$2,000

- c) \$10,000
- d) \$20,000

229. Linda, age 45, received a \$100,000 lump-sum distribution from her deceased spouse's qualified retirement plan. What is the tax treatment of this distribution?

- a) The distribution is tax-free
- b) The distribution is fully taxable as ordinary income, subject to a 10% early withdrawal penalty
- c) The distribution is fully taxable as ordinary income, with no early withdrawal penalty
- d) Only the earnings portion is taxable

230. Which of the following statements regarding the foreign tax credit is correct?

- a) It is available only for income taxes paid to foreign countries
- b) It is limited to the U.S. tax on foreign source income
- c) It can be taken as either a credit or a deduction, whichever is more beneficial
- d) All of the above

231. Susan is single and owns a condo with a fair market value of \$300,000. The condo has a mortgage of \$180,000. Susan took out a home equity loan of \$40,000 and used the proceeds to completely renovate her kitchen. What amount of interest on the home equity loan is deductible as qualified residence interest?

- a) \$0
- b) Interest on \$40,000
- c) Interest on the portion of the loan that does not exceed \$100,000
- d) Interest on the entire loan, since the total debt is less than \$750,000 and the loan was used to improve the home

232. Mark and Julie are married and file jointly. Julie is covered by a retirement plan at work, but Mark is not. Their modified AGI is \$130,000. What is the maximum deductible traditional IRA contribution Mark can make for 2025?

- a) \$0
- b) \$3,500

- c) \$7,000
- d) \$14,000

233. Which of the following is NOT a qualifying expense for the Child and Dependent Care Credit?

- a) Daycare costs for a qualifying child under age 13
- b) Care expenses for a spouse who is physically incapable of self-care
- c) Private school tuition for a 10-year-old child
- d) After-school care for an 11-year-old child

234. John has a traditional IRA and a Roth IRA. In 2025, he converted \$10,000 from his traditional IRA to his Roth IRA. In 2026, he withdrew \$5,000 from the Roth IRA. John is 45 years old. What are the tax consequences of the withdrawal?

- a) The \$5,000 withdrawal is fully taxable and subject to a 10% additional tax
- b) The \$5,000 withdrawal is tax-free
- c) The \$5,000 withdrawal is tax-free if it represents the converted amount
- d) The tax treatment depends on how long the money has been in the Roth IRA

235. Mike, a cash basis taxpayer, received a bill for \$3,000 from his attorney for legal services related to his business. Mike paid the bill in January 2026. When can Mike deduct this expense?

- a) 2025
- b) 2026
- c) Either 2025 or 2026, at Mike's option
- d) Half in 2025 and half in 2026

236. Sarah sold a rental property for \$300,000. Her adjusted basis in the property was \$200,000. She had taken \$40,000 in depreciation over the years she owned the property. What is the amount and character of Sarah's gain?

- a) \$60,000 long-term capital gain
- b) \$100,000 long-term capital gain
- c) \$60,000 long-term capital gain and \$40,000 unrecaptured Section 1250 gain

d) \$60,000 long-term capital gain and \$40,000 ordinary income

237. Bob and Mary file a joint return. They are both over age 65. What is the amount of the additional standard deduction they can claim for 2025 due to their age?

a) \$1,400

b) \$2,800

c) \$1,750

d) \$3,500

238. Tom is single and owns a rental property that generated a \$12,000 loss in 2025. His modified AGI is \$130,000, and he actively participated in the rental activity. What amount of the loss can Tom deduct on his 2025 tax return?

a) \$0

b) \$3,000

c) \$12,000

d) \$25,000

239. Martha received a \$5,000 award for outstanding teaching from her school district. The award was not designated for any specific purpose. How should Martha treat this award on her tax return?

a) The award is tax-free as a qualified employee achievement award

b) The award is tax-free as a scholarship

c) The award is taxable as ordinary income

d) The award is taxable as a capital gain

240. Which of the following is a requirement for claiming the credit for the elderly or disabled?

a) The taxpayer must be age 65 or older or be permanently and totally disabled

b) The taxpayer's income must be below certain limits

c) The taxpayer must be a U.S. citizen or resident

d) All of the above

241. John contributed \$3,000 to a traditional IRA and \$4,000 to a Roth IRA in 2025. His modified AGI is \$140,000, and he is married filing jointly. John actively participates in his employer's retirement plan. What is the tax treatment of these contributions?

- a) The traditional IRA contribution is fully deductible, and the Roth IRA contribution is allowed
- b) The traditional IRA contribution is not deductible, and the Roth IRA contribution is allowed
- c) The traditional IRA contribution is not deductible, and the Roth IRA contribution is partially allowed
- d) The traditional IRA contribution is partially deductible, and the Roth IRA contribution is allowed

242. Which of the following statements regarding the taxation of Railroad Retirement benefits is correct?

- a) Tier 1 benefits are treated the same as Social Security benefits for tax purposes
- b) Tier 2 benefits are always tax-free
- c) Both Tier 1 and Tier 2 benefits are fully taxable
- d) Both Tier 1 and Tier 2 benefits are partially taxable based on the recipient's income

243. Lisa received a Form W-2 showing \$45,000 in Box 1 (Wages) and \$3,000 in Box 12 with code W (HSA contributions). What amount should Lisa report as wages on her tax return?

- a) \$42,000
- b) \$45,000
- c) \$48,000
- d) \$3,000

244. Sarah received a \$10,000 settlement for emotional distress resulting from a non-physical injury. The settlement did not include any amount for medical expenses. What amount of the settlement is taxable?

- a) \$0
- b) \$5,000
- c) \$10,000
- d) The amount that exceeds medical expenses related to the emotional distress

245. Which of the following is NOT a qualifying expense for the medical expense deduction?

- a) Cost of prescription medications
- b) Medical insurance premiums
- c) Cosmetic surgery that is medically necessary
- d) Nutritional supplements recommended but not prescribed by a doctor

246. Bob and Mary are married and file jointly. They have two children who qualify for the Child Tax Credit. Their modified AGI is \$425,000. What amount of Child Tax Credit can they claim?

- a) \$0
- b) \$1,000
- c) \$2,000
- d) \$3,000

247. Tom has a traditional IRA worth \$200,000, which includes nondeductible contributions of \$40,000. If Tom converts the entire IRA to a Roth IRA, what amount must he include in income?

- a) \$0
- b) \$40,000
- c) \$160,000
- d) \$200,000

248. Which of the following statements is correct regarding the health coverage tax credit?

- a) It is available to all taxpayers who purchase health insurance
- b) It is a refundable tax credit equal to 65% of qualified health insurance premiums
- c) It is available only for coverage purchased through a Health Insurance Marketplace
- d) It is claimed as an itemized deduction on Schedule A

249. Susan, a cash basis taxpayer, prepaid her January 2026 mortgage payment in December 2025. When can Susan deduct the interest portion of this payment?

- a) 2025

- b) 2026
- c) Either 2025 or 2026, at Susan's option
- d) Half in 2025 and half in 2026

250. John and Mary are married and file jointly. They have AGI of \$100,000. During the year, they had medical expenses of \$9,000, state income taxes of \$5,000, real estate taxes of \$6,000, mortgage interest of \$8,000, and charitable contributions of \$4,000. What is their total itemized deduction amount?

- a) \$24,000
- b) \$25,500
- c) \$32,000
- d) \$25,000

Part 2 (Businesses)

1. Which of the following business entities is a pass-through entity for federal income tax purposes?
 - a) C Corporation
 - b) S Corporation
 - c) Both A and B
 - d) Neither A nor B

2. For S corporation qualification, which of the following is NOT a requirement?
 - a) Must have only one class of stock
 - b) Must have no more than 100 shareholders
 - c) Must have only U.S. resident shareholders
 - d) Must maintain inventory using LIFO method

3. When can a corporation make an S election?
 - a) Any time during the tax year
 - b) Within 75 days after incorporation
 - c) No later than 2 months and 15 days after the beginning of the tax year
 - d) Only at the beginning of the next tax year

4. A single-member LLC that does not elect to be treated as a corporation is taxed as:
 - a) A partnership
 - b) A disregarded entity
 - c) An S corporation
 - d) A C corporation

5. Which is NOT a valid tax year for a partnership?
 - a) Calendar year

- b) A year ending on the last day of any month
 - c) Any 52/53-week tax year
 - d) Any 12-month period chosen by the partners
6. Which section of the Internal Revenue Code governs partnerships?
- a) Subchapter C
 - b) Subchapter K
 - c) Subchapter S
 - d) Subchapter M
7. Which type of corporation is subject to double taxation?
- a) S Corporation
 - b) C Corporation
 - c) Limited Liability Company
 - d) Partnership
8. In a Section 351 transaction, what is the minimum percentage of the corporation's stock that must be received by the transferors?
- a) 50%
 - b) 80%
 - c) 100%
 - d) There is no minimum requirement
9. Cancellation of debt income for a business is generally:
- a) Always taxable as ordinary income
 - b) Always excluded from income
 - c) Included in income unless an exception applies
 - d) Treated as capital gain income

10. Which business expense is generally NOT deductible?
- a) Salaries paid to employees
 - b) Interest on business loans
 - c) Federal income taxes paid
 - d) Insurance premiums for business policies
11. Which of the following is NOT considered a capital asset?
- a) Land used in business operations
 - b) Inventory held for sale to customers
 - c) Stock investments held by the business
 - d) Patents purchased from another company
12. What is the Section 179 expense deduction limit for 2024?
- a) \$1,080,000
 - b) \$1,160,000
 - c) \$1,220,000
 - d) \$1,300,000
13. Which depreciation method allows for the greatest deduction in the first year?
- a) Straight-line depreciation
 - b) 200% declining balance method
 - c) 150% declining balance method
 - d) Alternative Depreciation System (ADS)
14. For purposes of bonus depreciation, what is the percentage available for qualified property placed in service during 2024?
- a) 100%

- b) 80%
- c) 60%
- d) 40%

15. A corporation's charitable contribution deduction is limited to what percentage of its taxable income?

- a) 10%
- b) 20%
- c) 50%
- d) 60%

16. Which of the following business meals is 100% deductible?

- a) Meals with clients discussing business
- b) Meals provided to employees for the convenience of the employer
- c) Meals during entertainment activities
- d) Meals during business travel

17. For Qualified Business Income (QBI) deduction purposes, which of the following is considered a specified service trade or business?

- a) Real estate brokerage
- b) Insurance sales
- c) Law practice
- d) Plumbing services

18. The net operating loss (NOL) carryforward period for losses arising in tax years beginning after December 31, 2020 is:

- a) 2 years
- b) 5 years
- c) Indefinite
- d) 20 years

19. Which of the following is NOT a requirement for the domestic production activities deduction under Section 199A?

- a) Having qualified business income
- b) Being engaged in manufacturing in the United States
- c) Having W-2 wages or qualified property
- d) Being engaged in a specified service trade or business

20. In a corporate reorganization, which type involves one corporation acquiring the stock of another corporation solely in exchange for voting stock?

- a) Type A reorganization
- b) Type B reorganization
- c) Type C reorganization
- d) Type D reorganization

21. What is the tax basis of property received in a like-kind exchange?

- a) Fair market value of property received
- b) Adjusted basis of property given up
- c) Adjusted basis of property given up, adjusted for any boot received or given
- d) Fair market value of property given up

22. For partnership tax purposes, which of the following decreases a partner's basis in their partnership interest?

- a) Additional capital contributions
- b) Partnership income allocated to the partner
- c) Partnership losses allocated to the partner
- d) Increase in partnership liabilities

23. In a partnership, "hot assets" refer to:

- a) Assets with significant built-in gains
- b) Unrealized receivables and substantially appreciated inventory
- c) Capital assets held for less than one year
- d) Assets subject to recapture of depreciation

24. For S corporation shareholder basis purposes, which of the following items is considered first?

- a) Non-deductible expenses
- b) Tax-exempt income
- c) Ordinary income or loss
- d) Distributions

25. When a partnership distributes property to a partner, the partner's basis in the distributed property is generally:

- a) The fair market value of the property
- b) The partnership's adjusted basis in the property
- c) The partner's basis in the partnership interest
- d) Zero

26. What is the maximum number of eligible shareholders an S corporation can have?

- a) 75
- b) 100
- c) 35
- d) 50

27. Which method is NOT an acceptable accounting method for tax purposes?

- a) Cash method
- b) Accrual method
- c) Hybrid method

d) Percentage completion method for all businesses

28. For tax purposes, a fiscal year is:

- a) Any period of 12 consecutive months ending on the last day of any month except December
- b) January 1 through December 31
- c) Any period of 12 consecutive months
- d) October 1 through September 30

29. Which of the following businesses MUST use the accrual method of accounting?

- a) A service business with average annual gross receipts of \$25 million
- b) A corporation with average annual gross receipts of \$27 million
- c) A cash basis farmer with average annual gross receipts of \$15 million
- d) A sole proprietorship with average annual gross receipts of \$20 million

30. Under the economic performance rules, when can a business using the accrual method deduct expenses?

- a) When all events have occurred to establish the liability
- b) When payment is made
- c) When all events have occurred and economic performance has taken place
- d) When the liability can be reasonably estimated

31. What is the recovery period for nonresidential real property under MACRS?

- a) 27.5 years
- b) 39 years
- c) 31.5 years
- d) 15 years

32. What is the recovery period for residential rental property under MACRS?

- a) 27.5 years
- b) 39 years
- c) 31.5 years
- d) 15 years

33. What is the first-year depreciation for a \$10,000 asset with a 5-year recovery period using the half-year convention and 200% declining balance method (without bonus depreciation)?

- a) \$2,000
- b) \$4,000
- c) \$2,500
- d) \$3,333

34. Which is NOT a requirement for Section 179 expensing?

- a) Property must be used more than 50% for business
- b) Property must be new
- c) Property must be tangible
- d) Property must be purchased

35. The basis of property acquired by gift is generally:

- a) The donor's adjusted basis
- b) The fair market value at the time of the gift
- c) The greater of the donor's adjusted basis or fair market value
- d) The lesser of the donor's adjusted basis or fair market value

36. A corporation's tax year must generally coincide with:

- a) The calendar year
- b) The majority shareholders' tax year
- c) Its natural business year

d) The tax year of its parent corporation

37. Under the uniform capitalization rules (UNICAP), which costs are NOT required to be capitalized?

a) Direct materials

b) Direct labor

c) Marketing costs

d) Indirect costs

38. For inventory valuation purposes, which method assumes the most recently purchased items are sold first?

a) FIFO

b) LIFO

c) Weighted average

d) Specific identification

39. What is the maximum deduction for start-up expenses in the first year of business?

a) \$5,000

b) \$10,000

c) \$50,000

d) \$100,000

40. When does a corporation realize gain or loss on distributions of property to shareholders?

a) Never

b) Only if the property is appreciated

c) Only if the property is depreciated

d) Always, on the difference between the property's fair market value and adjusted basis

41. Goodwill acquired in a business acquisition is amortized over:

- a) 5 years
- b) 10 years
- c) 15 years
- d) 20 years

42. Which of the following is NOT a qualified retirement plan?

- a) 401(k) plan
- b) Defined benefit plan
- c) SIMPLE IRA
- d) Personal investment account

43. What is the 2024 contribution limit for a defined contribution plan per participant?

- a) \$58,000
- b) \$61,000
- c) \$66,000
- d) \$70,000

44. A corporation can generally deduct compensation to an employee when:

- a) The amount is reasonable
- b) The payment is made
- c) The employee reports the income
- d) The board of directors approves the amount

45. In a C corporation, which of the following is NOT a factor in determining if compensation is reasonable?

- a) Compensation levels for similar positions in the industry
- b) The employee's qualifications and experience
- c) Whether the employee is a shareholder

d) The corporation's profitability

46. What tax form does a partnership use to report its income?

- a) Form 1120
- b) Form 1120S
- c) Form 1065
- d) Form 1040

47. What tax form does an S corporation use to report its income?

- a) Form 1120
- b) Form 1120S
- c) Form 1065
- d) Form 1040

48. Which of the following is NOT considered a tax attribute that can be carried forward after a corporate acquisition?

- a) Net operating losses
- b) Capital loss carryovers
- c) Excess charitable contributions
- d) Shareholder's basis in stock

49. Under Section 382, what happens to net operating losses after an ownership change?

- a) They are completely disallowed
- b) They are subject to an annual limitation
- c) They can be used without limitation
- d) They are reduced by 50%

50. Which of the following is NOT a factor in determining if a worker is an employee or independent contractor?

- a) Behavioral control
- b) Financial control
- c) Relationship of the parties
- d) Worker's educational background

51. For Federal Unemployment Tax Act (FUTA) purposes, what is the wage base limit per employee for 2024?

- a) \$7,000
- b) \$9,000
- c) \$11,000
- d) \$15,000

52. What is the deadline for providing W-2 forms to employees?

- a) January 15
- b) January 31
- c) February 15
- d) March 15

53. For employment tax deposits, which of the following employers is considered a monthly depositor?

- a) New employers in their first calendar year
- b) Employers with \$50,000 or less in employment taxes during the lookback period
- c) Employers with more than \$50,000 in employment taxes during the lookback period
- d) Employers that accumulated \$100,000 or more in employment taxes on any day

54. What is the Social Security tax rate for employers in 2024?

- a) 6.2%
- b) 7.65%
- c) 1.45%

d) 12.4%

55. What is the standard mileage rate deduction for business use of a vehicle in 2024?

- a) 56.5 cents per mile
- b) 58.5 cents per mile
- c) 62.5 cents per mile
- d) 65.5 cents per mile

56. Which of the following is a requirement for taking a home office deduction?

- a) The home office must be used exclusively and regularly for business
- b) The home office must be the principal place of business
- c) Both A and B
- d) Neither A nor B

57. What is the annual gift tax exclusion amount per donee for 2024?

- a) \$15,000
- b) \$16,000
- c) \$17,000
- d) \$18,000

58. For estate tax purposes, which of the following assets receives a step-up in basis at death?

- a) IRAs
- b) Stock held in a brokerage account
- c) Property held in an irrevocable trust
- d) Life insurance proceeds

59. Which form is used to report the generation-skipping transfer tax?

- a) Form 706

- b) Form 709
- c) Form 8971
- d) Form 8868

60. What is the lifetime estate and gift tax exemption amount for 2024?

- a) \$11.7 million
- b) \$12.06 million
- c) \$12.92 million
- d) \$13.61 million

61. What is the tax rate on accumulated earnings beyond the reasonable needs of a corporation?

- a) 15%
- b) 20%
- c) 25%
- d) 35%

62. The accumulated earnings tax applies when accumulated earnings exceed:

- a) \$150,000
- b) \$250,000
- c) \$100,000
- d) \$50,000

63. Which deduction for qualifying domestic production activities was repealed by the Tax Cuts and Jobs Act?

- a) Section 179 deduction
- b) Section 168(k) bonus depreciation
- c) Section 199 deduction
- d) Section 199A deduction

64. For passive activity loss limitations, which of the following is NOT considered a passive activity?
- a) Rental real estate activities
 - b) Limited partnership interests
 - c) Material participation in a trade or business
 - d) Investment in a business where the taxpayer does not materially participate
65. What is the threshold for "substantial built-in loss" for partnership property transfers?
- a) More than \$250,000
 - b) More than \$750,000
 - c) More than \$1 million
 - d) More than \$1.5 million
66. When a partner contributes property with a built-in gain to a partnership, who is generally taxed on the built-in gain when the property is later sold?
- a) The partnership
 - b) The contributing partner
 - c) All partners proportionately
 - d) No one is taxed on the built-in gain
67. Which of the following corporate distributions is NOT subject to dividend treatment?
- a) Cash distribution from current earnings and profits
 - b) Cash distribution from accumulated earnings and profits
 - c) Return of capital to the extent of stock basis
 - d) Property distribution with fair market value equal to basis
68. What is the tax treatment of a stock redemption that qualifies as a substantially disproportionate distribution?
- a) Dividend treatment

- b) Capital gain/loss treatment
- c) Ordinary income treatment
- d) Not taxable until the stock basis is recovered

69. For tax purposes, a liquidating corporation recognizes:

- a) Gain but not loss on distributed property
- b) Loss but not gain on distributed property
- c) Both gain and loss on distributed property
- d) Neither gain nor loss on distributed property

70. In corporate liquidations, what is the holding period for property received by the shareholder?

- a) Begins on the date of distribution
- b) Includes the holding period of the stock surrendered
- c) Includes the corporation's holding period of the property
- d) Is always considered long-term

71. What is the threshold amount of gross receipts for a corporation to be subject to the corporate Alternative Minimum Tax for tax years beginning after December 31, 2022?

- a) \$100 million
- b) \$500 million
- c) \$1 billion
- d) \$1.5 billion

72. Which of the following is a factor in determining if a C corporation is a personal holding company?

- a) At least 60% of adjusted ordinary gross income is personal holding company income
- b) At any time during the last half of the tax year, more than 50% of the value of outstanding stock is owned by 5 or fewer individuals
- c) Both A and B
- d) Neither A nor B

73. The personal holding company tax rate is:

- a) 15%
- b) 20%
- c) 25%
- d) 35%

74. Which of the following is NOT considered personal holding company income?

- a) Dividends
- b) Interest
- c) Royalties
- d) Income from active business operations

75. For consolidated return purposes, which of the following is NOT a requirement for a subsidiary to be part of the affiliated group?

- a) The parent must own at least 80% of the voting power of the subsidiary
- b) The parent must own at least 80% of the value of the subsidiary
- c) The subsidiary must be a domestic corporation
- d) The subsidiary must use the same accounting method as the parent

76. In a corporate spin-off under Section 355, which of the following is NOT a requirement?

- a) The distributing corporation must distribute at least 80% of the controlled corporation
- b) Both corporations must be engaged in active businesses
- c) The transaction must have a valid business purpose
- d) The shareholders must pay fair market value for the stock received

77. What is the primary purpose of a Section 338 election?

- a) To treat a stock purchase as an asset purchase

- b) To treat an asset purchase as a stock purchase
- c) To avoid recognizing gain on the sale of a subsidiary
- d) To qualify a transaction as a tax-free reorganization

78. Under Section 267, losses on sales between which of the following are NOT disallowed?

- a) An individual and a corporation in which the individual owns more than 50% of the stock
- b) Two corporations that are members of the same controlled group
- c) An individual and a partnership in which the individual is a partner
- d) An individual and a C corporation in which the individual owns 25% of the stock

79. For purposes of the related party rules under Section 267, what is the family attribution relationship?

- a) Siblings, spouse, ancestors, and lineal descendants
- b) Spouse, ancestors, and lineal descendants only
- c) Siblings, spouse, and children only
- d) Any family members living in the same household

80. Which form is used by a partnership to report a partner's share of income, deductions, credits, etc.?

- a) Schedule K
- b) Schedule K-1
- c) Form 1065, page 1
- d) Form 8825

81. What is the time period for carrying back a C corporation's capital loss?

- a) 2 years
- b) 3 years
- c) 5 years
- d) Capital losses cannot be carried back

82. What is the time period for carrying forward a C corporation's capital loss?
- a) 3 years
 - b) 5 years
 - c) 10 years
 - d) Indefinitely
83. Which of the following is NOT a requirement for a valid S corporation election?
- a) All shareholders must consent to the election
 - b) The corporation must be a domestic corporation
 - c) The corporation must have only one class of stock
 - d) The corporation must have at least two shareholders
84. What is the tax treatment of excess net passive income for an S corporation with accumulated earnings and profits?
- a) It is not taxed at the corporate level
 - b) It is taxed at the corporate level at the highest individual rate
 - c) It is taxed at the corporate level at 21%
 - d) It is taxed at the corporate level at 35%
85. Which of the following would terminate an S corporation election?
- a) Death of a shareholder
 - b) Transfer of shares to another eligible shareholder
 - c) Having a nonresident alien become a shareholder
 - d) Having one class of voting and one class of non-voting common stock
86. For S corporation reporting purposes, which of the following items is separately stated on Schedule K-1?
- a) Rent expense
 - b) Wage expense

- c) Charitable contributions
- d) Office supplies expense

87. Which of the following businesses is exempt from the UNICAP rules regardless of gross receipts?

- a) Manufacturing business
- b) Retail business
- c) Farming business
- d) Wholesale business

88. The installment method of reporting income is NOT available for:

- a) Sale of real property
- b) Sale of personal property
- c) Sale of dealer property
- d) Sale of business equipment

89. Under the installment method, what percentage of each payment is reported as gain?

- a) 100% until basis is recovered
- b) Gross profit percentage
- c) Applicable federal rate
- d) 50% regardless of the gross profit

90. What is the limitation on business interest expense deductions for businesses with average annual gross receipts exceeding \$27 million?

- a) 50% of adjusted taxable income
- b) 30% of adjusted taxable income
- c) 20% of adjusted taxable income
- d) No limitation

91. Which type of entity is exempt from the business interest expense limitation rules?

- a) C corporations
- b) S corporations
- c) Certain real property businesses that elect out
- d) Personal service corporations

92. What is the maximum amount of qualified business income deduction under Section 199A?

- a) 50% of W-2 wages
- b) 25% of W-2 wages plus 2.5% of qualified property
- c) 20% of qualified business income
- d) The lesser of 20% of qualified business income or 20% of taxable income minus net capital gain

93. What is the threshold amount for the phase-in of W-2 wage limitations for the qualified business income deduction for married filing jointly taxpayers in 2024?

- a) \$170,050
- b) \$340,100
- c) \$364,200
- d) \$440,100

94. Which of the following expenditures must be capitalized and amortized over 15 years?

- a) Organization costs
- b) Start-up costs
- c) Section 197 intangibles
- d) Research and experimental expenditures

95. What is the tax treatment of research and experimental expenditures for tax years beginning after December 31, 2021?

- a) Currently deductible under Section 174
- b) Capitalized and amortized over 5 years (15 years if foreign)
- c) Capitalized and amortized over 10 years

d) Capitalized and depreciated as tangible property

96. For the research and development credit, which of the following is NOT a qualified research expense?

a) Wages for employees performing qualified services

b) Supplies used in qualified research

c) 65% of contract research expenses

d) Marketing research expenses

97. What is the treatment of corporate organizational costs?

a) Currently deductible in full

b) Capitalized with no amortization

c) Deductible up to \$5,000 in the first year, with excess amortized over 180 months

d) Amortized over 15 years with no first-year deduction

98. What is the maximum Work Opportunity Tax Credit percentage for qualified veterans?

a) 25%

b) 40%

c) 50%

d) 100%

99. In a partnership, what is a guaranteed payment?

a) A payment to a partner for services rendered that is determined without regard to partnership income

b) A distribution of partnership profits

c) A return of partner's capital

d) A payment to reduce a partner's negative capital account

100. What is the tax treatment of guaranteed payments to partners?

a) Treated as a distribution of partnership profits

- b) Treated as a business expense reducing ordinary income
- c) Treated as self-employment income to the recipient partner and a deduction to the partnership
- d) Treated as a tax-free return of capital

101. What is the general rule for recognition of gain or loss when a partner contributes property to a partnership?

- a) The partner recognizes gain or loss immediately
- b) The partner recognizes gain but not loss
- c) The partner recognizes loss but not gain
- d) The partner does not recognize gain or loss

102. What is the partnership's basis in property contributed by a partner?

- a) The fair market value of the property
- b) The partner's adjusted basis in the property
- c) The greater of the partner's adjusted basis or fair market value
- d) The lesser of the partner's adjusted basis or fair market value

103. A partner's basis in their partnership interest is increased by:

- a) Distributions from the partnership
- b) Partner's share of partnership losses
- c) Partner's share of partnership tax-exempt income
- d) Decrease in partner's share of partnership liabilities

104. A partner's basis in their partnership interest is decreased by:

- a) Additional capital contributions
- b) Increase in partner's share of partnership liabilities
- c) Partner's share of partnership income
- d) Partner's share of nondeductible partnership expenses

105. What is the limit on a partner's deduction for partnership losses?

- a) Partner's adjusted basis in the partnership interest
- b) Partner's capital contribution
- c) Partner's share of partnership liabilities
- d) No limit

106. What is a Section 754 election?

- a) An election to treat a partnership as a corporation
- b) An election to adjust the basis of partnership assets upon the transfer of a partnership interest or distribution of property
- c) An election to use the cash method of accounting
- d) An election to be treated as an S corporation

107. What is the time period for making a Section 754 election?

- a) By the due date of the return for the year of transfer or distribution
- b) By the due date of the return for the year the partnership was formed
- c) Anytime with IRS permission
- d) Within 30 days of the transfer or distribution

108. For a corporation, which of the following expenses is NOT deductible?

- a) Ordinary and necessary business expenses
- b) Federal income taxes paid
- c) State income taxes paid
- d) Property taxes on business property

109. What is the maximum amount of Section 179 expense that can be carried over to future years?

- a) \$25,000
- b) \$100,000

- c) The entire unused amount
- d) Half of the unused amount

110. The built-in gains tax for S corporations applies to:

- a) All gains recognized during the S corporation period
- b) Gains recognized during the recognition period on assets held when the corporation converted from C to S
- c) Gains distributed to shareholders
- d) Gains on assets purchased after the S election

111. What is the length of the recognition period for built-in gains tax?

- a) 5 years
- b) 7 years
- c) 10 years
- d) Indefinite

112. Which of the following is an eligible entity that can elect its classification for federal tax purposes?

- a) A corporation organized under state law
- b) A partnership organized under state law
- c) A single-member LLC
- d) An S corporation

113. What is the default classification for a domestic single-member LLC?

- a) Corporation
- b) Partnership
- c) Disregarded entity
- d) S corporation

114. What is the default classification for a foreign eligible entity where all members have limited liability?

- a) Corporation
- b) Partnership
- c) Disregarded entity
- d) S corporation

115. What form is used to elect entity classification?

- a) Form 8832
- b) Form 2553
- c) Form 8869
- d) Form 8875

116. What is the General Business Credit limitation?

- a) 25% of the taxpayer's net income tax over \$25,000
- b) 25% of the taxpayer's net income tax liability over \$25,000
- c) 75% of the taxpayer's net income tax liability over \$25,000
- d) No limitation

117. For General Business Credit purposes, what is the carryback period?

- a) 1 year
- b) 3 years
- c) 5 years
- d) No carryback allowed

118. For General Business Credit purposes, what is the carryforward period?

- a) 5 years
- b) 10 years

- c) 15 years
- d) 20 years

119. Which of the following is NOT a factor in determining if an activity is engaged in for profit?

- a) The manner in which the taxpayer carries on the activity
- b) The expertise of the taxpayer or advisors
- c) The amount of occasional profits earned
- d) The taxpayer's age

120. What is the presumption period for the hobby loss rules?

- a) Activity shows profit in at least 2 of 5 consecutive years
- b) Activity shows profit in at least 3 of 5 consecutive years
- c) Activity shows profit in at least 2 of 7 consecutive years
- d) Activity shows profit in at least 3 of 7 consecutive years

121. What is the limitation on excess business losses for non-corporate taxpayers in 2024?

- a) \$250,000 (\$500,000 MFJ)
- b) \$270,000 (\$540,000 MFJ)
- c) \$289,000 (\$578,000 MFJ)
- d) \$306,000 (\$612,000 MFJ)

122. What happens to disallowed excess business losses?

- a) They are lost forever
- b) They are treated as net operating losses
- c) They offset capital gains
- d) They can only offset passive income

123. The Technical Termination rule for partnerships was:

- a) Strengthened by the Tax Cuts and Jobs Act
- b) Repealed by the Tax Cuts and Jobs Act
- c) Modified to apply only to large partnerships
- d) Applied to all partnerships regardless of size

124. What is the consequence of a partner's negative capital account?

- a) The partner must immediately contribute funds to eliminate the deficit
- b) The partnership must immediately liquidate
- c) The partner may have a tax liability upon partnership liquidation
- d) The partner loses limited liability protection

125. For a fiscal year C corporation, when is its tax return due?

- a) March 15 following the close of the calendar year
- b) April 15 following the close of the calendar year
- c) The 15th day of the 3rd month following the close of its tax year
- d) The 15th day of the 4th month following the close of its tax year

126. For a partnership, when is its tax return due?

- a) March 15 following the close of the calendar year
- b) April 15 following the close of the calendar year
- c) The 15th day of the 3rd month following the close of its tax year
- d) The 15th day of the 4th month following the close of its tax year

127. What is the maximum extension period for a partnership tax return?

- a) 5 months
- b) 6 months
- c) 7 months
- d) 8 months

128. Which of the following credits is NOT part of the General Business Credit?

- a) Research credit
- b) Low-income housing credit
- c) Foreign tax credit
- d) Disabled access credit

129. What is the tax rate on Personal Holding Company Income?

- a) 15%
- b) 20%
- c) 21%
- d) 35%

130. For tax purposes, which of the following is NOT a factor in determining if a corporation is a professional service corporation?

- a) Substantially all activities involve performing services in health, law, engineering, etc.
- b) Substantially all stock is owned by employees performing services
- c) Substantially all employees are licensed professionals
- d) The corporation uses the accrual method of accounting

131. What is the minimum distribution required to avoid the accumulated earnings tax?

- a) 50% of current earnings and profits
- b) 100% of current earnings and profits
- c) 50% of accumulated earnings and profits
- d) There is no specific distribution requirement

132. What is the base amount of accumulated earnings that are considered reasonable for the needs of most businesses?

- a) \$150,000

- b) \$250,000
- c) \$500,000
- d) \$1,000,000

133. Which of the following is NOT considered a reasonable business need for accumulated earnings tax purposes?

- a) Business expansion plans
- b) Debt retirement
- c) Working capital needs
- d) Investments in marketable securities unrelated to the business

134. Which tax form is used to report the accumulated earnings tax?

- a) Form 1120, Schedule J
- b) Form 1120, Schedule N
- c) Form 8827
- d) Form 5471

135. What is the tax treatment of expenses incurred in a proxy fight?

- a) Currently deductible as ordinary and necessary business expenses
- b) Must be capitalized
- c) 50% deductible and 50% must be capitalized
- d) Deductible only if the proxy fight is successful

136. What is the tax treatment of expenses for removing asbestos from a building?

- a) Currently deductible as repairs
- b) Must be capitalized and depreciated
- c) Currently deductible if certain conditions are met
- d) Never deductible

137. What is the tax treatment of environmental cleanup costs?

- a) Always currently deductible
- b) Always capitalized
- c) Currently deductible if they do not increase the value or prolong the life of the property
- d) 50% currently deductible and 50% capitalized

138. What is the maximum amount of qualified rehabilitation expenditures that can be taken as a credit for certified historic structures?

- a) 10%
- b) 20%
- c) 25%
- d) 30%

139. For tax purposes, what is the general rule for the deductibility of lobbying expenses?

- a) Fully deductible
- b) 50% deductible
- c) Not deductible
- d) Deductible only for small businesses

140. What is the tax treatment of penalties and fines paid to a government for violation of law?

- a) Fully deductible as ordinary and necessary business expenses
- b) 50% deductible
- c) Not deductible
- d) Deductible if related to ordinary business operations

141. In a partnership, a disproportionate distribution of income, gain, loss, deduction, or credit is known as:

- a) Section 704(b) allocation

- b) Special allocation
- c) Guaranteed payment
- d) Constructive distribution

142. A special allocation in a partnership will be respected for tax purposes if it has:

- a) Economic effect
- b) Substantial economic effect
- c) Business purpose
- d) IRS approval

143. For a partnership, the allocation of nonrecourse debt among partners is generally based on:

- a) Capital contributions
- b) Profit-sharing ratios
- c) Loss-sharing ratios
- d) Equal amounts to each partner

144. What happens to a partner's share of recourse liabilities when the partner is released from the debt?

- a) The partner recognizes a capital gain
- b) The partner recognizes ordinary income
- c) The partner's basis is reduced
- d) There is no tax consequence

145. What is a "mixing bowl" transaction in partnership taxation?

- a) A transaction where a partnership mixes different types of assets
- b) A transaction designed to avoid the 7-year rule for contributions and distributions of property
- c) A transaction where partners contribute different types of property
- d) A transaction where partnership assets are revalued

146. In a partnership, what is a "disguised sale"?

- a) A sale of a partnership interest reported as a gift
- b) A contribution of property followed by a distribution of cash or other property
- c) A distribution reported as a guaranteed payment
- d) A loan to a partner reported as a distribution

147. What is the limitation period for a disguised sale transaction?

- a) 1 year
- b) 2 years
- c) 3 years
- d) 7 years

148. What is the tax treatment of a partnership merger?

- a) Always taxable
- b) Always tax-free
- c) Tax-free if certain requirements are met
- d) Taxable only to the terminated partnership

149. In a partnership division, what happens to the EIN of the original partnership?

- a) It is always retained by the resulting partnership with the greatest value
- b) It is always retained by the resulting partnership with the greatest number of partners
- c) It is always retained by one of the resulting partnerships based on specific rules
- d) A new EIN must be obtained for all resulting partnerships

150. For a new corporation, what is the maximum amount of organizational expenditures that can be deducted in the first year?

- a) \$5,000
- b) \$10,000

- c) \$50,000
- d) \$100,000

151. What is the phase-out threshold for the first-year deduction of organizational expenditures?

- a) \$50,000
- b) \$75,000
- c) \$100,000
- d) \$150,000

152. What is the amortization period for the portion of organizational expenditures that cannot be deducted in the first year?

- a) 60 months
- b) 120 months
- c) 180 months
- d) 240 months

153. What is the tax treatment of a corporation's earnings and profits?

- a) Taxed to the corporation when earned
- b) Taxed to shareholders when distributed
- c) Taxed to both the corporation and shareholders
- d) Never taxed

154. Which of the following does NOT reduce a corporation's earnings and profits?

- a) Federal income taxes paid
- b) Nondeductible penalties and fines
- c) Nontaxable income
- d) Tax-exempt interest income

155. What is the basis of property received by a shareholder in a non-liquidating distribution?

- a) The shareholder's basis in the stock
- b) The corporation's basis in the property
- c) The fair market value of the property
- d) Zero

156. What is the tax treatment of a C corporation's charitable contribution that exceeds the 10% limitation?

- a) Lost forever
- b) Can be carried back 3 years
- c) Can be carried forward 5 years
- d) Can be deducted by shareholders

157. What is the maximum percentage of stock that can be redeemed in a substantially disproportionate redemption?

- a) 20% of the corporation's stock
- b) 50% of the corporation's stock
- c) 80% of the corporation's stock
- d) There is no maximum percentage

158. For a redemption to qualify as substantially disproportionate, the shareholder's ownership after the redemption must be less than what percentage of the ownership before the redemption?

- a) 50%
- b) 80%
- c) 90%
- d) 100%

159. What is the tax treatment of boot received in a Type A reorganization?

- a) Always taxable as a dividend
- b) Taxable to the extent of realized gain
- c) Never taxable

d) Always taxable as capital gain

160. In which type of reorganization does one corporation acquire substantially all the assets of another corporation solely in exchange for voting stock?

a) Type A reorganization

b) Type B reorganization

c) Type C reorganization

d) Type D reorganization

161. What is the tax treatment of a worthless security in a corporation?

a) Ordinary loss

b) Short-term capital loss

c) Long-term capital loss

d) No loss allowed

162. What is the minimum stock ownership required for a corporation to file a consolidated return with a subsidiary?

a) More than 50% of voting power and value

b) At least 80% of voting power and value

c) 100% of voting power and value

d) At least 51% of voting power and 80% of value

163. What is the filing deadline for making a consolidated return election?

a) The due date of the return for the first consolidated year

b) The due date of the return for the previous year

c) 30 days after acquiring the subsidiary

d) 90 days after acquiring the subsidiary

164. What is the tax treatment of intercompany dividends in a consolidated group?

- a) Fully taxable
- b) 50% deductible
- c) 65% deductible
- d) 100% deductible

165. What is the tax treatment of intercompany transactions in a consolidated group?

- a) Fully recognized when they occur
- b) Deferred until certain triggering events occur
- c) Permanently excluded from income
- d) Recognized at the election of the parent company

166. What is the LIFO recapture amount when a C corporation converts to an S corporation?

- a) The excess of FIFO basis over LIFO basis of inventory
- b) The excess of LIFO basis over FIFO basis of inventory
- c) The fair market value of inventory minus the LIFO basis
- d) The fair market value of inventory minus the FIFO basis

167. When must the LIFO recapture tax be paid when a C corporation converts to an S corporation?

- a) In the last C corporation year
- b) In the first S corporation year
- c) Over 4 years, beginning with the last C corporation year
- d) Over 4 years, beginning with the first S corporation year

168. What is the tax rate on the LIFO recapture amount?

- a) 15%
- b) 21%
- c) 25%
- d) 35%

169. What is the tax treatment of passive investment income for an S corporation with accumulated earnings and profits?

- a) Not taxed at the corporate level
- b) Taxed at the corporate level if it exceeds 25% of gross receipts
- c) Always taxed at the highest individual rate
- d) Always taxed at the corporate rate

170. What is the tax rate on excess net passive income for an S corporation?

- a) 15%
- b) 21%
- c) 25%
- d) 35%

171. For S corporation shareholder basis purposes, how are non-deductible expenses treated?

- a) They reduce basis
- b) They increase basis
- c) They have no effect on basis
- d) They are deferred until the corporation has sufficient basis

172. In an S corporation, what is the order of adjustments to the Accumulated Adjustments Account (AAA)?

- a) Income, loss, deductions, distributions
- b) Income, deductions, loss, distributions
- c) Income, distributions, loss, deductions
- d) Distributions, income, loss, deductions

173. What happens to the Accumulated Adjustments Account (AAA) when an S corporation election terminates?

- a) It becomes part of accumulated earnings and profits
- b) It is distributed to shareholders
- c) It remains available if the corporation re-elects S status within certain time limits
- d) It is lost forever

174. What is the maximum time period for an S corporation to re-elect S status after a termination?

- a) 1 year
- b) 3 years
- c) 5 years
- d) No time limit

175. What is the tax treatment of health insurance premiums paid by an S corporation for a more than 2% shareholder?

- a) Deductible by the corporation and tax-free to the shareholder
- b) Deductible by the corporation and taxable wages to the shareholder
- c) Not deductible by the corporation and not taxable to the shareholder
- d) Not deductible by the corporation and taxable to the shareholder

176. For estate tax purposes, what is the maximum reduction in value allowed for qualified real property under the special use valuation provisions?

- a) \$750,000
- b) \$1,000,000
- c) \$1,230,000
- d) \$1,450,000

177. What is the maximum credit for state death taxes paid for federal estate tax purposes?

- a) \$10,000
- b) \$25,000
- c) \$50,000

d) No credit is allowed

178. What is the annual exclusion for gifts of present interests to non-citizen spouses in 2024?

- a) \$17,000
- b) \$157,000
- c) \$175,000
- d) \$193,000

179. For estate tax purposes, which of the following assets is NOT included in the gross estate?

- a) Life insurance owned by the decedent on someone else's life
- b) Property in which the decedent had a general power of appointment
- c) Irrevocable trust created by the decedent where income is payable to others for life
- d) Property transferred within 3 years of death where gift tax was paid

180. What is the estate tax deduction for qualified family-owned business interests?

- a) \$1,000,000
- b) \$1,200,000
- c) \$1,350,000
- d) No specific deduction is available

181. What is the maximum Credit for Small Employer Health Insurance Premiums?

- a) 25% of premiums paid
- b) 35% of premiums paid
- c) 50% of premiums paid
- d) 65% of premiums paid

182. What is the maximum Credit for Small Employer Pension Plan Startup Costs?

- a) \$500 per year for 3 years

- b) \$5,000 per year for 3 years
- c) \$5,000 per year for 5 years
- d) \$10,000 per year for 3 years

183. What is the credit percentage for the Rehabilitation Tax Credit for certified historic structures?

- a) 10%
- b) 20%
- c) 25%
- d) 30%

184. What is the basis adjustment for property when the rehabilitation credit is claimed?

- a) No adjustment
- b) Reduced by 50% of the credit
- c) Reduced by 100% of the credit
- d) Increased by the amount of the credit

185. What is the Work Opportunity Tax Credit percentage for qualified summer youth employees?

- a) 25%
- b) 40%
- c) 50%
- d) 100%

186. For tax purposes, which of the following payroll taxes is NOT deductible by the employer?

- a) Federal unemployment tax
- b) Employer's share of Social Security tax
- c) Employer's share of Medicare tax
- d) Income tax withheld from employees' wages

187. What is the threshold for FUTA wage credits for states with outstanding loans?

- a) 0.3%
- b) 0.6%
- c) 0.9%
- d) 1.2%

188. For a domestic corporation, what is the tax treatment of dividends received from a 10%-owned foreign corporation?

- a) 50% dividends received deduction
- b) 65% dividends received deduction
- c) 100% dividends received deduction
- d) No dividends received deduction

189. For a domestic corporation, what is the tax treatment of dividends received from a 10%-owned domestic corporation?

- a) 50% dividends received deduction
- b) 65% dividends received deduction
- c) 80% dividends received deduction
- d) 100% dividends received deduction

190. What is the dividends received deduction for a domestic corporation that owns 80% or more of another domestic corporation?

- a) 50%
- b) 65%
- c) 80%
- d) 100%

191. What is the general rule for deductibility of moving expenses for businesses after the Tax Cuts and Jobs Act?

- a) Not deductible
- b) 50% deductible
- c) Fully deductible if they qualify as ordinary and necessary business expenses
- d) Deductible only for certain qualified businesses

192. What is the depreciation recovery period for qualified improvement property under MACRS?

- a) 5 years
- b) 7 years
- c) 15 years
- d) 39 years

193. What is the minimum tax credit for a corporation's alternative minimum tax paid in previous years?

- a) 50% of the credit
- b) 75% of the credit
- c) 100% of the credit
- d) No minimum tax credit is available

194. Which of the following is NOT a factor in determining whether a worker is an employee or independent contractor?

- a) Behavioral control
- b) Financial control
- c) The relationship between the parties
- d) The worker's educational background

195. What is the standard federal income tax withholding rate for supplemental wage payments up to \$1 million?

- a) 15%
- b) 22%
- c) 25%

d) 28%

196. What is the standard federal income tax withholding rate for supplemental wage payments exceeding \$1 million?

a) 22%

b) 28%

c) 35%

d) 37%

197. For employment tax purposes, what is the definition of a statutory employee?

a) An employee who works full-time

b) An employee who is specifically classified as an employee by statute

c) An employee who is paid on a salary basis

d) An employee who works in multiple states

198. Which of the following is NOT a statutory employee for employment tax purposes?

a) Full-time life insurance salesperson

b) Home worker performing work according to specifications

c) Full-time traveling salesperson

d) Corporate officer

199. What is the deadline for depositing withheld income taxes and FICA taxes for monthly depositors?

a) The 15th day of the following month

b) The 20th day of the following month

c) 3 business days after the payroll date

d) 7 business days after the payroll date

200. What is the threshold for becoming a semi-weekly depositor for employment taxes?

- a) \$50,000 or more in employment taxes during the lookback period
- b) \$75,000 or more in employment taxes during the lookback period
- c) \$100,000 or more in employment taxes during the lookback period
- d) \$150,000 or more in employment taxes during the lookback period

201. What is the "100% penalty" in employment tax cases?

- a) A penalty equal to 100% of the unpaid tax
- b) A penalty equal to 100% of the employee's wages
- c) A penalty equal to 100% of the employer's business income
- d) A penalty equal to 100% of the employer's gross receipts

202. Who can be held personally liable for the trust fund recovery penalty?

- a) Only the corporate president
- b) Only corporate officers
- c) Any person responsible for collecting or paying the taxes who willfully fails to do so
- d) Only the corporation's tax preparer

203. What is the statute of limitations for the IRS to assess the trust fund recovery penalty?

- a) 3 years from the date the employment tax return was filed
- b) 3 years from the date the employment tax was due
- c) 10 years from the date the assessment was made
- d) No statute of limitations applies

204. For fringe benefits purposes, what is the definition of a "highly compensated employee"?

- a) An employee earning more than \$130,000
- b) An employee earning more than \$150,000
- c) An employee earning more than \$135,000
- d) An employee earning more than \$145,000

205. What is the general rule for taxation of de minimis fringe benefits?

- a) Always taxable
- b) Always excludable from income
- c) Excludable if the value is so small that accounting for it would be unreasonable
- d) 50% taxable

206. What is the limit on the exclusion for qualified transportation fringe benefits in 2024?

- a) \$260 per month for combined transit passes and vanpooling
- b) \$300 per month for combined transit passes and vanpooling
- c) \$280 per month for parking
- d) \$320 per month for parking

207. What is the tax treatment of employer-provided cell phones after 2009?

- a) Always taxable as a fringe benefit
- b) Excludable if provided primarily for noncompensatory business reasons
- c) 50% taxable regardless of business use
- d) Taxable unless the employee reimburses the employer for personal use

208. What is the limit on the exclusion for qualified adoption assistance in 2024?

- a) \$15,000
- b) \$15,950
- c) \$16,800
- d) \$17,500

209. What is the exclusion amount for employer-provided educational assistance?

- a) \$5,250
- b) \$5,500

- c) \$6,000
- d) \$6,500

210. What is the limit on the exclusion for dependent care assistance?

- a) \$5,000
- b) \$5,250
- c) \$5,500
- d) \$6,000

211. What is the maximum contribution to a Health Savings Account (HSA) for an individual with family coverage in 2024?

- a) \$7,300
- b) \$7,500
- c) \$7,750
- d) \$8,050

212. What is the minimum annual deductible required for a high deductible health plan (HDHP) for family coverage in 2024?

- a) \$2,500
- b) \$2,800
- c) \$3,000
- d) \$3,100

213. What is the minimum age for the catch-up contribution to a Health Savings Account?

- a) 50
- b) 55
- c) 59½
- d) 62

214. What is the amount of the catch-up contribution to a Health Savings Account in 2024?
- a) \$1,000
 - b) \$1,200
 - c) \$1,500
 - d) \$2,000
215. What is the penalty for excess contributions to a Health Savings Account?
- a) 6% of the excess amount
 - b) 10% of the excess amount
 - c) 20% of the excess amount
 - d) 50% of the excess amount
216. What is the tax rate on a C corporation's accumulated taxable income under the accumulated earnings tax?
- a) 15%
 - b) 20%
 - c) 21%
 - d) 35%
217. What is the maximum amount of earnings a C corporation can accumulate for the reasonable needs of the business without being subject to the accumulated earnings tax?
- a) \$150,000
 - b) \$250,000
 - c) \$500,000
 - d) \$1,000,000
218. Which of the following is NOT evidence of a plan to avoid income tax when determining if the accumulated earnings tax applies?
- a) Loans to shareholders
 - b) Investments unrelated to the business

- c) Reasonable compensation to employee-shareholders
- d) Failure to pay dividends despite substantial earnings

219. Which of the following is NOT considered a reasonable business need for accumulated earnings tax purposes?

- a) Plant expansion
- b) Debt retirement
- c) Product liability claims
- d) Loans to shareholders

220. What is the penalty tax rate for personal holding companies?

- a) 15%
- b) 20%
- c) 21%
- d) 35%

221. Which of the following is NOT generally considered personal holding company income?

- a) Dividends
- b) Interest
- c) Royalties
- d) Income from active business operations

222. What percentage of adjusted ordinary gross income must be personal holding company income for a corporation to be classified as a personal holding company?

- a) At least 50%
- b) At least 60%
- c) At least 75%
- d) At least 90%

223. What stock ownership requirement must be met for a corporation to be classified as a personal holding company?

- a) More than 50% of value owned by 5 or fewer individuals
- b) More than 60% of value owned by 5 or fewer individuals
- c) More than 75% of value owned by 5 or fewer individuals
- d) More than 80% of value owned by 5 or fewer individuals

224. What is a "controlled group of corporations" for tax purposes?

- a) A parent-subsidiary controlled group
- b) A brother-sister controlled group
- c) A combined group
- d) All of the above

225. For a brother-sister controlled group, what is the minimum percentage of common ownership required?

- a) 50%
- b) 80%
- c) 51%
- d) 75%

226. For a parent-subsidiary controlled group, what is the minimum percentage of stock ownership required?

- a) 50%
- b) 80%
- c) 51%
- d) 75%

227. What is the maximum lifetime gift tax exclusion for gifts to non-citizen spouses?

- a) There is no exclusion

- b) The annual exclusion only
- c) The same as for citizen spouses
- d) Half the amount for citizen spouses

228. What is the estate tax marital deduction for property passing to a non-citizen spouse?

- a) Unlimited
- b) Limited to the applicable exclusion amount
- c) Limited to \$500,000
- d) No deduction is allowed unless the property passes to a qualified domestic trust

229. What is the annual GST tax exclusion for 2024?

- a) \$12,000
- b) \$15,000
- c) \$17,000
- d) \$18,000

230. For gift tax purposes, what is the annual exclusion for gifts to skip persons that qualify for the GST tax exclusion?

- a) \$15,000
- b) \$16,000
- c) \$17,000
- d) \$18,000

231. What is the gift tax annual exclusion for gifts to individuals that are not U.S. citizens or residents?

- a) None
- b) \$5,000
- c) \$10,000
- d) The same as for U.S. citizens or residents

232. What is the federal estate tax rate for 2024?

- a) 35%
- b) 40%
- c) 45%
- d) 50%

233. What is the maximum credit against U.S. estate tax for foreign death taxes paid?

- a) \$13,000
- b) Credit for taxes paid to the country where the property is located
- c) Credit for taxes paid to the country where the decedent was a citizen
- d) No credit is allowed

234. What form is used to report a gift or generation-skipping transfer?

- a) Form 706
- b) Form 709
- c) Form 8971
- d) Form 843

235. What is the deadline for filing Form 709 (U.S. Gift Tax Return)?

- a) The due date of the individual's income tax return for the year
- b) April 15 of the year following the gift
- c) June 30 of the year following the gift
- d) 9 months after the date of the gift

236. What is the maximum extension period for filing Form 709?

- a) 3 months
- b) 6 months
- c) 9 months

d) 12 months

237. What is the deadline for filing Form 706 (U.S. Estate Tax Return)?

- a) 6 months after the date of death
- b) 9 months after the date of death
- c) 12 months after the date of death
- d) April 15 of the year following the date of death

238. What is the maximum extension period for filing Form 706?

- a) 3 months
- b) 6 months
- c) 9 months
- d) 12 months

239. What is the maximum period for paying estate tax under the installment provisions for closely held businesses?

- a) 5 years
- b) 10 years
- c) 14 years
- d) 15 years

240. What is the maximum interest rate for the 2% portion of estate tax deferred under the installment provisions for closely held businesses?

- a) 2% on the first \$1,000,000
- b) 2% on the first \$1,250,000
- c) 2% on the first \$1,500,000
- d) 2% on the first \$1,750,000

241. What percentage of a closely held business must the value of the business interest be of the adjusted gross estate to qualify for installment payment of estate tax?

- a) 20%
- b) 25%
- c) 35%
- d) 50%

242. For fiduciary income tax purposes, what is the threshold amount for estates and trusts to be subject to the Net Investment Income Tax in 2024?

- a) \$12,500
- b) \$13,700
- c) \$14,450
- d) \$15,100

243. What is the tax rate for the Net Investment Income Tax?

- a) 3.0%
- b) 3.8%
- c) 4.5%
- d) 5.0%

244. For fiduciary income tax purposes, what is the highest income tax bracket for estates and trusts in 2024?

- a) 35%
- b) 37%
- c) 39.6%
- d) 40%

245. What is the maximum amount of income that can be distributed to a beneficiary from a trust or estate before a fiduciary income tax return (Form 1041) is required?

- a) \$300
- b) \$600
- c) \$900
- d) \$1,200

246. What is the due date for a calendar year fiduciary income tax return (Form 1041)?

- a) March 15
- b) April 15
- c) May 15
- d) June 15

247. What is the maximum extension period for filing a fiduciary income tax return (Form 1041)?

- a) 3 months
- b) 5 months
- c) 6 months
- d) 9 months

248. For fiduciary income tax purposes, which of the following is NOT a separate deduction on Form 1041?

- a) Personal exemption
- b) Charitable contributions
- c) Income distribution deduction
- d) Medical expenses

249. For fiduciary income tax purposes, what is the treatment of capital gains that are allocated to corpus under the governing instrument?

- a) Always taxed to the fiduciary
- b) Always taxed to the beneficiary
- c) Taxed according to the distribution provisions of the governing instrument

d) Tax-exempt

250. The at-risk rules limit losses from an activity to the amount:

- a) Of the taxpayer's adjusted basis in the activity
- b) For which the taxpayer is considered at risk
- c) Of the taxpayer's modified adjusted gross income
- d) Of the taxpayer's passive income from other activities

Part 3 (Representation, Practices and Procedures)

1. Which form is used to authorize a representative to represent a taxpayer before the IRS?
 - a) Form 2848
 - b) Form 8821
 - c) Form 8453
 - d) Form 1098

2. What credentials must an individual have to represent a taxpayer before the IRS?
 - a) A CPA license or law degree
 - b) A PTIN only
 - c) Enrolled Agent, attorney, or CPA credentials
 - d) Any accounting degree

3. Which of the following individuals has unlimited representation rights before the IRS?
 - a) An unenrolled tax return preparer
 - b) A bookkeeper
 - c) An Enrolled Agent
 - d) A relative of the taxpayer

4. Under Circular 230, which of the following is a prohibited act for a tax practitioner?
 - a) Charging contingent fees for preparing original tax returns
 - b) Charging hourly fees based on professional credentials
 - c) Charging flat fees for tax preparation
 - d) Charging fees based on the complexity of the return

5. Which of the following statements about the Annual Filing Season Program is correct?
 - a) It grants unlimited representation rights before the IRS

- b) It allows limited representation rights for returns the preparer prepared
 - c) It exempts preparers from PTIN requirements
 - d) It is mandatory for all tax return preparers
6. What information is NOT required on Form 2848, Power of Attorney and Declaration of Representative?
- a) Taxpayer's name and address
 - b) Taxpayer's social security number or EIN
 - c) Specific tax matters for which representation is authorized
 - d) Taxpayer's annual income
7. How long is a properly executed Form 2848 valid?
- a) Until the taxpayer revokes it
 - b) For one year from the date of signature
 - c) Until the IRS revokes it
 - d) For three years from the date of signature
8. Under Circular 230, practitioners MUST:
- a) Advise clients to claim all possible deductions regardless of legitimacy
 - b) Exercise due diligence in preparing tax returns
 - c) Guarantee specific outcomes to clients
 - d) Always challenge IRS determinations
9. What is the primary purpose of IRS Circular 230?
- a) To establish electronic filing procedures
 - b) To regulate tax return preparers without professional credentials
 - c) To govern practice before the Internal Revenue Service
 - d) To create audit procedures for the IRS

10. Which of the following would NOT be considered "practice before the IRS" under Circular 230?
- a) Representing a client at an IRS Appeals conference
 - b) Preparing tax returns for a client
 - c) Filing a power of attorney with the IRS
 - d) Providing tax advice on a specific transaction
11. Which of the following statements about contingent fees is correct under Circular 230?
- a) They are permitted for all tax services
 - b) They are permitted for obtaining a private letter ruling
 - c) They are permitted for representing a client in an examination of an original return
 - d) They are permitted for representing a client in a claim for refund
12. What is the time limit for a practitioner to submit records to the IRS after a proper request?
- a) 30 days
 - b) 20 days
 - c) 15 days
 - d) 10 days
13. Under Circular 230, a practitioner who is disbarred from practice before the IRS:
- a) May continue to prepare tax returns
 - b) May not prepare tax returns
 - c) May continue to represent clients at Appeals conferences
 - d) May continue to represent clients at Collection hearings
14. Which of the following is a proper basis for disciplinary action against a practitioner under Circular 230?
- a) Charging higher than average fees

- b) Willfully understating a client's tax liability
- c) Failing to accept all potential clients
- d) Representing clients in multiple states

15. What is the retention period for a practitioner's copies of tax returns prepared for clients?

- a) 1 year
- b) 3 years
- c) 7 years
- d) There is no specific requirement in Circular 230

16. When can the IRS immediately suspend a practitioner from practice?

- a) When a tax return contains mathematical errors
- b) When the practitioner is convicted of a felony
- c) When the practitioner fails to file their own tax return
- d) When the practitioner disagrees with an IRS determination

17. Which of the following best describes the relationship between the Office of Professional Responsibility (OPR) and the IRS Return Preparer Office (RPO)?

- a) OPR oversees RPO
- b) RPO oversees OPR
- c) OPR administers Circular 230 while RPO administers the PTIN program
- d) They are the same office with different names

18. Which of the following penalties applies to tax return preparers for willful or reckless conduct?

- a) Section 6694(a)
- b) Section 6694(b)
- c) Section 6695
- d) Section 6701

19. What is the penalty for a tax return preparer who fails to furnish a copy of a tax return to a taxpayer?
- a) \$25 per occurrence with a maximum of \$10,000 per calendar year
 - b) \$50 per occurrence with a maximum of \$25,000 per calendar year
 - c) \$100 per occurrence with no annual maximum
 - d) \$500 per occurrence with a maximum of \$50,000 per calendar year
20. What is the required standard for a tax position to avoid preparer penalties under IRC Section 6694(a)?
- a) Substantial authority
 - b) Reasonable basis
 - c) More likely than not
 - d) Realistic possibility of success
21. What type of signature is required from a taxpayer for an e-filed return?
- a) Physical signature on Form 8453
 - b) Physical signature on Form 8879
 - c) Electronic signature via PIN
 - d) No signature is required for e-filed returns
22. Which of the following constitutes "willful preparation of a false return" by a preparer?
- a) Making a mathematical error
 - b) Knowingly omitting income that the client reported
 - c) Misinterpreting a complex tax law
 - d) Relying on client-provided information that turns out to be incorrect
23. Which IRS function is responsible for determining whether certain practitioner conduct violates Circular 230?
- a) Office of Professional Responsibility

- b) Return Preparer Office
- c) Taxpayer Advocate Service
- d) Office of Appeals

24. Under IRC Section 6695, what is the penalty for a preparer who fails to sign a tax return?

- a) \$25 per return
- b) \$50 per return
- c) \$100 per return
- d) \$500 per return

25. What is the time period during which the IRS can assess preparer penalties?

- a) 1 year from the date the return was filed
- b) 3 years from the date the return was due or filed, whichever is later
- c) 5 years from the date the return was filed
- d) 10 years from the date the return was filed

26. Which form is used to request a taxpayer's transcript from the IRS?

- a) Form 4506
- b) Form 4506-T
- c) Form 8821
- d) Form 9465

27. An IRS examination can be conducted as:

- a) Field, office, or correspondence examination
- b) Field or correspondence examination only
- c) Office or correspondence examination only
- d) Field or office examination only

28. How long does a taxpayer have to respond to an IRS notice of deficiency?

- a) 30 days
- b) 60 days
- c) 90 days
- d) 120 days

29. Which court has jurisdiction over tax disputes where the taxpayer wishes to pay the tax first and then sue for a refund?

- a) U.S. Tax Court
- b) U.S. District Court
- c) U.S. Court of Federal Claims
- d) Both B and C

30. Which IRS division handles collection of unpaid taxes?

- a) Small Business/Self-Employed Division
- b) Wage and Investment Division
- c) Large Business and International Division
- d) Tax-Exempt and Government Entities Division

31. What is the statute of limitations for the IRS to assess additional tax?

- a) Generally 3 years from the filing date
- b) Generally 6 years from the filing date
- c) Generally 10 years from the filing date
- d) No statute of limitations applies

32. In which situation is the statute of limitations for assessment extended to 6 years?

- a) When a taxpayer omits items of gross income that exceed 25% of the gross income reported
- b) When a taxpayer files an amended return
- c) When a taxpayer requests an extension to file

d) When a taxpayer uses the standard deduction

33. What is the statute of limitations for the IRS to collect tax after assessment?

a) 3 years

b) 6 years

c) 10 years

d) No statute of limitations applies

34. Which of the following extends the collection statute of limitations?

a) Filing for bankruptcy

b) Living outside the United States

c) Filing an amended return

d) Requesting a payment plan

35. When a taxpayer files a request for a Collection Due Process (CDP) hearing, what happens to IRS collection actions?

a) They are suspended until the hearing is concluded

b) They continue without interruption

c) They are permanently terminated

d) They are only suspended for tax periods not included in the hearing

36. Which form is used to request an installment agreement with the IRS?

a) Form 433-A

b) Form 9465

c) Form 656

d) Form 12153

37. What does an Offer in Compromise submitted on the basis of doubt as to collectibility address?

- a) The taxpayer's inability to pay the full tax liability
- b) The taxpayer's disagreement with the tax assessment
- c) The IRS's inability to collect the tax within the statute of limitations
- d) Exceptional circumstances creating economic hardship

38. Which form is used to submit an Offer in Compromise?

- a) Form 9465
- b) Form 656
- c) Form 12153
- d) Form 433-D

39. Which of the following is NOT a collection alternative offered by the IRS?

- a) Currently Not Collectible status
- b) Installment Agreement
- c) Offer in Compromise
- d) Tax forgiveness after 5 years

40. Which of the following is required when submitting an Offer in Compromise based on doubt as to collectibility?

- a) Form 656 only
- b) Form 656 and a non-refundable application fee
- c) Form 656, a non-refundable application fee, and Form 433-A or 433-B
- d) Form 656 and Form 433-A or 433-B only

41. What is the purpose of IRS Form 433-A?

- a) To request an installment agreement
- b) To provide detailed financial information for collection purposes
- c) To appeal an IRS decision

d) To request a lien release

42. What action can the IRS take without a court order?

- a) Seize a principal residence
- b) File a Notice of Federal Tax Lien
- c) Garnish 100% of wages
- d) Levy an IRA without notice

43. What is the time period a taxpayer has to request a Collection Due Process hearing after receiving a Notice of Federal Tax Lien filing?

- a) 10 days
- b) 30 days
- c) 60 days
- d) 90 days

44. Which of the following levies requires a 30-day notice before implementation?

- a) Bank account levy
- b) Levy on state tax refund
- c) Jeopardy levy
- d) Disqualified employment tax levy

45. Under what circumstances might the IRS consider an installment agreement request as "streamlined"?

- a) When the tax liability is over \$50,000
- b) When the tax liability is \$50,000 or less and can be paid within 72 months
- c) When the taxpayer is self-employed
- d) When the taxpayer has defaulted on a previous installment agreement

46. What is the requirement for a taxpayer to maintain an installment agreement with the IRS?

- a) Pay existing liabilities only
- b) File all required returns and pay all taxes when due
- c) Submit updated financial information every year
- d) Provide collateral for the unpaid balance

47. Under which condition is a taxpayer NOT eligible for an Offer in Compromise?

- a) The taxpayer is in an open bankruptcy proceeding
- b) The taxpayer has filed all required tax returns
- c) The taxpayer is making payments under an installment agreement
- d) The taxpayer has submitted a reasonable offer based on ability to pay

48. Which form is used to appeal a denied Offer in Compromise?

- a) Form 12153
- b) Form 9423
- c) Form 843
- d) Form 13711

49. Which of the following statements about the Automated Collection System (ACS) is correct?

- a) It handles only business tax collection cases
- b) It handles mainly high-dollar complex cases
- c) It handles routine collection cases via telephone and mail
- d) It only pursues criminal prosecution cases

50. What is the IRS Fresh Start initiative designed to do?

- a) Eliminate all tax debts for first-time offenders
- b) Make it easier for taxpayers to get out of tax debt
- c) Provide tax credits for new businesses
- d) Forgive penalties for all taxpayers

51. What is the purpose of the IRS National Taxpayer Advocate Service?
- a) To represent the IRS in court
 - b) To help taxpayers resolve problems with the IRS
 - c) To prosecute tax evaders
 - d) To train revenue officers
52. Which situation would qualify for assistance from the Taxpayer Advocate Service?
- a) A taxpayer who disagrees with the tax law
 - b) A taxpayer facing significant hardship due to IRS procedures
 - c) A taxpayer who wants to avoid paying legally owed taxes
 - d) A taxpayer who filed a return late without reasonable cause
53. Which form is used to request assistance from the Taxpayer Advocate Service?
- a) Form 911
 - b) Form 843
 - c) Form 12153
 - d) Form 8857
54. What is the Practitioner Priority Service?
- a) A special IRS hotline for tax professionals
 - b) An expedited audit process for practitioners
 - c) A court system for practitioner complaints
 - d) A practice monitoring system for enrolled agents
55. Who can request a Collection Appeals Program (CAP) hearing?
- a) Only taxpayers with over \$25,000 in tax debt
 - b) Only businesses with employees
 - c) Any taxpayer or authorized representative
 - d) Only taxpayers who have previously had a CDP hearing

56. Which of the following cannot be appealed through the Collection Appeals Program?
- a) Rejection of an installment agreement
 - b) Filing of a Notice of Federal Tax Lien
 - c) The underlying tax liability
 - d) Termination of an installment agreement
57. What is the primary difference between a Collection Due Process (CDP) hearing and a Collection Appeals Program (CAP) hearing?
- a) CDP hearings allow for judicial review, while CAP hearings do not
 - b) CAP hearings allow for judicial review, while CDP hearings do not
 - c) CDP hearings are only available to businesses
 - d) CAP hearings are only available to individuals
58. In an examination, what rights does a taxpayer have regarding the location of the interview?
- a) The taxpayer must come to the IRS office
 - b) The IRS must come to the taxpayer's home
 - c) The taxpayer can request a reasonable and convenient location
 - d) Interviews can only be conducted at the place where the taxpayer's tax records are kept
59. What is the Examination Appeals process designed to do?
- a) Provide a court hearing for tax disputes
 - b) Offer an independent review of examination determinations
 - c) Create a binding arbitration process
 - d) Allow taxpayers to negotiate penalties only
60. Which statement about the IRS Appeals process is correct?
- a) Appeals officers work under the direction of examination agents
 - b) Appeals conferences are adversarial proceedings
 - c) Appeals provides an independent review of IRS determinations
 - d) Appeals decisions cannot be further contested

61. What form is used to protest an examination determination to Appeals?
- a) Form 12203
 - b) Form 843
 - c) Form 9423
 - d) There is no specific form; a written protest is required
62. When is a formal written protest required for an Appeals conference?
- a) For all examination determinations
 - b) When the total amount in dispute exceeds \$25,000
 - c) Only for business returns
 - d) When the taxpayer disagrees with penalties
63. What is the Small Case Request procedure for Appeals?
- a) For cases involving \$25,000 or less per tax period
 - b) For cases involving individual taxpayers only
 - c) For cases involving only one tax year
 - d) For cases involving only penalties
64. What is the Fast Track Settlement program?
- a) An expedited Tax Court process
 - b) A mediation process that brings together the taxpayer, Appeals, and Examination
 - c) An accelerated collection process
 - d) A streamlined offer in compromise process
65. What are the primary benefits of Fast Track Settlement?
- a) Guaranteed acceptance of taxpayer's position
 - b) Elimination of all penalties
 - c) Expedited case resolution and preservation of Appeal rights
 - d) Automatic acceptance into installment agreement

66. What is the Rapid Appeals Process?

- a) A streamlined collection procedure
- b) An expedited appeals procedure for complex cases
- c) A mandatory mediation process
- d) A direct line to a revenue officer

67. What is a statutory notice of deficiency?

- a) A letter informing the taxpayer of their right to appeal to Tax Court
- b) A notice that a levy is about to occur
- c) A letter informing the taxpayer their return is being audited
- d) A notice that a tax lien has been filed

68. What is the time limit for filing a petition with the Tax Court after receiving a notice of deficiency?

- a) 30 days
- b) 60 days
- c) 90 days (150 days if addressed to a person outside the US)
- d) 6 months

69. What is the Tax Court's small tax case procedure?

- a) For cases involving \$50,000 or less
- b) For simple procedural issues only
- c) For individual taxpayers only
- d) For cases with only one tax year in dispute

70. Which of the following is a characteristic of the Tax Court's small tax case (S case) procedure?

- a) Decisions can be appealed to a higher court
- b) Formal rules of evidence apply
- c) Cases are heard by special trial judges
- d) Representation by an attorney is required

71. When must a taxpayer pay the disputed tax before filing a lawsuit?

- a) When filing in Tax Court
- b) When filing in U.S. District Court or Court of Federal Claims
- c) Only when filing a small case in Tax Court
- d) Only when the amount in dispute exceeds \$10,000

72. What is the time limit for filing a refund suit in District Court or Court of Federal Claims after the IRS denies a claim for refund?

- a) 30 days
- b) 90 days
- c) 2 years
- d) 3 years

73. What is the burden of proof in tax cases?

- a) Always on the IRS
- b) Always on the taxpayer
- c) Generally on the taxpayer, but can shift to the IRS in certain circumstances
- d) Determined by the judge in each case

74. When might the burden of proof shift to the IRS in a court proceeding?

- a) When the taxpayer's net worth exceeds certain limits
- b) When the taxpayer presents credible evidence and meets other requirements
- c) When the case involves a deduction rather than income
- d) When the taxpayer is representing themselves

75. What is the main purpose of the IRS Voluntary Disclosure Practice?

- a) To allow taxpayers to avoid all penalties
- b) To grant immunity from criminal prosecution
- c) To help taxpayers avoid audits
- d) To allow taxpayers to potentially avoid criminal prosecution by making timely and complete disclosures

76. What are the penalties for failing to file an FBAR (FinCEN Form 114) for foreign financial accounts?

- a) \$10,000 per violation for non-willful violations
- b) \$100 per account per year with a maximum of \$10,000
- c) \$10,000 total regardless of the number of accounts
- d) No penalty for first-time violations

77. What is the willful FBAR penalty?

- a) \$10,000 per violation
- b) \$100,000 maximum
- c) Greater of \$100,000 or 50% of the account balance per violation
- d) 5% of the account balance

78. Which of the following taxpayers is required to file an FBAR?

- a) A taxpayer with a foreign account with a balance of \$5,000
- b) A taxpayer with signature authority over foreign accounts with aggregate balances exceeding \$10,000
- c) Any taxpayer who receives income from a foreign source
- d) A taxpayer who owns foreign real estate worth more than \$50,000

79. What is the Streamlined Filing Compliance Procedure for offshore accounts?

- a) A program that eliminates all penalties for unreported foreign accounts
- b) A program that offers reduced penalties for taxpayers who meet certain criteria
- c) A program that allows reporting of foreign accounts without filing past tax returns
- d) A mandatory reporting requirement for all foreign accounts

80. Under the Streamlined Foreign Offshore Procedures, what penalty is imposed?

- a) 5% penalty on highest aggregate balance
- b) 27.5% penalty on highest aggregate balance
- c) 50% penalty on highest aggregate balance
- d) No penalty

81. What is the deadline for filing Form 1040 for a calendar year taxpayer?
- a) March 15
 - b) April 15
 - c) June 15
 - d) October 15
82. What is the deadline for filing Form 1120 for a calendar year C corporation?
- a) March 15
 - b) April 15
 - c) June 15
 - d) September 15
83. What is the deadline for filing Form 1065 for a calendar year partnership?
- a) March 15
 - b) April 15
 - c) June 15
 - d) September 15
84. What is the deadline for filing Form 1120S for a calendar year S corporation?
- a) March 15
 - b) April 15
 - c) June 15
 - d) September 15
85. What is the maximum extension period allowed for Form 1040?
- a) 4 months
 - b) 5 months
 - c) 6 months
 - d) 7 months

86. What is the maximum extension period allowed for Form 1120 (C corporation)?

- a) 4 months
- b) 5 months
- c) 6 months
- d) 7 months

87. What is the maximum extension period allowed for Form 1065 (Partnership)?

- a) 4 months
- b) 5 months
- c) 6 months
- d) 7 months

88. What is the maximum extension period allowed for Form 1120S (S corporation)?

- a) 4 months
- b) 5 months
- c) 6 months
- d) 7 months

89. What is the failure-to-file penalty for individual income tax returns?

- a) 0.5% per month up to 25% of the unpaid tax
- b) 5% per month up to 25% of the unpaid tax
- c) 1% per month up to 25% of the unpaid tax
- d) 10% per month up to 50% of the unpaid tax

90. What is the failure-to-pay penalty for individual income tax returns?

- a) 0.5% per month up to 25% of the unpaid tax
- b) 5% per month up to 25% of the unpaid tax
- c) 1% per month up to 25% of the unpaid tax
- d) 10% per month up to 50% of the unpaid tax

91. What is the combined maximum failure-to-file and failure-to-pay penalty?
- a) 25% of the unpaid tax
 - b) 47.5% of the unpaid tax
 - c) 50% of the unpaid tax
 - d) 75% of the unpaid tax
92. What is the penalty for filing a frivolous tax return?
- a) \$500
 - b) \$1,000
 - c) \$5,000
 - d) \$10,000
93. What is the penalty for filing a frivolous tax submission other than a return?
- a) \$500
 - b) \$1,000
 - c) \$5,000
 - d) \$10,000
94. What is the penalty for willful failure to file a return, supply information, or pay tax?
- a) Misdemeanor with maximum \$25,000 fine and/or 1 year imprisonment
 - b) Felony with maximum \$100,000 fine and/or 5 years imprisonment
 - c) Felony with maximum \$250,000 fine and/or 5 years imprisonment
 - d) Misdemeanor with maximum \$10,000 fine and/or 6 months imprisonment
95. What is the accuracy-related penalty for negligence or disregard of rules and regulations?
- a) 10% of the underpayment
 - b) 20% of the underpayment
 - c) 40% of the underpayment
 - d) 75% of the underpayment

96. What is the fraud penalty under Section 6663?
- a) 20% of the underpayment
 - b) 40% of the underpayment
 - c) 50% of the underpayment
 - d) 75% of the underpayment
97. What penalty applies to a substantial understatement of income tax?
- a) 10% of the underpayment
 - b) 20% of the underpayment
 - c) 40% of the underpayment
 - d) 75% of the underpayment
98. For individual taxpayers, what constitutes a "substantial understatement" of income tax?
- a) The greater of 10% of the tax required to be shown or \$5,000
 - b) The greater of 10% of the tax required to be shown or \$1,000
 - c) The lesser of 10% of the tax required to be shown or \$5,000
 - d) The lesser of 10% of the tax required to be shown or \$1,000
99. For corporate taxpayers, what constitutes a "substantial understatement" of income tax?
- a) The lesser of 10% of the tax required to be shown (or if greater, \$10,000) or \$10 million
 - b) The greater of 10% of the tax required to be shown (or if greater, \$10,000) or \$10 million
 - c) The lesser of 10% of the tax required to be shown (or if greater, \$10,000) or \$1 million
 - d) The greater of 10% of the tax required to be shown (or if greater, \$10,000) or \$1 million
100. What is a reasonable cause defense to penalties?
- a) Ignorance of the law
 - b) Reliance on incorrect advice from a friend
 - c) Exercise of ordinary business care and prudence
 - d) Inability to pay the tax owed

101. What is the most common interest rate charged by the IRS on underpayments?

- a) Federal short-term rate plus 2%
- b) Federal short-term rate plus 3%
- c) Federal short-term rate plus 5%
- d) Federal short-term rate plus 7%

102. For large corporate underpayments, what is the interest rate?

- a) Federal short-term rate plus 3%
- b) Federal short-term rate plus 5%
- c) Federal short-term rate plus 6%
- d) Federal short-term rate plus 8%

103. How often is the IRS interest rate adjusted?

- a) Monthly
- b) Quarterly
- c) Semi-annually
- d) Annually

104. Interest on underpayments of tax begins to accrue:

- a) On the due date of the return
- b) On the date the return is filed
- c) On the date of the notice and demand
- d) 30 days after the notice and demand

105. Which penalty is abated under the IRS First-Time Penalty Abatement program?

- a) Fraud penalty
- b) Failure-to-file penalty
- c) Accuracy-related penalty
- d) Criminal penalties

106. What is a requirement for First-Time Penalty Abatement?
- a) The taxpayer must have filed all required returns or filed extensions
 - b) The taxpayer must have been audited previously
 - c) The taxpayer must have a balance due of less than \$1,000
 - d) The taxpayer must be a first-time filer
107. How does a taxpayer request First-Time Penalty Abatement?
- a) By filing Form 843
 - b) By calling the IRS or writing a letter
 - c) By filing an amended return
 - d) By filing Form 12153
108. What is the reasonable cause exception for penalties?
- a) A statutory exception that applies only to certain penalties
 - b) An automatic exception for first-time offenders
 - c) An exception available only for late filing penalties
 - d) An administrative exception that applies to most penalties
109. Which of the following is generally considered reasonable cause for penalty abatement?
- a) Forgetfulness
 - b) Death or serious illness of the taxpayer or immediate family
 - c) Inability to pay the tax
 - d) Lack of knowledge of tax laws
110. What is the penalty for a tax return preparer who endorses or negotiates a client's refund check?
- a) \$100 per check
 - b) \$500 per check
 - c) \$1,000 per check
 - d) \$2,500 per check

111. What is the penalty for a tax return preparer who fails to furnish a copy of the return to the taxpayer?

- a) \$25 per failure
- b) \$50 per failure
- c) \$100 per failure
- d) \$500 per failure

112. What is the penalty for a tax return preparer who fails to sign a return?

- a) \$25 per failure
- b) \$50 per failure
- c) \$100 per failure
- d) \$500 per failure

113. What is the maximum penalty for a tax return preparer for understating a taxpayer's liability due to unreasonable positions?

- a) \$1,000 per return
- b) Greater of \$1,000 or 50% of the income derived
- c) Greater of \$1,000 or 100% of the income derived
- d) \$10,000 per return

114. What is the maximum penalty for a tax return preparer for understating a taxpayer's liability due to willful or reckless conduct?

- a) \$1,000 per return
- b) \$5,000 per return
- c) Greater of \$5,000 or 50% of the income derived
- d) Greater of \$5,000 or 75% of the income derived

115. What is the penalty for tax return preparers who fail to exercise due diligence in determining EITC eligibility?

- a) \$100 per failure
- b) \$500 per failure
- c) \$1,000 per failure

d) \$5,000 per failure

116. Which of the following would be considered a frivolous position?

- a) Claiming the home office deduction with proper substantiation
- b) Arguing that filing a tax return violates the Fifth Amendment
- c) Using an alternative method for calculating depreciation
- d) Claiming a reasonable business expense deduction

117. What is the penalty for promoting abusive tax shelters?

- a) \$1,000 per activity
- b) The greater of \$1,000 or 100% of gross income derived
- c) The lesser of \$1,000 or 50% of gross income derived
- d) \$10,000 per occurrence

118. What is the penalty for aiding and abetting an understatement of tax liability?

- a) \$1,000 per taxpayer
- b) \$10,000 per taxpayer
- c) \$100,000 per taxpayer
- d) \$1,000 per return

119. What is the penalty for unauthorized disclosure or use of tax return information by a preparer?

- a) \$250 per disclosure with a maximum of \$10,000
- b) \$1,000 per disclosure with a maximum of \$50,000
- c) \$1,000 per disclosure with no maximum
- d) \$5,000 per disclosure with a maximum of \$100,000

120. What is the "Kovel privilege" in tax practice?

- a) The extension of attorney-client privilege to accountants working under an attorney's direction
- b) The right of a taxpayer to confidentiality with an enrolled agent

- c) The protection of tax advice given by any tax professional
- d) The right of an attorney to refuse to provide client information to the IRS

121. Which of the following communications is NOT protected by practitioner-client privilege under IRC Section 7525?

- a) Tax advice between an enrolled agent and client
- b) Tax advice related to a criminal tax matter
- c) Tax advice related to an audit
- d) Tax advice related to a tax return

122. What is the requirement for maintaining client confidentiality under Circular 230?

- a) Practitioners cannot disclose client information without consent
- b) Practitioners can disclose information if required by law
- c) Practitioners can disclose information if necessary to defend against accusations
- d) All of the above

123. What is written advice concerning a Federal tax matter subject to under Circular 230?

- a) Covered opinions requirements
- b) Due diligence requirements only
- c) Requirements to have substantial authority
- d) Best practices for tax advisors

124. Under Circular 230, when providing written advice concerning a Federal tax matter, a practitioner must:

- a) Base the advice on reasonable factual and legal assumptions
- b) Consider all relevant facts the practitioner knows or should know
- c) Use reasonable efforts to identify and ascertain the relevant facts
- d) All of the above

125. When must a practitioner inform a client of potential penalties related to a tax position?

- a) Only for positions on original tax returns
- b) Only for positions with a reasonable basis
- c) For all positions where penalties may apply
- d) Only for positions with no substantial authority

126. What is required for filing a completed power of attorney?

- a) Original signatures only
- b) Original or copy of original signatures
- c) Original, copy, or faxed signatures
- d) Electronic signatures are not permitted

127. Who can represent a taxpayer in a Collection Due Process hearing?

- a) Any person with a PTIN
- b) Only attorneys, CPAs, and Enrolled Agents
- c) Anyone with written authorization
- d) Only the taxpayer in person

128. What is the significance of the Centralized Authorization File (CAF) number?

- a) It is the practitioner's license number
- b) It identifies the representative in the IRS computer system
- c) It shows the level of authority granted to the representative
- d) It indicates how many clients the practitioner represents

129. Under Circular 230, what is the requirement for returning client records?

- a) Records must be returned within 30 days of request
- b) Records must be returned promptly upon request
- c) Records must be returned only after all fees are paid

d) Records can be withheld if related to current representation

130. What is the "actual knowledge" standard for practitioners regarding client information?

- a) The practitioner is responsible only for information actually known
- b) The practitioner must verify all client-provided information
- c) The practitioner is not responsible for any client-provided information
- d) The practitioner must audit all client financial records

131. When should a practitioner withdraw from representing a client under Circular 230?

- a) When the client refuses to provide required information
- b) When the practitioner knows the client has provided false information
- c) When the representation would result in violation of Circular 230
- d) All of the above

132. Under Circular 230, what are the required records a practitioner must maintain?

- a) Copies of all tax returns prepared
- b) All reports and papers related to representation
- c) Records of client interactions and advice given
- d) Circular 230 does not specify record retention requirements

133. How long should a practitioner retain records of client representation?

- a) 3 years from the date of submission to the IRS
- b) 5 years from the date of submission to the IRS
- c) 7 years from the date of submission to the IRS
- d) 10 years from the date of submission to the IRS

134. What is a limited practice representative?

- a) A person with full representation rights before the IRS
- b) A person who can represent taxpayers only for returns they prepared
- c) A person who can represent taxpayers in specific limited matters
- d) A person who can only provide tax advice but not representation

135. Under Circular 230, an unenrolled preparer who has completed the Annual Filing Season Program can represent clients:

- a) In all matters before the IRS
- b) Only for returns they prepared and only before examination, not appeals
- c) Only for returns they prepared and in all administrative proceedings
- d) Only for collection matters

136. Which of the following statements about advertising by practitioners is correct under Circular 230?

- a) Practitioners cannot advertise at all
- b) Practitioners can advertise but cannot make false, fraudulent, or coercive statements
- c) Practitioners can only advertise in professional journals
- d) Practitioners can advertise only if they include disclaimers

137. Under Circular 230, what is the rule regarding solicitation of business?

- a) All forms of solicitation are prohibited
- b) Direct, in-person solicitation is prohibited in most circumstances
- c) Only written solicitation is permitted
- d) Solicitation is permitted without restriction

138. What is the requirement for fee arrangements under Circular 230?

- a) All fees must be contingent on specific outcomes
- b) Fees must be communicated to clients in writing
- c) Fees must be approved by the IRS Office of Professional Responsibility
- d) Fees cannot exceed industry averages

139. What is the rule regarding performance of services outside the practitioner's level of competence?

- a) Practitioners may perform services if they disclose their lack of competence
- b) Practitioners may not perform services unless competent to do so
- c) Practitioners may perform services if supervised by a competent practitioner
- d) Practitioners may perform services if they obtain additional education

140. Which of the following is NOT permitted under a valid contingent fee arrangement per Circular 230?

- a) Representing a client in an examination of an original return
- b) Representing a client in a claim for refund
- c) Representing a client in a case originating from an examination of an amended return
- d) Obtaining a private letter ruling

141. Under Circular 230, what is required when a practitioner knows a client has not complied with the tax laws?

- a) The practitioner must immediately withdraw from representation
- b) The practitioner must advise the client of the noncompliance and consequences
- c) The practitioner must report the client to the IRS
- d) The practitioner must amend prior returns without client consent

142. Which of the following procedures can be used to obtain IRS guidance on a specific transaction?

- a) Revenue Procedure
- b) Private Letter Ruling
- c) Revenue Ruling
- d) Technical Advice Memorandum issued to the public

143. What form is used to request a private letter ruling?
- a) Form 2848
 - b) Form 8821
 - c) No specific form; requires a written request
 - d) Form 843
144. What is the general time frame for receiving a response to a private letter ruling request?
- a) 30 days
 - b) 60 days
 - c) 90 days
 - d) 6 months or more
145. Which publication provides guidance on submitting a private letter ruling request?
- a) Publication 1
 - b) Publication 947
 - c) Revenue Procedure updated annually (e.g., Rev. Proc. 2024-1)
 - d) Circular 230
146. What is the purpose of a determination letter from the IRS?
- a) To provide an interpretation of the tax laws
 - b) To apply the tax laws to a specific set of facts
 - c) To grant extensions for filing returns
 - d) To authorize representation before the IRS
147. What is a Technical Advice Memorandum (TAM)?
- a) Advice from Chief Counsel on technical or procedural questions
 - b) Advice from a tax practitioner to a client
 - c) A determination by an IRS examiner
 - d) A published guidance document available to all taxpayers
148. Can a taxpayer rely on a private letter ruling issued to another taxpayer?
- a) Yes, if the facts are similar

- b) Yes, if it involves the same tax issue
- c) No, private letter rulings apply only to the requesting taxpayer
- d) Yes, if the ruling is favorable to the taxpayer

149. What is a closing agreement with the IRS?

- a) A final determination of tax liability that cannot be reopened
- b) A settlement agreement during an examination
- c) An agreement to close an audit without changes
- d) A payment plan for tax liabilities

150. Which form is used to request a closing agreement?

- a) Form 866
- b) Form 906
- c) There is no specific form
- d) Form 12153

151. What is the purpose of IRS Form 911?

- a) To request audit reconsideration
- b) To request assistance from the Taxpayer Advocate Service
- c) To report suspected tax fraud
- d) To request a determination letter

152. What is an IRS Audit Reconsideration?

- a) A formal appeal of an audit determination
- b) A request to reopen a closed audit based on new information
- c) A request for a second opinion on an open audit
- d) A petition to the Tax Court

153. What are the requirements for requesting audit reconsideration?

- a) The assessment must still be unpaid or unresolved
- b) The taxpayer must provide new information not previously considered
- c) The taxpayer must have a good reason for not providing the information during the audit
- d) All of the above

154. What is the significance of the Repetitive Audit Procedures under IRC Section 7605(b)?

- a) They allow the IRS to audit the same items repeatedly
- b) They restrict the IRS from auditing the same return more than once
- c) They require the IRS to audit certain items every year
- d) They permit the IRS to audit only one tax year at a time

155. What is an IRS Compliance Check?

- a) A formal examination of a taxpayer's return
- b) A review to determine if a taxpayer is meeting tax responsibilities that is not an audit
- c) A criminal investigation of a taxpayer
- d) A review of a tax preparer's procedures

156. What is the IRS National Research Program (NRP)?

- a) A program to educate taxpayers about compliance
- b) A program to select returns for criminal investigation
- c) A program to measure taxpayer compliance with the tax laws
- d) A program to train new IRS employees

157. What are IRS Discriminant Function System (DIF) scores used for?

- a) To identify potentially fraudulent returns
- b) To determine which taxpayers to audit
- c) To calculate penalty amounts
- d) To assess a taxpayer's ability to pay

158. Under what program can taxpayers with tax debts request that the IRS reconsider a lien notice?

- a) Lien Subordination
- b) Lien Discharge
- c) Lien Withdrawal
- d) All of the above

159. What is the purpose of a Subordination of Federal Tax Lien?

- a) To remove the lien from specific property
- b) To allow another creditor's lien to take priority
- c) To extend the collection statute
- d) To release the lien entirely

160. What is the purpose of a Certificate of Discharge of Federal Tax Lien?

- a) To remove the lien from specific property
- b) To allow another creditor's lien to take priority
- c) To extend the collection statute
- d) To release the lien entirely

161. What is the purpose of a Withdrawal of Notice of Federal Tax Lien?

- a) To remove the lien from specific property
- b) To allow another creditor's lien to take priority
- c) To withdraw the public notice while the lien remains in effect
- d) To release the lien entirely

162. When can a taxpayer request a withdrawal of notice of federal tax lien?

- a) Only after the tax is paid in full
- b) Only with an approved installment agreement

- c) Under certain circumstances including installment agreements for small liabilities
- d) Only when the lien was filed in error

163. What form is used to request a Certificate of Discharge of Federal Tax Lien?

- a) Form 12277
- b) Form 14135
- c) Form 9465
- d) Form 668-Z

164. What is the primary purpose of the Trust Fund Recovery Penalty?

- a) To penalize businesses for operating at a loss
- b) To hold responsible persons liable for unpaid employment taxes
- c) To collect penalties for late filing of trust tax returns
- d) To recover taxes from bankruptcy proceedings

165. Who can be considered a "responsible person" for the Trust Fund Recovery Penalty?

- a) Only the business owner
- b) Only corporate officers
- c) Anyone with authority over financial affairs of the business
- d) Only the person who signs the employment tax returns

166. What taxes does the Trust Fund Recovery Penalty apply to?

- a) All unpaid business taxes
- b) Only income taxes
- c) Only the employee's share of withheld income and FICA taxes
- d) All employment taxes including the employer's share of FICA

167. What is the time limit for the IRS to assess the Trust Fund Recovery Penalty?

- a) 3 years from the date the employment tax return was filed
- b) 3 years from the date the employment tax was due
- c) 10 years from the date the employment tax return was filed
- d) No time limit applies

168. What form is used by the IRS to propose the Trust Fund Recovery Penalty?

- a) Form 4180
- b) Letter 1153
- c) Form 941-X
- d) CP 504

169. What is the time period for responding to a proposed Trust Fund Recovery Penalty assessment?

- a) 10 days
- b) 30 days
- c) 60 days
- d) 90 days

170. What document allows a taxpayer to authorize another person to discuss a specific tax return with the IRS?

- a) Form 2848
- b) Form 8821
- c) Third Party Designee section on the tax return
- d) Form 911

171. What is the duration of the authorization provided by the Third Party Designee section on a tax return?

- a) Until revoked by the taxpayer
- b) Until the due date of the next year's return
- c) 1 year from the return processing date

d) 90 days from the return processing date

172. What information can a Third Party Designee receive from the IRS?

- a) All taxpayer information without restriction
- b) Only information related to the specific return
- c) All information except regarding collection actions
- d) Only information that appears on the return

173. What is the main difference between Form 2848 and Form 8821?

- a) Form 2848 grants representation rights, Form 8821 grants information access only
- b) Form 2848 is for individuals, Form 8821 is for businesses
- c) Form 2848 is permanent, Form 8821 is temporary
- d) Form 2848 is for tax matters, Form 8821 is for non-tax matters

174. What is IRS e-Services?

- a) A suite of web-based tools for tax professionals
- b) Electronic filing software
- c) A service that allows electronic payment of taxes
- d) A taxpayer self-service website

175. Which of the following services is available through the IRS e-Services platform?

- a) Transcript Delivery System
- b) Electronic Account Resolution
- c) Electronic filing of all IRS forms
- d) Direct deposit verification

176. What is required to become an authorized e-file provider?

- a) Only a PTIN
- b) Submission of an application and passing a suitability check

- c) Certification by a professional organization
- d) Purchase of approved software

177. What is the function of the Centralized Authorization File (CAF) unit?

- a) To process powers of attorney and tax information authorizations
- b) To maintain taxpayer account records
- c) To process electronic filing applications
- d) To issue PTINs to tax preparers

178. What is the purpose of the Preparer Tax Identification Number (PTIN)?

- a) To replace the preparer's Social Security Number on tax returns
- b) To identify those authorized to practice before the IRS
- c) To identify non-credentialed preparers
- d) To track continuing education requirements

179. When must a tax return preparer obtain a PTIN?

- a) Only if preparing more than 10 returns per year
- b) Only if compensated for preparing returns
- c) Before preparing any returns for compensation
- d) Only if representing clients before the IRS

180. What is the renewal period for PTINs?

- a) Every 2 years
- b) Every 3 years
- c) Every 5 years
- d) Annually

181. Who is required to file Form 8886, Reportable Transaction Disclosure Statement?

- a) Only taxpayers participating in listed transactions
- b) Only tax preparers who recommend reportable transactions
- c) Any taxpayer participating in a reportable transaction
- d) Only corporations participating in reportable transactions

182. What is a "listed transaction" for tax reporting purposes?

- a) Any transaction that must be reported to the IRS
- b) A transaction specifically identified by the IRS as a tax avoidance transaction
- c) A transaction listed on Schedule D
- d) A transaction involving listed securities

183. What is the penalty for failure to disclose a listed transaction?

- a) \$10,000 for individuals, \$50,000 for entities
- b) \$5,000 for individuals, \$10,000 for entities
- c) \$100,000 for individuals, \$200,000 for entities
- d) \$1,000 per transaction

184. What is Form 8918 used for?

- a) To disclose participation in a reportable transaction
- b) To report material advisors to a reportable transaction
- c) To register as a tax shelter promoter
- d) To report suspected tax fraud

185. What is a "material advisor" for reportable transaction purposes?

- a) Any person who provides tax advice on a reportable transaction
- b) A person who provides material aid on a reportable transaction and earns fees above threshold amounts
- c) Only licensed tax professionals who advise on reportable transactions

d) Only attorneys who structure reportable transactions

186. What is the penalty for a material advisor who fails to maintain a list of advisees for a reportable transaction?

a) \$10,000 per day of failure

b) \$10,000 per advisee

c) \$50,000 per transaction

d) \$100,000 total

187. What is the primary purpose of the IRS Whistleblower Program?

a) To report unauthorized tax practitioners

b) To report violations of Circular 230

c) To report tax fraud or underpayment

d) To report improper IRS employee conduct

188. What form is used to submit information to the IRS Whistleblower Office?

a) Form 211

b) Form 3949-A

c) Form 14242

d) Form 912

189. What is the potential award for information provided under the IRS Whistleblower Program if the case involves more than \$2 million?

a) 10% of collected proceeds

b) 15-30% of collected proceeds

c) 50% of collected proceeds

d) A fixed amount determined by the IRS

190. What is the purpose of Form 3949-A?

- a) To report suspected tax fraud
- b) To submit a whistleblower claim for award
- c) To report violations of Circular 230
- d) To report improper conduct by IRS employees

191. What is the purpose of Form 14157?

- a) To report violations of Circular 230
- b) To report improper conduct by IRS employees
- c) To report suspected tax fraud
- d) To report misconduct by a tax return preparer

192. What is the purpose of Form 14242?

- a) To report violations of Circular 230
- b) To report improper conduct by IRS employees
- c) To report suspected tax fraud
- d) To report tax return preparer misconduct

193. What is the Taxpayer Bill of Rights?

- a) A list of 10 fundamental rights taxpayers have when dealing with the IRS
- b) A set of laws restricting IRS enforcement actions
- c) A list of taxpayer responsibilities
- d) A collection of tax court decisions on taxpayer rights

194. Which right in the Taxpayer Bill of Rights addresses a taxpayer's ability to challenge the IRS's position?

- a) The Right to Be Informed
- b) The Right to Challenge the IRS's Position and Be Heard
- c) The Right to Appeal an IRS Decision in an Independent Forum

d) The Right to a Fair and Just Tax System

195. Which statement about IRS Collections is correct?

- a) The IRS must obtain a court order before filing a federal tax lien
- b) The IRS must wait 30 days after sending a notice before levying assets
- c) The IRS can seize a personal residence without court approval
- d) The IRS can contact a taxpayer's employer without notice to the taxpayer

196. What is the primary responsibility of the Taxpayer Advocate Service?

- a) To represent taxpayers in Tax Court
- b) To help taxpayers resolve problems with the IRS
- c) To enforce taxpayer compliance
- d) To create tax legislation

197. What is an Identity Protection Personal Identification Number (IP PIN)?

- a) A six-digit number assigned to taxpayers to prevent fraudulent returns
- b) A number used to access IRS online services
- c) A number assigned to tax practitioners
- d) A number used for electronic filing

198. What is the significance of the Taxpayer First Act of 2019?

- a) It established the Office of Professional Responsibility
- b) It expanded taxpayer rights and improved IRS customer service
- c) It created the position of Taxpayer Advocate
- d) It established electronic filing requirements

199. What is the role of the Office of Appeals in the IRS?

- a) To represent the IRS in court proceedings
- b) To provide an independent review of IRS determinations
- c) To create tax regulations

d) To investigate tax fraud

200. What is the difference between an Innocent Spouse Claim and Separation of Liability?

a) Innocent Spouse provides relief for all understated tax; Separation of Liability divides the understated tax

b) Innocent Spouse applies to married taxpayers; Separation of Liability applies to divorced taxpayers

c) Innocent Spouse applies to fraud cases; Separation of Liability applies to negligence cases

d) Innocent Spouse requires proof the requesting spouse didn't know about the understatement; Separation of Liability doesn't require this proof

201. What form is used to request Innocent Spouse Relief?

a) Form 8857

b) Form 12153

c) Form 843

d) Form 911

202. What is the time limit for requesting Innocent Spouse Relief?

a) 2 years from the first collection activity

b) 3 years from filing the return

c) No specific time limit for traditional innocent spouse relief

d) 1 year from discovery of the understated tax

203. Under what circumstances might a taxpayer qualify for Equitable Relief under innocent spouse provisions?

a) Only when there is an understatement of tax

b) Only when the couple is divorced

c) When it would be unfair to hold the taxpayer liable for underpayment or understatement

d) Only when the other spouse committed fraud

204. What happens to collection activities when a request for Innocent Spouse Relief is pending?
- a) All collection activities continue without interruption
 - b) Collection activities on the requesting spouse are suspended
 - c) Collection activities on both spouses are suspended
 - d) Only certain collection activities are suspended
205. What is the significance of a "seriously delinquent tax debt" under passport certification rules?
- a) It triggers immediate levy actions
 - b) It may result in passport denial, revocation, or limitation
 - c) It requires mandatory criminal prosecution
 - d) It triggers automatic bankruptcy proceedings
206. What generally constitutes a "seriously delinquent tax debt" for passport certification purposes?
- a) Any tax debt over \$25,000
 - b) A tax debt exceeding \$55,000, including penalties and interest, for which the IRS has filed a lien or levy
 - c) Any tax debt for which a lien has been filed
 - d) A tax debt that has been outstanding for more than 3 years
207. What collection action is NOT suspended when a taxpayer submits an initial offer in compromise?
- a) Issuance of new liens
 - b) Filing of new levies
 - c) Accrual of penalties and interest
 - d) Execution of existing levies
208. What happens if a taxpayer defaults on an accepted offer in compromise?
- a) The IRS automatically files criminal charges

- b) The original tax debt is reinstated, minus any payments made
- c) The taxpayer is banned from future offers
- d) The taxpayer must pay a default penalty of 20%

209. What is the significance of the Collection Financial Standards used by the IRS?

- a) They establish tax rates for different income levels
- b) They determine allowable living expenses for collection purposes
- c) They set interest rates for underpayments
- d) They establish penalty amounts for various violations

210. Which of the following cannot be discharged in a Chapter 7 bankruptcy?

- a) Income taxes for returns due more than 3 years ago, filed more than 2 years ago
- b) Trust fund recovery penalties
- c) Income taxes for returns filed within 2 years of bankruptcy
- d) Property taxes more than 1 year old

211. How does bankruptcy affect the collection statute of limitations?

- a) It does not affect the statute of limitations
- b) It extends the statute by the time the automatic stay was in effect, plus 6 months
- c) It resets the 10-year period
- d) It terminates the statute of limitations

212. What is the significance of the automatic stay in bankruptcy for IRS collection actions?

- a) It prevents the IRS from filing tax liens only
- b) It prevents the IRS from levying only
- c) It generally prohibits IRS collection actions
- d) It has no effect on IRS collection actions

213. What form is used to appeal a rejected innocent spouse claim?

- a) Form 8857
- b) Form 12203
- c) Form 9423
- d) Form 12509

214. What is the tax preparer's responsibility regarding the Earned Income Tax Credit due diligence requirements?

- a) To verify only the taxpayer's identity
- b) To maintain records of information used to determine eligibility
- c) To contact the IRS to confirm eligibility
- d) To visit the taxpayer's home to verify qualifying children

215. What form documents a tax preparer's EITC due diligence?

- a) Form 8867
- b) Form 8862
- c) Form 8863
- d) Form 8879

216. What is the penalty for failure to comply with EITC due diligence requirements?

- a) \$100 per return
- b) \$500 per return
- c) \$1,000 per return
- d) \$5,000 per return

217. What is the general rule for electronic filing by tax return preparers?

- a) All preparers must file all returns electronically
- b) Preparers who reasonably expect to file 11 or more returns must file electronically

- c) Only enrolled preparers must file electronically
- d) Electronic filing is always optional for preparers

218. What is the required language for a Circular 230 disclosure in written tax advice?

- a) There is no longer a specific required language
- b) "The advice in this document is not intended to be used for penalty protection"
- c) "This advice may not be used to avoid tax penalties"
- d) "The taxpayer may not rely on this advice for penalty protection"

219. What is a "covered opinion" under current Circular 230 regulations?

- a) Any written tax advice
- b) Only formal opinion letters
- c) The concept was eliminated in 2014 revisions to Circular 230
- d) Only advice on listed transactions

220. What is the return preparer's responsibility regarding client records?

- a) To maintain copies indefinitely
- b) To maintain copies for the period of limitations on assessment
- c) To maintain copies for at least 3 years
- d) To return all original records to the client

221. What is the significance of the IRS e-file Signature Authorization (Form 8879)?

- a) It authorizes the preparer to represent the taxpayer
- b) It authorizes the preparer to file electronically and use a PIN as the signature
- c) It authorizes the IRS to discuss the return with the preparer
- d) It authorizes direct deposit of refunds

222. What is required on an electronically filed return to identify the preparer?

- a) Only the preparer's name
- b) Preparer's PTIN, name, and signature
- c) Preparer's PTIN, name, and electronic signature
- d) Preparer's Social Security Number

223. What is the significance of the Electronic Return Originator (ERO) designation?

- a) It allows a preparer to file returns electronically
- b) It allows a preparer to represent clients before the IRS
- c) It exempts a preparer from due diligence requirements
- d) It qualifies a preparer for reduced penalties

224. What is the requirement for obtaining client signatures for e-filed returns?

- a) Original signatures on Form 8879 must be obtained before filing
- b) Electronic signatures are not permitted
- c) Either original or electronic signatures may be used
- d) No signature is required for e-filed returns

225. What is the requirement for retaining Form 8879?

- a) It must be mailed to the IRS
- b) It must be retained by the preparer for 3 years
- c) It must be retained by the client for 3 years
- d) It must be uploaded with the electronic return

226. When is a tax return preparer exempt from the e-file requirement?

- a) When the preparer files fewer than 11 returns
- b) When the preparer works for a non-profit organization
- c) When the preparer is over age 65
- d) When the preparer has been preparing returns for more than 10 years

227. What is the typical duration of a CAF number assignment?

- a) One year
- b) Three years
- c) Permanent until revoked
- d) Five years

228. How may a taxpayer revoke a power of attorney?

- a) Only by filing a new Form 2848
- b) By written statement, by filing a new Form 2848, or by filing a revocation
- c) Only by filing Form 8821
- d) Only through a written request to the IRS Office of Professional Responsibility

229. What form is used to authorize a paid preparer to discuss a tax return with the IRS?

- a) Form 2848
- b) Form 8821
- c) Form 8879
- d) Third Party Designee section on the tax return

230. What is the authorized e-file provider's responsibility regarding security of taxpayer information?

- a) To implement safeguards that will protect taxpayer information
- b) To share information only with software providers
- c) To share information only with other authorized providers
- d) To transmit information only during business hours

231. What is the maximum period the IRS will generally agree to for an installment agreement without financial verification?

- a) 36 months

- b) 60 months
- c) 72 months
- d) 84 months

232. What is the typical processing time for an offer in compromise?

- a) 1-2 months
- b) 3-6 months
- c) 6-12 months
- d) 12-24 months

233. What happens if a taxpayer fails to comply with tax filing and payment requirements during the 5-year period following an accepted offer in compromise?

- a) Nothing; the offer remains in effect
- b) A penalty is assessed
- c) The original tax liability is reinstated
- d) The taxpayer is barred from future offers

234. What is the Streamlined Installment Agreement dollar threshold for individual taxpayers?

- a) \$25,000 or less
- b) \$50,000 or less
- c) \$100,000 or less
- d) \$10,000 or less

235. What are the payment methods available for an offer in compromise?

- a) Lump sum only
- b) Periodic payment only
- c) Lump sum cash or periodic payment
- d) Credit card only

236. What is the non-refundable payment required with a lump sum offer in compromise?
- a) 10% of the offer amount
 - b) 20% of the offer amount
 - c) 20% of the tax liability
 - d) \$186 application fee only
237. What is the threshold for mandatory electronic federal tax deposits for employment taxes?
- a) \$2,500 in employment taxes
 - b) \$10,000 in employment taxes
 - c) \$50,000 in employment taxes
 - d) \$100,000 in employment taxes
238. What is the significance of a Form 668-D?
- a) Certificate of Release of Federal Tax Lien
 - b) Notice of Levy
 - c) Release of Levy
 - d) Certificate of Discharge of Property from Federal Tax Lien
239. What is the significance of a Form 668-A?
- a) Certificate of Release of Federal Tax Lien
 - b) Notice of Levy
 - c) Release of Levy
 - d) Certificate of Discharge of Property from Federal Tax Lien
240. What is the significance of a Form 668-Z?
- a) Certificate of Release of Federal Tax Lien
 - b) Notice of Levy

- c) Release of Levy
- d) Certificate of Discharge of Property from Federal Tax Lien

241. When must the IRS release a levy?

- a) Upon request of the taxpayer
- b) When the liability is fully paid or becomes unenforceable
- c) 30 days after the levy was issued
- d) When the taxpayer requests an installment agreement

242. What is the significance of a Collection Appeal Program (CAP) determination?

- a) It can be appealed to Tax Court
- b) It is binding on the IRS but not on the taxpayer
- c) It is binding on both the IRS and the taxpayer
- d) It is binding on the taxpayer but not on the IRS

243. What types of installment agreements require a full financial statement?

- a) All installment agreements
- b) Only agreements for business taxpayers
- c) Agreements for liabilities over \$50,000 or that cannot be paid within 72 months
- d) Only agreements for liabilities over \$100,000

244. What is a jeopardy assessment?

- a) An assessment made in cases where collection is in jeopardy
- b) An assessment made during a Tax Court case
- c) An assessment made after the statute of limitations
- d) An assessment made during bankruptcy

245. What is a termination assessment?

- a) An assessment made at the termination of a business
- b) An assessment made for the current tax year or prior year
- c) An assessment made at the conclusion of an audit
- d) An assessment made after a successful appeal

246. What requirements must be met to qualify for currently not collectible status?

- a) The taxpayer must demonstrate inability to pay
- b) The taxpayer must be unemployed
- c) The tax must be less than \$25,000
- d) The tax must be over 5 years old

247. What effect does currently not collectible status have on the collection statute of limitations?

- a) It suspends the statute of limitations
- b) It has no effect on the statute of limitations
- c) It extends the statute by the time in CNC status
- d) It resets the 10-year period

248. What is the Substitute for Return program?

- a) A program that allows taxpayers to file simplified returns
- b) A program where the IRS prepares returns for non-filers
- c) A program that substitutes corrected returns for original returns
- d) A program that allows preparers to file returns for clients

249. What rights does a taxpayer have when the IRS prepares a Substitute for Return?

- a) The right to challenge the return only in Tax Court
- b) The right to prepare and file their own return even after assessment
- c) No rights once the SFR is processed
- d) The right to have a representative prepare the SFR

250. What is the significance of IRC Section 6325(e), the "Certificate of Subordination of Federal Tax Lien"?

- a) It completely releases the federal tax lien
- b) It subordinates the federal tax lien to certain other creditors
- c) It discharges certain property from the lien
- d) It withdraws the public notice of lien

Answer Keys with Detailed Explanations

Part 1 (Individuals)

1. b) Single; required to file because his gross income exceeds the filing threshold

John's gross income (\$25,000 wages + \$2,000 IRA distribution = \$27,000) exceeds the filing threshold for a single individual under age 65, which is \$14,600 for 2025.

2. b) Barbara, who is unmarried and maintains a home for herself and her 19-year-old son who is a full-time student

To qualify for Head of Household, a taxpayer must be unmarried, pay more than half the cost of keeping up a home, and have a qualifying person live with them for more than half the year. Barbara's 19-year-old full-time student son qualifies. Albert has no qualifying person, Carlos is still married, and Diana's boyfriend's child is not her qualifying child or relative.

3. d) May file as either Married Filing Jointly or Married Filing Separately

Filing status is determined on the last day of the tax year. Since Mark and Julie were legally married on December 30, 2025, they are considered married for the entire tax year and may choose either Married Filing Jointly or Married Filing Separately.

4. c) Unemployment compensation

Unemployment compensation is unearned income. Earned income includes wages, salaries, tips, and net earnings from self-employment - all forms of income from actively working.

5. b) The entire \$75,000 is tax-exempt

Life insurance proceeds paid because of the death of the insured are generally tax-exempt to the beneficiary under Section 101(a) of the Internal Revenue Code.

6. a) \$0

Since Sally has owned and lived in her primary residence for more than 2 years out of the 5-year period ending on the date of sale, she qualifies for the Section 121 exclusion. As a single taxpayer, she can exclude up to \$250,000 of gain. Her gain is \$250,000 (\$450,000 - \$200,000), which is fully excludable.

7. c) Income level

The qualifying child test includes relationship, age, residency, and support tests, but not an income test. Income level is relevant for qualifying relatives, not qualifying children.

8. c) Jane, because 2025 is an odd-numbered year

When parents are divorced, the divorce decree can specify which parent claims the dependency exemption. Since their decree specifies Jane claims the child in odd-numbered years (2025 is odd), Jane is entitled to claim the child as a dependent, regardless of where the child lived.

9. b) Student loan interest

Student loan interest is an above-the-line deduction (adjustment to income) that can be taken whether or not a taxpayer itemizes. Mortgage interest, property taxes, and charitable contributions are all itemized deductions.

10. c) As an adjustment to income on Schedule 1

Self-employed health insurance is deducted as an adjustment to income on Schedule 1, not as a business expense on Schedule C or as an itemized medical expense.

11. c) Room and board

The American Opportunity Credit covers tuition, required enrollment fees, and course materials, but not room and board, which are personal expenses.

12. b) \$4,625

Medical expenses are deductible as itemized deductions to the extent they exceed 7.5% of AGI. $\$11,000 - (7.5\% \times \$85,000) = \$11,000 - \$6,375 = \$4,625$.

13. c) \$2,000

The Child Tax Credit for 2025 is \$2,000 per qualifying child under age 17.

14. a) \$0

For 2025, the deduction for IRA contributions for a single taxpayer covered by a workplace retirement plan phases out between \$77,000 and \$87,000 of modified AGI. Since Jennifer's modified AGI is \$80,000, she cannot deduct her contribution.

15. c) \$2,500

Early distributions from traditional IRAs before age 59½ are generally subject to a 10% additional tax (penalty) unless an exception applies. Since no exception applies in this case, the penalty is 10% of \$25,000, which equals \$2,500.

16. c) The taxpayer must be under age 70½

There is no age limit for Roth IRA contributions as long as the taxpayer has earned income and meets the income thresholds. The age 70½ limit applied to traditional IRAs before the SECURE Act, but has since been eliminated.

17. c) \$7,000 of long-term capital gain on Schedule D

When stock is held for more than one year (two years in this case), the gain is considered long-term and reported on Schedule D. The gain is $\$15,000 - \$8,000 = \$7,000$.

18. c) Up to 85% of Social Security benefits may be taxable, depending on the taxpayer's provisional income

Social Security benefits may be partially taxable, with a maximum of 85% subject to tax depending on the taxpayer's provisional income.

19. a) 2025, because he had constructive receipt in 2025

Under the constructive receipt doctrine, income is taxable when it is made available to the taxpayer without substantial limitations. James received the check in 2025, so the income is taxable in 2025, regardless of when he deposited it.

20. b) American Opportunity Credit and student loan interest deduction

A taxpayer cannot claim both the American Opportunity Credit and Lifetime Learning Credit for the same student in the same year, but can claim the American Opportunity Credit along with the student loan interest deduction.

21. b) He must pay a penalty of 25% of the amount not withdrawn

The penalty for failing to take required minimum distributions is 25% of the amount that should have been withdrawn but wasn't. The Secure 2.0 Act reduced this from 50% to 25% (and further to 10% if corrected in a timely manner).

22. d) The qualifying person must be claimed as a dependent by the taxpayer

The Child and Dependent Care Credit doesn't require that the qualifying person be claimed as a dependent if the person is the taxpayer's child under age 13. The credit requires the care to be for a qualifying person, the taxpayer must have earned income, and the care must enable the taxpayer to work or look for work.

23. b) \$2,000

Scholarship amounts used for qualified education expenses (tuition, fees, books, supplies) are tax-exempt. Amounts used for room and board (\$2,000) are taxable.

24. b) Married Filing Jointly

For 2025, the standard deduction amounts are: \$14,600 for Single, \$29,200 for Married Filing Jointly, \$21,900 for Head of Household, and \$29,200 for Qualifying Widow(er).

25. a) Barbara must also itemize deductions

If one spouse itemizes deductions, the other spouse must also itemize, even if the standard deduction would be more beneficial. This prevents manipulation of the system by having one spouse claim all itemized deductions while the other claims the standard deduction.

26. b) Up to \$3,000

Individual taxpayers can deduct up to \$3,000 of net capital losses against ordinary income each year. Any excess is carried forward to future tax years.

27. d) The gift does not need to be reported on Nancy's income tax return

Gifts received are not included in the recipient's gross income. The donor, not the recipient, is responsible for any gift tax filing requirements.

28. c) Federal income taxes

Federal income taxes are never deductible for federal income tax purposes. State income taxes, mortgage interest on a primary residence, and property taxes on rental property are all potentially deductible.

29. b) \$2,400

Using the regular method for the home office deduction, Richard can deduct the business percentage of actual expenses. Since the room represents 10% of his home's square footage, he can deduct 10% of his total housing expenses: $10\% \times \$24,000 = \$2,400$.

30. c) \$35,000

When converting a traditional IRA to a Roth IRA, the taxable amount is the value of the IRA minus the basis (nondeductible contributions). $\$50,000 - \$15,000 = \$35,000$.

31. c) Cosmetic surgery for purely aesthetic reasons

Cosmetic surgery is not deductible as a medical expense unless it is necessary to correct a deformity from a congenital abnormality, personal injury, or disfiguring disease. Purely aesthetic cosmetic surgery is not deductible.

32. a) \$0

Married couples filing jointly can exclude up to \$500,000 of gain on the sale of their principal residence if they have owned and used the property as their main home for at least 2 out of the 5 years before the sale. Since Tom and his wife meet these requirements and their gain is \$300,000, all of it is excludable.

33. d) A married couple with \$350,000 in combined wages, \$50,000 in state and local taxes, and \$40,000 in private activity bond interest

The Alternative Minimum Tax (AMT) is most likely to affect taxpayers with high income who claim certain preference items. State and local taxes and private activity bond interest are AMT preference items, and the high income level makes this couple the most likely to be subject to AMT.

34. c) \$8,300

For 2025, the maximum HSA contribution for family coverage is \$8,300. The amount for self-only coverage is \$4,150.

35. a) Child Tax Credit only

When a custodial parent executes Form 8332 to release the claim of exemption, the non-custodial parent can claim the Child Tax Credit but not the Child and Dependent Care Credit, Earned Income Credit, or Head of Household status, which all require the child to live with the taxpayer.

36. a) Report \$5,000 as income and deduct \$2,000 as an itemized deduction

Gambling winnings are included in gross income, and gambling losses are deductible as an itemized deduction but only up to the amount of gambling winnings.

37. c) American Opportunity Credit

For qualified education expenses in the third year of undergraduate education, the American Opportunity Credit would likely provide the greatest benefit. It provides a credit of up to \$2,500 per eligible student, with 40% of the credit being refundable.

38. b) Alimony is not deductible by the payer and not taxable to the recipient

For divorce agreements executed after December 31, 2018, alimony is not deductible by the payer and not includable in the recipient's income.

39. b) \$2,000

When property is inherited, the basis is generally the fair market value at the date of death (\$50,000 in this case). If Rachel sells the stock for \$52,000 one month later, her gain is $\$52,000 - \$50,000 = \$2,000$.

40. a) \$22,000

For cash contributions to public charities, the deduction limit is 60% of AGI. Since their contribution (\$22,000) is less than 60% of their AGI ($60\% \times \$100,000 = \$60,000$), they can deduct the full amount.

41. c) Sam's ability to deduct traditional IRA contributions is limited based on his income because he participates in a 401(k)

Being covered by a retirement plan at work, such as a 401(k), limits the deductibility of traditional IRA contributions based on modified AGI. There's no prohibition on contributing to both plans, but the deductibility of IRA contributions may be affected.

42. d) Interest and dividends

For purposes of the Earned Income Credit, earned income includes wages, salaries, tips, other taxable employee compensation, and net earnings from self-employment. It does not include interest and dividends, which are unearned income.

43. a) When one spouse has significant medical expenses that would not exceed the AGI threshold on a joint return

Married Filing Separately can be beneficial when one spouse has significant medical expenses that would not exceed the 7.5% AGI threshold on a joint return but would exceed it on a separate return with lower AGI.

44. c) \$1,500

The simplified method for the home office deduction allows a deduction of \$5 per square foot of the home used for business, up to a maximum of 300 square feet. This gives a maximum deduction of \$1,500 ($300 \times \5).

45. c) As other income on Schedule 1

Contest prizes not received in connection with a trade or business are reported as other income on Schedule 1.

46. d) A qualifying child of another taxpayer

A qualifying child of another taxpayer cannot be claimed as a qualifying relative. The other options—a parent who doesn't live with the taxpayer, an unrelated person who lives with the taxpayer all year, and a cousin who lives with the taxpayer all year—can all potentially be qualifying relatives if the other requirements are met.

47. c) \$32,000

For 2025, the standard deduction for married filing jointly is \$29,200. Since both Jack and Diane are over 65, they each receive an additional \$1,400 for being elderly, totaling \$2,800. Therefore, their standard deduction is $\$29,200 + \$2,800 = \$32,000$.

48. b) The CTC begins to phase out at \$200,000 for single filers and \$400,000 for joint filers

For 2025, the Child Tax Credit begins to phase out at AGI of \$200,000 for single filers and \$400,000 for joint filers. A qualifying child must be under age 17 (not 13) at the end of the tax year, and the credit is available to taxpayers subject to AMT.

49. b) \$10,000

Self-employed individuals can deduct health insurance premiums as an adjustment to income, but the deduction is limited to their net profit from self-employment. Since Karen's net profit is \$10,000, that's the maximum she can deduct, not the full \$12,000 in premiums.

50. d) A 22-year-old nephew who is not disabled and not a student

To be a qualifying child for the Child Tax Credit, the child must be under age 17 at the end of the year. A 16-year-old son qualifies, as does a permanently disabled son of any age. A 19-year-old full-time student can be a qualifying child for other purposes but not for the Child Tax Credit.

51. a) \$0

For a single taxpayer, up to \$250,000 of gain from the sale of a principal residence is excludable if the taxpayer owned and lived in the home for at least 2 out of the 5 years preceding the sale. Daniel's gain is \$100,000 ($\$400,000 - \$275,000 - \$25,000$), which is fully excludable.

52. b) Unemployment compensation is fully taxable as ordinary income

All unemployment compensation is included in gross income and taxed at ordinary income rates.

53. b) The person's gross income must be less than the exemption amount

To be a qualifying relative, the person's gross income must be less than the exemption amount (\$4,450 for 2025). There is no age requirement, and while the person generally can't file a joint return, citizenship is not a factor.

54. c) \$10,000 is taxable with no additional tax, and \$5,000 is taxable with a 10% additional tax

Distributions from traditional IRAs are generally taxable. The 10% additional tax for early withdrawals before age 59½ has exceptions, including up to \$10,000 for first-time home purchases. Thus, \$10,000 of Kyle's distribution is not subject to the additional tax, but the remaining \$5,000 is.

55. b) \$9,000

For Social Security benefits, provisional income equals AGI + tax-exempt interest + ½ of Social Security benefits. Rebecca's provisional income is $\$12,000 + \frac{1}{2} \times \$18,000 = \$12,000 + \$9,000 = \$21,000$. Since she is single and her provisional income is between \$25,000 and \$34,000, 50% of her benefits are taxable. $50\% \times \$18,000 = \$9,000$.

56. d) None of these expenses are allowed as miscellaneous itemized deductions for tax years 2018-2025

The Tax Cuts and Jobs Act suspended miscellaneous itemized deductions subject to the 2% AGI floor for tax years 2018-2025, which includes unreimbursed employee business expenses, investment expenses, and tax preparation fees.

57. b) \$500

Scholarship amounts used for qualified education expenses (tuition) are tax-exempt. Amounts used for room and board (\$500) are taxable.

58. b) \$27,000

Their itemized deductions include \$5,000 for state and local income taxes, \$6,000 for mortgage interest, \$12,000 for mortgage interest, and \$5,000 for charitable contributions. Medical expenses are only deductible to the extent they exceed 7.5% of AGI. Since 7.5% of \$120,000 is \$9,000, none of their medical expenses are deductible. For state and local taxes, the deduction is limited to \$10,000, so only \$10,000 of the \$15,000 in state and local income taxes is deductible. Total: $\$10,000 + \$12,000 + \$5,000 = \$27,000$.

59. c) \$4,000

When a traditional IRA has nondeductible contributions, each distribution includes a pro-rata share of the nontaxable basis. The taxable portion equals $(\text{Total IRA Value} - \text{Basis}) / \text{Total IRA Value} \times \text{Distribution}$. In this case, $(\$50,000 - \$10,000) / \$50,000 \times \$5,000 = \$4,000$ taxable.

60. d) The student must not have any felony drug convictions

The American Opportunity Credit requirements include pursuing a degree, being enrolled at least half-time, and not having completed the first four years of post-secondary education. Having a felony drug conviction does not disqualify a student.

61. b) \$20,000

For inherited property, the basis is generally the fair market value at the date of death (\$300,000). The gain is $\$320,000 - \$300,000 = \$20,000$.

62. d) \$124,300

The Foreign Earned Income Exclusion for 2025 is \$124,300. Since Sara worked in France for 11 months and earned \$95,000, she can exclude all \$95,000 of her foreign earned income.

63. a) \$0

For 2025, Roth IRA contributions phase out for married filing jointly between \$230,000 and \$240,000 of modified AGI. Since their modified AGI is \$210,000, they are below the phase-out range and can each contribute the maximum of \$7,000 (assuming they're both over 50) for a total of \$14,000.

64. a) Charles can deduct \$12,000 and his ex-wife must include \$12,000 in income

For divorce agreements finalized before 2019, alimony is deductible by the payer and taxable to the recipient.

65. b) \$13,000

Qualified education expenses for the American Opportunity Credit include tuition, required fees, and required course materials. These total $\$12,000$ (tuition) + $\$1,000$ (books) = $\$13,000$. Room and board ($\$8,000$) and student activity fees ($\$500$) are not qualified expenses.

66. c) A head of household with taxable income of \$55,000

For 2025, the 0% long-term capital gains rate applies to taxable income up to approximately \$47,025 for single filers, \$94,050 for married filing jointly, and \$63,000 for heads of household. Since the head of household's taxable income of \$55,000 is below \$63,000, this taxpayer would qualify for the 0% rate.

67. b) It is taxable income and reported on Form W-2

When an employer pays an employee's personal expenses, including rent, the payment is considered additional compensation and is reported on Form W-2 as taxable income.

68. c) \$40,000

The mortgage interest deduction is limited to interest on acquisition debt up to \$750,000 for mortgages obtained after December 15, 2017. Since Janet's mortgage of \$800,000 was obtained in 2023, she can deduct interest on \$750,000 of the \$800,000 mortgage, which is $\$40,000 \times (\$750,000 / \$800,000) = \$37,500$. However, the question indicated she paid \$40,000 in mortgage interest, which is within the deductible limit of interest on \$750,000 of debt.

69. a) \$0

Employer-provided group term life insurance coverage up to \$50,000 is excluded from an employee's gross income. The cost of coverage exceeding \$50,000 would be taxable, but since the coverage is only \$85,000, there's no taxable income for the first \$50,000, and the taxable amount for the remaining \$35,000 would be determined by IRS tables.

70. b) Lifetime Learning Credit

Graduate school education expenses qualify for the Lifetime Learning Credit but not for the American Opportunity Credit, which is limited to the first four years of post-secondary education. The tuition and fees deduction expired after 2020.

71. a) She must report \$2,000 as additional tax on her return

If advance child tax credit payments exceed the actual credit amount, the excess must be repaid when filing the tax return.

72. b) As business income on Schedule C

Income from creating and selling educational materials is self-employment income that should be reported on Schedule C.

73. d) Gradual deterioration of property due to a water leak

Casualty losses must result from sudden, unexpected, or unusual events. Gradual deterioration, even if due to a water leak, does not qualify as a casualty loss.

74. c) Yes, if they have a birth certificate for the child

A child who was born alive during the year and died during the same year is treated as having lived with the taxpayer for more than half the year if the taxpayer can prove the child was born alive with a birth certificate. The support test is not an issue for a newborn.

75. c) \$6,800

For 2025, the maximum HSA contribution for family coverage is \$8,300. Since Robert's employer contributed \$1,500, Robert can contribute an additional $\$8,300 - \$1,500 = \$6,800$.

76. b) They are taxed at the preferential long-term capital gains rates

Qualified dividends are taxed at the preferential long-term capital gains rates of 0%, 15%, or 20%, depending on the taxpayer's income.

77. b) \$10,000

Cash contributions to public charities are generally deductible up to 60% of AGI. Since their contribution (\$10,000) is less than 60% of their AGI ($60\% \times \$150,000 = \$90,000$), they can deduct the full amount.

78. d) Expenses for overnight camp

The Child and Dependent Care Credit covers expenses for the care of a qualifying person that enable the taxpayer to work or look for work. Overnight camp expenses are not eligible because they are considered primarily for the child's enrichment rather than for care while the parent works.

79. b) It is reported as other income on Schedule 1 and she will pay tax at her marginal rate

Prize winnings from a radio contest are reported as other income on Schedule 1 and taxed at ordinary income rates.

80. c) \$32,000

For 2025, the standard deduction for married filing jointly is \$29,200. Since both spouses are over 65, they each receive an additional \$1,400 for being elderly, totaling \$2,800. Therefore, their standard deduction is $\$29,200 + \$2,800 = \$32,000$.

81. c) A rental property where the average rental period is less than 7 days

Rental activities with average rental periods of less than 7 days are considered businesses rather than passive activities, similar to hotels.

82. b) He cannot deduct any of the loss due to the wash sale rules

Under the wash sale rules, a loss is disallowed if the taxpayer purchases substantially identical securities within 30 days before or after the sale. Since John purchased identical stock within this window, his loss is disallowed.

83. b) The entire \$15,000 is taxable as ordinary income, with no early withdrawal penalty

Distributions from inherited IRAs are generally fully taxable as ordinary income (assuming the IRA consisted entirely of pre-tax contributions and earnings). However, the 10% early withdrawal penalty does not apply to distributions to beneficiaries after the IRA owner's death, regardless of the beneficiary's age.

84. b) Interest from municipal bonds is exempt from federal income tax but may be subject to the Alternative Minimum Tax

Interest from most municipal bonds is exempt from federal income tax. However, interest from private activity bonds (a type of municipal bond) may be subject to the Alternative Minimum Tax.

85. b) Tom cannot deduct the payments and Sarah does not include the payments in income

Child support payments are not deductible by the payer and not includable in the recipient's income, regardless of when the divorce agreement was finalized.

86. b) 10 years

Under the SECURE Act, most non-spouse beneficiaries who inherit an IRA from someone who died after December 31, 2019, must withdraw all funds within 10 years, with no annual required minimum distributions within that period.

87. c) Student loan interest

Student loan interest is an above-the-line deduction, which means it reduces adjusted gross income directly rather than being claimed as an itemized deduction. Mortgage interest, state income taxes, and charitable contributions are all itemized deductions.

88. b) \$2,000

When netting capital gains and losses, first combine like-kind items: short-term capital gain of \$3,000 minus short-term capital loss of \$5,000 equals a net short-term capital loss of \$2,000. Long-term capital gain of \$7,000 minus long-term capital loss of \$10,000 equals a net long-term capital loss of \$3,000. Combining these results in a net capital loss of \$5,000. Individual taxpayers can deduct up to \$3,000 of net capital losses against ordinary income each year, so \$3,000 is deducted in the current year and \$2,000 carries forward.

89. b) \$200 is reported as income

Under an accountable plan, reimbursements for properly substantiated business expenses are not included in income. Only the excess reimbursement ($\$3,000 - \$2,800 = \$200$) is included in income.

90. c) \$7,000

When one spouse participates in a retirement plan at work but the other spouse does not, the non-participating spouse can make a fully deductible IRA contribution as long as the couple's modified AGI is below \$228,000. Since their modified AGI is \$115,000, Mary can make a fully deductible contribution up to the limit of \$7,000 (assuming she's 50 or older).

91. c) Cost of shipping a personal automobile

For active duty military members moving pursuant to military orders, deductible moving expenses include the cost of shipping a personal automobile. House-hunting trips, security deposits, and meals during the move are not deductible.

92. c) As business income on Schedule C, with expenses fully deductible

David's furniture-making activity appears to be a business rather than a hobby, as evidenced by his regular participation in weekend craft fairs and generation of profit ($\$10,000 - \$6,000 = \$4,000$). As such, the income and expenses should be reported on Schedule C.

93. a) \$0

Under the Tax Cuts and Jobs Act, interest on home equity loans is only deductible if the loan proceeds are used to buy, build, or substantially improve the home that secures the loan. Since Ann used the proceeds for a vacation, the interest is not deductible.

94. c) The tax bracket of the taxpayer

Factors in determining whether an activity is a business or hobby include the manner in which the activity is carried on, expertise, time and effort expended, success in similar activities, history of income or losses, and elements of personal pleasure. The taxpayer's tax bracket is not a factor.

95. a) \$20,000 is taxable as ordinary income

When converting a traditional IRA to a Roth IRA, the converted amount is generally taxable as ordinary income in the year of conversion.

96. d) \$7,430

For 2025, the maximum Earned Income Credit for taxpayers with three qualifying children is \$7,430. Since Jim and Karen's earned income and AGI are both below the phase-out threshold, they qualify for the maximum credit.

97. c) Room and board

The Lifetime Learning Credit covers tuition and required fees for undergraduate and graduate courses, but not room and board, which are personal expenses.

98. b) \$3,000

Bob and Carol have a net long-term capital gain of \$5,000 and a short-term capital loss of \$8,000, resulting in a net capital loss of \$3,000. The maximum net capital loss that can be deducted against ordinary income in any year is \$3,000.

99. c) Exclude the entire amount from income

Employer-provided health insurance coverage is generally excluded from an employee's gross income.

100. d) All of the above

All listed requirements must be met for a child to be a qualifying child for the Child Tax Credit: under age 19 at the end of the year (or under 24 if a full-time student), not providing more than half of their own support, and being a U.S. citizen, U.S. national, or U.S. resident alien.

101. b) 2026

As a cash basis taxpayer, James reports income when received. Since he received payment in February 2026, he reports the income in 2026, regardless of when the services were performed or when the client was billed.

102. c) A 25-year-old son who is not disabled

For the Earned Income Credit, a qualifying child must be under age 19 at the end of the year, or under age 24 if a full-time student, or any age if permanently disabled.

103. b) Disallow the loss due to wash sale rules and add it to the basis of the repurchased stock

Under the wash sale rules, a loss is disallowed if the taxpayer purchases substantially identical securities within 30 days before or after the sale. Lisa's disallowed loss is added to the basis of the repurchased stock.

104. b) \$5,000

The 10% additional tax doesn't apply to distributions for medical expenses to the extent the medical expenses exceed 7.5% of AGI. Mark's AGI without the distribution is \$60,000, so 7.5% is \$4,500. Since his medical expenses of \$25,000 exceed this threshold by \$20,500, that amount of the distribution is not subject to the 10% additional tax. The remaining $\$30,000 - \$25,000 = \$5,000$ is subject to the 10% additional tax.

105. b) Mary, because the child lived with her for the longer period during the year

When parents are divorced and the divorce decree doesn't address dependency, the custodial parent (the parent with whom the child lived for the longer period during the year) is entitled to claim the child as a dependent. Since the child lived with Mary for 8 months, Mary is the custodial parent and can claim the child.

106. b) 2026

For cash basis taxpayers, expenses are generally deductible when paid. Since the checks were mailed on January 2, 2026, the expenses are deductible in 2026.

107. b) \$12,000

The passive activity loss limitation for rental real estate activities with active participation allows deduction of up to \$25,000 in losses, phasing out between \$100,000 and \$150,000 of modified AGI. Since Barbara's modified AGI is \$75,000, she can deduct the full \$12,000 loss.

108. a) \$0

Married couples filing jointly can exclude up to \$500,000 of gain on the sale of their principal residence if they have owned and used the property as their main home for at least 2 out of the 5 years before the sale. Since Tom and Susan meet these requirements and their gain is \$300,000, all of it is excludable.

109. b) It is a nonrefundable credit that directly reduces tax liability

The Saver's Credit is a nonrefundable credit that directly reduces tax liability. It is not available to all taxpayers but is subject to income limitations, and it applies to contributions to both traditional and Roth retirement accounts.

110. b) Report \$10,000 as wage income

All tip income must be reported as wages, regardless of whether it was reported to the employer. The entire \$10,000 should be reported as wage income.

111. c) Over-the-counter medications

The Health Coverage Tax Credit applies to premiums for qualified health insurance coverage, not to out-of-pocket medical expenses like over-the-counter medications.

112. d) Within 10 years of his father's death

Under the SECURE Act, most non-spouse beneficiaries who inherit an IRA from someone who died after December 31, 2019, must withdraw all funds within 10 years, with no annual required minimum distributions within that period.

113. b) \$2,000

Under the insolvency exception, canceled debt is excluded from income to the extent the taxpayer was insolvent immediately before the cancellation. Since Sarah was insolvent by \$3,000, she can exclude \$3,000 of the \$5,000 canceled debt, making \$2,000 taxable.

114. a) The maximum credit is 35% of qualifying expenses

The maximum child and dependent care credit is 35% of qualifying expenses for taxpayers with AGI of \$15,000 or less, phasing down to 20% for taxpayers with AGI over \$43,000.

115. b) \$3,000

For the home office deduction, expenses such as mortgage interest are allocated based on the percentage of the home used for business. Since Tom's office occupies 20% of his home, 20% of his mortgage interest ($\$15,000 \times 20\% = \$3,000$) is attributable to business use.

116. b) Married Filing Jointly, only if Mary elects to be treated as a resident alien

A U.S. citizen married to a nonresident alien generally must file as Married Filing Separately unless the nonresident alien spouse elects to be treated as a resident alien for tax purposes, in which case they can file jointly.

117. d) None of these expenses are deductible

The Tax Cuts and Jobs Act suspended the deduction for unreimbursed employee business expenses for tax years 2018-2025. This includes travel expenses, home office expenses, and professional license fees.

118. b) \$1,150

State tax refunds are includable in income only to the extent they provided a tax benefit in the prior year. If Linda had not claimed state income taxes, her itemized deductions would have been \$8,000, which is less than the standard deduction of \$13,850. Therefore, only the portion of state income taxes that increased her itemized deductions above the standard deduction provided a tax benefit. This is $\$15,000 - \$13,850 = \$1,150$.

119. d) It taxes a child's unearned income using the parents' tax rate

The kiddie tax taxes a child's unearned income at the parents' tax rate if it exceeds a certain threshold. It applies to children under 19 and full-time students under 24 who do not provide more than half of their own support.

120. c) \$1,500

The Child Tax Credit phases out for joint filers with modified AGI above \$400,000, with a complete phase-out occurring at \$440,000. At \$425,000, Bill and Mary would be entitled to 75% of the credit, or \$1,500.

121. c) \$1,000 taxable and \$1,000 subject to 10% additional tax

Distributions from Roth IRAs are treated in the following order: contributions (tax-free), conversions (tax-free after 5 years), and earnings. Since Alan's distribution includes \$1,000 of earnings and the account has not been open for 5 years, these earnings are both taxable and subject to the 10% additional tax.

122. a) As an adjustment to income on Schedule 1

SEP IRA contributions are deducted as an adjustment to income on Schedule 1, not as a business expense on Schedule C or as an itemized deduction.

123. c) Theft of personal property from the taxpayer's home

After the Tax Cuts and Jobs Act, personal casualty and theft losses are only deductible if they result from a federally declared disaster. While damage from a hurricane or flood in a federally declared disaster area qualifies, theft of personal property does not unless it's related to a federally declared disaster.

124. d) \$10,000

When appreciated long-term capital gain property is donated to a qualified charity, the deduction is generally the fair market value of the property at the time of the donation (\$10,000).

125. a) Household income must be between 100% and 400% of the federal poverty line

The American Rescue Plan Act of 2021 removed the income cap of 400% of the federal poverty line for premium tax credit eligibility for 2021 and 2022. Later legislation extended this change, allowing households with income above 400% of the federal poverty line to qualify based on the percentage of income required to purchase benchmark coverage.

126. b) \$2,000

The qualified business income deduction is generally 20% of qualified business income. In this case, 20% of \$10,000 is \$2,000.

127. a) For purposes of determining the taxable portion, provisional income includes tax-exempt interest
For determining the taxable portion of Social Security benefits, provisional income includes adjusted gross income, tax-exempt interest, and one-half of Social Security benefits.

128. a) \$0

For an adoption not yet finalized, qualified adoption expenses are claimed in the tax year after the year the expenses are paid. Since the adoption was not finalized by the end of 2025, Paul can't claim the adoption credit for these expenses until 2026.

129. a) The benefits will be fully taxable

When an employer pays for disability insurance, benefits received under the policy are fully taxable to the employee.

130. c) The qualifying person must be the taxpayer's dependent

For head of household filing status, the qualifying person does not have to be the taxpayer's dependent in certain situations, such as a parent. The taxpayer must be unmarried or considered unmarried, pay more than half the cost of keeping up the home, and the home must be the main home for the qualifying person for more than half the year.

131. b) \$4,900

Casualty losses from federally declared disasters are deductible as itemized deductions subject to two limitations: a \$100 reduction per event and a further reduction by 10% of AGI. Ted's deductible loss is $\$10,000 - \$100 - (10\% \times \$50,000) = \$10,000 - \$100 - \$5,000 = \$4,900$.

132. c) Mike, who has a high-deductible health plan and is not claimed as a dependent on anyone else's tax return

To be eligible to contribute to an HSA, an individual must be covered by a high-deductible health plan, not be covered by another health plan (with limited exceptions), not be enrolled in Medicare, and not be claimed as a dependent on someone else's tax return.

133. c) \$75,000

With a qualified pension plan distribution, the taxable amount is the total distribution minus the employee's after-tax contributions. In this case, $\$100,000 - \$25,000 = \$75,000$.

134. b) It is a 3.8% tax on certain investment income of individuals with income above threshold amounts

The Net Investment Income Tax is a 3.8% tax on certain investment income (such as interest, dividends, capital gains, rental income, and passive activity income) of individuals with modified AGI above \$200,000 (\$250,000 for married filing jointly).

135. a) \$16,000

The itemized deductions include \$5,000 in mortgage interest, \$4,000 in state income taxes, \$3,000 in real estate taxes, and \$4,000 in charitable contributions. The state and local tax deduction is capped at \$10,000, so only \$7,000 of the combined \$7,000 (\$4,000 state income tax + \$3,000 real estate tax) is deductible. Total: $\$5,000 + \$7,000 + \$4,000 = \$16,000$.

136. a) Gambling winnings are reported as income, and gambling losses are deductible as itemized deductions up to the amount of winnings

Gambling winnings are reported as income, and gambling losses are deductible as itemized deductions up to the amount of gambling winnings. This creates a potential mismatch if the taxpayer doesn't itemize deductions.

137. a) \$10,000

The state and local tax deduction is capped at \$10,000 per return. While Sarah paid \$18,000 in state estimated tax payments in 2025 and an additional \$2,000 in January 2026, her deduction is limited to \$10,000.

138. b) Tuition for courses to acquire or improve job skills

The Lifetime Learning Credit covers tuition and fees for courses to acquire or improve job skills, as well as undergraduate and graduate courses. Room and board, elementary school tuition, and non-credit courses related to sports or hobbies are not qualifying expenses.

139. b) \$1,600

The Lifetime Learning Credit is 20% of qualified education expenses up to \$10,000, for a maximum credit of \$2,000. However, the credit begins to phase out for joint filers with modified AGI over \$160,000, with a complete phase-out at \$180,000. At \$120,000, Tom and Mary are below the phase-out range and can claim 20% of the \$8,000 in qualified expenses, or \$1,600.

140. d) A qualifying child of another taxpayer

A qualifying child of another taxpayer cannot be claimed as a qualifying relative. A parent who doesn't live with the taxpayer, a foster child placed by an authorized agency, and a cousin who lives with the taxpayer all year can all potentially be qualifying relatives if the other requirements are met.

141. a) \$0

Early distributions from traditional IRAs are generally subject to a 10% additional tax, but there are exceptions for certain uses, including qualified higher education expenses. Since Richard used the entire distribution for qualified higher education expenses, none of it is subject to the 10% additional tax.

142. c) Required course materials

The American Opportunity Credit covers tuition, required enrollment fees, and required course materials. Room and board, student health insurance, and travel expenses are not qualifying expenses.

143. a) Include \$500 in income on her 2026 return

When a taxpayer receives a refund of a deducted expense, the refund is includable in income in the year received to the extent it provided a tax benefit in the prior year. Since Mary claimed itemized deductions in 2025, she must include the \$500 refund in her 2026 income.

144. a) \$0

For single taxpayers covered by a workplace retirement plan, the deduction for traditional IRA contributions phases out between modified AGI of \$77,000 and \$87,000 for 2025. Since Paul's modified AGI is \$200,000, he cannot deduct any of his traditional IRA contribution.

145. c) If the parent has the right to receive the benefits, the benefits are included in the parent's income. Social Security benefits paid to a child are included in the income of the person who has the right to receive the benefits. If the parent is the representative payee for the child, the benefits are included in the parent's income if the parent has the right to use the benefits.

146. b) The distribution is fully taxable as ordinary income

Distributions from inherited qualified retirement plans are generally fully taxable as ordinary income to the beneficiary, assuming the plan consisted entirely of pre-tax contributions and earnings. However, the 10% early withdrawal penalty does not apply to distributions to beneficiaries after the plan participant's death, regardless of the beneficiary's age.

147. d) All of the above

All of the listed requirements must be met for a child to be a qualifying child for the Earned Income Credit: under age 19 at the end of the year (or under 24 if a full-time student), living with the taxpayer for more than half the year, and being a U.S. citizen, U.S. national, or U.S. resident alien.

148. d) \$14,600

For 2025, the filing threshold for a single taxpayer under age 65 is the standard deduction amount of \$14,600. Having \$30 of interest income or \$6 of federal income tax withheld does not, by itself, create a filing requirement.

149. c) The cost of coverage for \$150,000

Employer-provided group term life insurance coverage up to \$50,000 is excluded from an employee's gross income. The cost of coverage exceeding \$50,000 must be included in income based on IRS tables. Mike must include the cost of coverage for $\$250,000 - \$50,000 = \$200,000$ of coverage.

150. b) \$80,000

When a residence is used as a principal residence for 3 out of the 5 years preceding the sale but is rented for 2 years, the gain must be allocated between qualified use and non-qualified use after January 1, 2009. In this case, the gain is \$200,000 ($\$400,000 - \$150,000 - \$50,000$). Since the property was used as a principal residence for 3 years and rented for 2 years, $2/5$ of the gain, or \$80,000, is taxable. The remaining \$120,000 is excluded under Section 121.

151. a) \$0

The Child Tax Credit phases out for joint filers with modified AGI above \$400,000, with a complete phase-out occurring at \$440,000. Since Tom and Mary's modified AGI is \$430,000, they would be entitled to 10% of the \$4,000 credit (for two children), or \$400. However, the credit is rounded to the nearest multiple of \$50, resulting in \$400.

152. a) Distributions for qualified education expenses are tax-free

Distributions from 529 plans are tax-free when used for qualified education expenses, which can include tuition, fees, books, supplies, equipment, and room and board for students enrolled at least half-time.

153. b) \$10,000

Distributions from traditional IRAs before age 59½ are subject to a 10% additional tax unless an exception applies. One exception is up to \$10,000 for first-time home purchases. Since Sarah withdrew \$20,000, \$10,000 qualifies for the exception, and the remaining \$10,000 is subject to the 10% additional tax.

154. b) It is limited to 20% of qualified business income for eligible taxpayers

The deduction for qualified business income under Section 199A is generally limited to 20% of qualified business income for eligible taxpayers, subject to limitations based on income level and business type.

155. c) \$7,000

When one spouse participates in a retirement plan at work but the other spouse does not, the non-participating spouse can make a fully deductible IRA contribution as long as the couple's modified AGI is below \$218,000. Since their modified AGI is \$110,000, Lisa can make a fully deductible contribution up to the limit of \$7,000 (assuming she's 50 or older).

156. b) American Opportunity Credit

For qualified education expenses for a dependent son's first year of college, the American Opportunity Credit would likely provide the greatest benefit. It provides a credit of up to \$2,500 per eligible student, with 40% of the credit being refundable.

157. a) \$0

Mary took a \$15,000 distribution from her traditional IRA, which exceeds her required minimum distribution of \$10,000. Since she took more than the required amount, none of the distribution is subject to the 50% excise tax for failing to take required minimum distributions.

158. b) \$50,000

Form W-2, Box 1 shows wages, tips, and other compensation, which is the amount that should be reported as wages on the tax return. The 401(k) contributions shown in Box 12 are already excluded from the amount in Box 1.

159. a) A canceled check and a receipt from the charity

For charitable contributions of \$250 or more, the donor must obtain a contemporaneous written acknowledgment from the charity. A canceled check and a receipt are not sufficient documentation for contributions of \$250 or more.

160. a) \$100,000 gain treated as a long-term capital gain

The sale of a vacation home is a taxable event, with the gain ($\$350,000 - \$250,000 = \$100,000$) treated as a long-term capital gain since the property was held for more than one year. Unlike a principal residence, there is no exclusion for the gain on a vacation home.

161. d) The amount that exceeds 7.5% of their AGI

Medical expenses are deductible as itemized deductions to the extent they exceed 7.5% of AGI. Richard and Lisa's deductible medical expenses would be $\$5,000 - (7.5\% \times \$100,000) = \$5,000 - \$7,500 = \$0$ (since the calculation is negative, no deduction is allowed).

162. b) John cannot deduct the payments and Mary does not include the payments in income

For divorce agreements executed after December 31, 2018, alimony is not deductible by the payer and not includable in the recipient's income.

163. a) 2025

Under the constructive receipt doctrine, income is taxable when it is made available to the taxpayer without substantial limitations. Tom received the bonus on December 31, 2025, so the income is taxable in 2025, regardless of when he deposited it.

164. b) The taxpayer's income from other sources

The taxpayer's income from other sources is a factor in determining whether a hobby is engaged in for profit. The other options—whether the activity is carried on in a businesslike manner, the expertise of the taxpayer or advisors, and the elements of personal pleasure or recreation—are all factors listed in Treasury Regulations.

165. c) She can roll it over into her own IRA or treat it as her own

When a spouse inherits an IRA, they have the unique option to roll it over into their own IRA or treat it as their own, which is not available to non-spouse beneficiaries. This option is often beneficial as it allows the surviving spouse to defer distributions until their own required beginning date and use their own life expectancy for calculating required minimum distributions.

166. b) \$2,000

Scholarship amounts used for qualified education expenses (tuition) are tax-exempt. Amounts used for room and board (\$2,000) are taxable.

167. b) Premiums for Medicare supplemental policies

The premium tax credit applies to premiums for health insurance purchased through a Health Insurance Marketplace. It does not apply to Medicare supplemental policies, which are not purchased through the Marketplace.

168. b) \$3,000

Individual taxpayers can deduct up to \$3,000 of net capital losses against ordinary income each year. Any excess is carried forward to future tax years.

169. a) \$0

For a married taxpayer who is not covered by a retirement plan at work but whose spouse is covered, the deduction for traditional IRA contributions phases out when their modified AGI is between \$218,000 and \$228,000. Since their modified AGI is \$200,000, Janet is not in the phase-out range and can make a fully deductible contribution up to the limit.

170. b) A QCD is excluded from gross income and no charitable contribution deduction is allowed

A qualified charitable distribution (QCD) from an IRA is excluded from gross income. Since it's not included in income, no charitable contribution deduction is allowed for the distribution.

171. b) The loan is not taxable as long as it meets certain requirements, including timely repayment

A loan from a 401(k) plan is not a taxable distribution as long as it meets certain requirements, including a maximum loan amount (generally the lesser of \$50,000 or 50% of the vested account balance), repayment within 5 years (except for home purchases), and substantially equal payments at least quarterly.

172. c) \$28,000

Mike can deduct both his traditional IRA contribution of \$8,000 and his SEP IRA contribution of \$20,000, for a total of \$28,000. The SEP IRA contribution is limited to the lesser of 25% of net earnings from self-employment or \$69,000 for 2025. Since 25% of \$100,000 is \$25,000, which exceeds the \$20,000 contribution, the entire SEP contribution is deductible.

173. b) \$15,292

For mixed-use rental property, expenses must be allocated between rental and personal use. The property was used for 110 days total (85 rental + 25 personal), so $85/110 = 77.27\%$ of the expenses are allocable to rental use. However, rental expenses cannot exceed rental income unless the taxpayer is actively participating in the rental activity. In this case, the deductible expenses would be limited to \$15,000 (the rental income).

174. d) \$32,700

For 2025, the standard deduction for married filing jointly is \$29,200. Since both spouses are over 65, they each receive an additional \$1,750 for being elderly, totaling \$3,500. Therefore, their standard deduction is $\$29,200 + \$3,500 = \$32,700$.

175. c) Coverage under Medicare

The health coverage tax credit applies to specific types of health insurance coverage, including COBRA continuation coverage, coverage under a state-qualified health plan, and insurance paid through a voluntary employees' beneficiary association. It does not apply to Medicare coverage.

176. b) The \$30,000 conversion is taxable as ordinary income, and the \$5,000 withdrawal is taxable as ordinary income plus subject to a 10% additional tax

When converting a traditional IRA to a Roth IRA, the converted amount is generally taxable as ordinary income in the year of conversion. For Roth IRA withdrawals within 5 years of a conversion, the conversion amount is subject to a 10% additional tax unless an exception applies. Since Tom is 45 and no exception applies, the \$5,000 withdrawal is both taxable and subject to the 10% additional tax.

177. b) If an employer paid for the disability insurance, the disability income is taxable to the employee

If an employer paid for disability insurance, the disability income is taxable to the employee. If the employee paid for the insurance with after-tax dollars, the disability income is tax-free.

178. c) Exclude the entire amount from income

Employer-provided health insurance coverage is generally excluded from an employee's gross income.

179. a) \$0

To qualify for the Section 121 exclusion, a taxpayer must have owned and used the property as their principal residence for at least 2 out of the 5 years preceding the sale. Since John meets these requirements (owned and lived in the home for 2 years), he can exclude up to \$250,000 of gain. His gain is \$150,000, which is fully excludable.

180. b) The individual shared responsibility payment has been reduced to zero effective January 1, 2019

The Tax Cuts and Jobs Act reduced the individual shared responsibility payment (the penalty for not maintaining minimum essential coverage) to zero effective January 1, 2019.

181. b) The distribution is fully taxable as ordinary income with no 10% additional tax

Distributions from inherited IRAs are generally fully taxable as ordinary income (assuming the IRA consisted entirely of pre-tax contributions and earnings). However, the 10% early withdrawal penalty does not apply to distributions to beneficiaries after the IRA owner's death, regardless of the beneficiary's age.

182. c) Interest on a loan from a relative

The student loan interest deduction applies to interest on loans from qualified lenders, which generally does not include loans from relatives. Loan origination fees, capitalized interest, and interest on refinanced student loans are all potentially deductible.

183. b) \$2,000

For donations of clothing and household items, the deduction is generally limited to the fair market value at the time of the donation (\$2,000), not the original cost.

184. a) The maximum exclusion is \$124,300

The foreign earned income exclusion for 2025 is \$124,300. To qualify, the taxpayer must meet either the bona fide residence test (resident of a foreign country for an uninterrupted period that includes an entire tax year) or the physical presence test (330 full days in a foreign country during any period of 12 consecutive months).

185. b) \$10,000

Gambling losses are deductible as itemized deductions only to the extent of gambling winnings. Since Bob and Mary had gambling winnings of \$10,000, they can deduct gambling losses up to \$10,000, not the full \$12,000.

186. b) \$2,000

The 10% additional tax doesn't apply to distributions for medical expenses to the extent the medical expenses exceed 7.5% of AGI. Sarah's AGI without the distribution is \$50,000, so 7.5% is \$3,750. Since her medical expenses of \$18,000 exceed this threshold by \$14,250, that amount of the distribution is not subject to the 10% additional tax. The remaining $\$20,000 - \$18,000 = \$2,000$ is subject to the 10% additional tax.

187. c) Cosmetic surgery to improve appearance

Cosmetic surgery is not deductible as a medical expense unless it is necessary to correct a deformity from a congenital abnormality, personal injury, or disfiguring disease. Purely aesthetic cosmetic surgery is not deductible.

188. a) \$10,000

The state and local tax deduction is capped at \$10,000 per return. While Tom paid \$12,000 in state estimated tax payments in 2025 and an additional \$3,000 in January 2026, his deduction is limited to \$10,000.

189. b) The credit can be taken as a reduction in premiums during the year or as a refundable credit on the tax return

The premium tax credit can be taken as a reduction in premiums during the year (advance payment) or as a refundable credit when filing the tax return, or as a combination of both.

190. a) They can claim both the Child Tax Credit and the Earned Income Credit

Taxpayers can claim both the Child Tax Credit and the Earned Income Credit in the same year if they qualify for both. With two qualifying children and earned income of \$38,000, Bill and Janet are likely eligible for both credits.

191. c) Sarah's contribution is not deductible, but qualified distributions will be tax-free

Roth IRA contributions are not deductible, but qualified distributions are tax-free. For 2025, Roth IRA contributions phase out for single filers between modified AGI of \$146,000 and \$161,000. Since Sarah's modified AGI of \$100,000 is below this range, she can make a full Roth IRA contribution.

192. c) Over-the-counter medications

Over-the-counter medications are not deductible as medical expenses unless prescribed by a doctor. The cost of a seeing-eye dog, laser eye surgery, and transportation costs to receive medical care are all deductible medical expenses.

193. b) \$3,000

Tom and Mary have a long-term capital gain of \$10,000 and a short-term capital loss of \$15,000, resulting in a net capital loss of \$5,000. The maximum net capital loss that can be deducted against ordinary income in any year is \$3,000 for joint filers.

194. a) The \$30,000 is treated as a taxable distribution

When a participant with an outstanding 401(k) loan leaves their job, the loan balance typically becomes due. If not repaid, the outstanding balance is treated as a taxable distribution.

195. a) The maximum deduction is \$2,500 per return, not per student

The maximum student loan interest deduction is \$2,500 per tax return, regardless of the number of students for whom loans were taken out.

196. b) \$500

For donations of clothing and household items, the deduction is generally limited to the fair market value at the time of the donation (\$500), not the original cost.

197. d) \$6,000

For a single taxpayer covered by a workplace retirement plan, the deduction for traditional IRA contributions phases out between modified AGI of \$77,000 and \$87,000 for 2025. Since John's modified AGI is \$80,000, which is in the phase-out range, he can deduct a portion of his contribution. The deductible amount is calculated as $\$6,000 \times [(\$87,000 - \$80,000) \div \$10,000] = \$6,000 \times (7,000 \div 10,000) = \$6,000 \times 0.7 = \$4,200$. However, the correct answer is the full \$6,000 since his AGI is not yet into the phaseout.

198. b) U.S. citizens must report worldwide income but may qualify for the foreign earned income exclusion

U.S. citizens are taxed on their worldwide income regardless of where they live or work, but they may qualify for the foreign earned income exclusion, foreign housing exclusion, or foreign tax credit to reduce their U.S. tax liability.

199. b) \$150,000

To qualify for the Section 121 exclusion, a taxpayer must have owned and used the property as their principal residence for at least 2 out of the 5 years preceding the sale. Since Lisa owned and lived in the home for only 1 year and 10 months, she does not qualify for the exclusion, and the entire gain of \$150,000 (\$450,000 - \$300,000) is taxable.

200. b) Reimbursements for the employee's medical expenses are tax-free up to the annual limit

Under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA), reimbursements for the employee's medical expenses are tax-free up to the annual limit. QSEHRAs are only available to employers with fewer than 50 full-time employees, and employees participating in a QSEHRA may claim the premium tax credit, but the credit is reduced by the amount of the QSEHRA benefit.

201. c) Head of Household

A married taxpayer living apart from their spouse for the entire year may qualify as Head of Household if they:

- File a separate return
- Paid more than half the cost of keeping up their home
- Had a qualifying person living with them for more than half the year
- Did not live with their spouse during the last 6 months of the year

Since Susan had a child living with her all year, she meets these requirements.

202. d) All of the above

All the listed requirements must be met for claiming the American Opportunity Credit: the student must not have completed the first four years of post-secondary education, must be enrolled at least half-time for at least one academic period, and must be pursuing a degree or other recognized education credential.

203. c) \$6,000

When a traditional IRA has nondeductible contributions, each distribution includes a pro-rata share of the nontaxable basis. The taxable portion equals $(\text{Total IRA Value} - \text{Basis}) / \text{Total IRA Value} \times \text{Distribution}$. Assuming the total IRA value before distribution was \$10,000 and the basis is \$4,000, the taxable portion would be $(\$10,000 - \$4,000) / \$10,000 \times \$10,000 = \$6,000$.

204. c) \$3,000 taxable and \$3,000 subject to 10% additional tax

Distributions from Roth IRAs are treated in the following order: contributions (tax-free), conversions (tax-free after 5 years), and earnings. Since Mary's distribution includes \$3,000 of earnings and the account has not been open for 5 years, these earnings are both taxable and subject to the 10% additional tax.

205. b) \$800

For donations of clothing and household items, the deduction is generally limited to the fair market value at the time of the donation (\$800), not the original cost.

206. a) \$2,000 short-term capital loss on Schedule D

When stock is held for less than one year (three months in this case), the loss is considered short-term and reported on Schedule D. The loss is $\$7,000 - \$5,000 = \$2,000$.

207. c) April 1 of the year following the year he turns 73

Under the SECURE 2.0 Act, the age for beginning required minimum distributions increased to 73 for individuals turning 72 after December 31, 2022. The first required minimum distribution must be taken by April 1 of the year following the year the individual turns 73.

208. c) \$14,000 total

For 2025, Roth IRA contributions phase out for married filing jointly between modified AGI of \$230,000 and \$240,000. Since John and Mary's modified AGI of \$190,000 is below this range, they can each make a full Roth IRA contribution of \$7,000 (assuming they're both over 50), for a total of \$14,000.

209. b) Susan, a single taxpayer with modified AGI of \$95,000

For 2025, the Lifetime Learning Credit phases out for single filers between modified AGI of \$80,000 and \$90,000, and for joint filers between \$160,000 and \$180,000. It's not available for married filing separately. Since Susan's modified AGI of \$95,000 is above the phase-out range, she would not be eligible for the credit.

210. b) 2026

As a cash basis taxpayer, Sarah reports income when received. Since she received payment in January 2026, she reports the income in 2026, regardless of when the services were performed.

211. c) Qualified dividends are subject to a maximum rate of 23.8% for high-income taxpayers

Qualified dividends are taxed at rates of 0%, 15%, or 20% depending on the taxpayer's income. High-income taxpayers may also be subject to the 3.8% Net Investment Income Tax, resulting in a maximum rate of 23.8% (20% + 3.8%).

212. a) \$0

Dependent care benefits provided through a flexible spending account are excluded from income if used for qualifying child care expenses. Since Paul had qualifying expenses of \$6,000, which exceeds the \$5,000 benefit, the entire benefit is excludable.

213. a) \$0

For a single taxpayer, up to \$250,000 of gain from the sale of a principal residence is excludable if the taxpayer owned and lived in the home for at least 2 out of the 5 years preceding the sale. Since Lisa meets these requirements and her gain is \$150,000 ($\$400,000 - \$250,000$), all of it is excludable.

214. c) Room and board

The Lifetime Learning Credit covers tuition, required fees, and books required for enrollment. Room and board is not a qualifying expense for the credit.

215. b) \$30,500

For 2025, the maximum employee contribution to a 401(k) plan is \$23,000 for participants under age 50, with an additional catch-up contribution of \$7,500 for participants age 50 or older. Therefore, John's maximum contribution is $\$23,000 + \$7,500 = \$30,500$.

216. c) It is not deductible for federal income tax purposes

Contributions to 529 plans are not deductible for federal income tax purposes, although some states offer state income tax deductions or credits for contributions to their state's 529 plan.

217. b) Married Filing Jointly

For 2025, the standard deduction for a taxpayer who is legally blind and age 67 would be highest for Married Filing Jointly: $\$29,200$ (base amount) + $\$1,400$ (additional for being over 65) + $\$1,400$ (additional for being legally blind) = $\$32,000$. For Single, it would be $\$14,600 + \$1,750 + \$1,750 = \$18,100$. For Head of Household, it would be $\$21,900 + \$1,750 + \$1,750 = \$25,400$.

218. d) \$9,000

When a traditional IRA has nondeductible contributions, each distribution includes a pro-rata share of the nontaxable basis. The taxable portion equals $(\text{Total IRA Value} - \text{Basis}) / \text{Total IRA Value} \times \text{Distribution}$.

In this case, $(\$40,000 - \$8,000) / \$40,000 \times \$12,000 = \$9,600$ taxable. However, this is not one of the answer choices, so the closest would be \$9,000.

219. b) \$500

The Child Tax Credit phases out for joint filers with modified AGI above \$400,000, with a complete phase-out occurring at \$440,000. At \$415,000, Joe and Ann would be entitled to 25% of the \$2,000 credit, or \$500.

220. b) Report \$5,000 as business income on Schedule C and deduct the \$2,000 of expenses on Schedule C

Nonemployee compensation reported on Form 1099-NEC is generally self-employment income that should be reported on Schedule C. Related expenses are deducted on Schedule C.

221. b) Mary does not report the payments as income

When a divorced spouse pays the mortgage on the ex-spouse's home pursuant to a divorce or separation agreement, the payments are generally treated as tax-free child support or property settlement, not as alimony or rental income.

222. c) An unrelated person who lived with the taxpayer for half the year

To be a qualifying relative, an unrelated person must live with the taxpayer as a member of the household for the entire year, not just half the year. A parent who doesn't live with the taxpayer but receives more than half of their support, a niece who lives with the taxpayer all year, and a cousin who lives with the taxpayer all year can all potentially be qualifying relatives if the other requirements are met.

223. b) \$5,000

The 10% additional tax doesn't apply to distributions for medical expenses to the extent the medical expenses exceed 7.5% of AGI. Sarah's AGI without the distribution is \$70,000, so 7.5% is \$5,250. Since her medical expenses of \$25,000 exceed this threshold by \$19,750, that amount of the distribution is not subject to the 10% additional tax. The remaining $\$30,000 - \$25,000 = \$5,000$ is subject to the 10% additional tax.

224. a) \$100,000 gain treated as a long-term capital gain

The sale of a vacation home is a taxable event, with the gain ($\$300,000 - \$200,000 = \$100,000$) treated as a long-term capital gain since the property was held for more than one year. Unlike a principal residence, there is no exclusion for the gain on a vacation home.

225. c) \$8,000

Self-employed individuals can deduct health insurance premiums as an adjustment to income. Since Richard's net profit of \$40,000 exceeds the \$8,000 in premiums, he can deduct the full amount.

226. a) Distributions for qualified education expenses are tax-free

Distributions from Coverdell Education Savings Accounts are tax-free when used for qualified education expenses, which can include expenses for both K-12 and higher education.

227. b) \$10,000

Cash contributions to public charities are generally deductible up to 60% of AGI. Since their contribution (\$10,000) is less than 60% of their AGI ($60\% \times \$75,000 = \$45,000$), they can deduct the full amount.

228. a) \$0

Early distributions from qualified retirement plans are generally subject to a 10% additional tax, but there are exceptions, including distributions to employees who separate from service after age 55. Since Tom separated from service at age 55 and is now 50, none of the distribution is subject to the 10% additional tax.

229. c) The distribution is fully taxable as ordinary income, with no early withdrawal penalty

Distributions from inherited qualified retirement plans are generally fully taxable as ordinary income (assuming the plan consisted entirely of pre-tax contributions and earnings). However, the 10% early withdrawal penalty does not apply to distributions to beneficiaries after the plan participant's death, regardless of the beneficiary's age.

230. d) All of the above

The foreign tax credit is available for income taxes paid to foreign countries (and taxes in lieu of income taxes), is limited to the U.S. tax on foreign source income, and can be taken as either a credit or a deduction, whichever is more beneficial.

231. d) Interest on the entire loan, since the total debt is less than \$750,000 and the loan was used to improve the home

Interest on home equity loans is deductible if the loan proceeds are used to buy, build, or substantially improve the home that secures the loan, and the total debt (including the primary mortgage) doesn't exceed \$750,000. Since Susan used the proceeds to renovate her kitchen (an improvement) and the total debt of \$220,000 (\$180,000 + \$40,000) is less than \$750,000, the interest on the entire home equity loan is deductible.

232. a) \$0

For a married taxpayer who is not covered by a retirement plan at work but whose spouse is covered, the deduction for traditional IRA contributions phases out when their modified AGI is between \$218,000 and \$228,000. Since their modified AGI is \$130,000, Mark is below the phase-out range and can make a fully deductible contribution up to the limit.

233. c) Private school tuition for a 10-year-old child

The Child and Dependent Care Credit covers expenses for the care of a qualifying person that enable the taxpayer to work or look for work. Private school tuition is considered primarily educational rather than for care while the parent works, so it doesn't qualify for the credit.

234. c) The \$5,000 withdrawal is tax-free if it represents the converted amount

Distributions from Roth IRAs are treated in the following order: contributions (tax-free), conversions (tax-free after 5 years, but subject to the 10% additional tax if withdrawn within 5 years), and earnings. Since John converted \$10,000 in 2025 and withdrew \$5,000 in 2026, the withdrawal represents part of the converted amount. It is tax-free (since the conversion was already taxed in 2025) but may be subject to the 10% additional tax if John is under 59½ and no exception applies.

235. b) 2026

For cash basis taxpayers, expenses are generally deductible when paid. Since Mike paid the bill in January 2026, the expense is deductible in 2026.

236. c) \$60,000 long-term capital gain and \$40,000 unrecaptured Section 1250 gain

When a rental property is sold, the gain is divided into three components: depreciation recapture, which is taxed as ordinary income; unrecaptured Section 1250 gain, which is taxed at a maximum rate of 25%; and the remaining gain, which is treated as long-term capital gain. For residential rental property placed in service after 1986, the recaptured depreciation is treated as unrecaptured Section 1250 gain, not as ordinary income. In this case, the total gain is \$100,000 (\$300,000 - \$200,000), of which \$40,000 is unrecaptured Section 1250 gain and the remaining \$60,000 is long-term capital gain.

237. b) \$2,800

For 2025, the additional standard deduction for being age 65 or older is \$1,400 per person for married filing jointly. Since both Bob and Mary are over 65, their additional standard deduction is $\$1,400 \times 2 = \$2,800$.

238. a) \$0

The passive activity loss deduction for rental real estate activities with active participation phases out between \$100,000 and \$150,000 of modified AGI. Since Tom's modified AGI is \$130,000, his maximum passive loss deduction is reduced by 60% [$(\$130,000 - \$100,000) \div \$50,000 = 60\%$]. His maximum deduction is $40\% \times \$25,000 = \$10,000$. However, since his loss is \$12,000, which exceeds this limit, he can't deduct any of the loss.

239. c) The award is taxable as ordinary income

Awards for outstanding teaching are generally taxable as ordinary income unless they qualify as excludable prizes or awards, which typically require the recipient to assign the award to a charitable organization.

240. d) All of the above

All of the listed requirements must be met for claiming the credit for the elderly or disabled: the taxpayer must be age 65 or older or be permanently and totally disabled, the taxpayer's income must be below certain limits, and the taxpayer must be a U.S. citizen or resident.

241. b) The traditional IRA contribution is not deductible, and the Roth IRA contribution is allowed

For a married taxpayer covered by a workplace retirement plan, the deduction for traditional IRA contributions phases out between modified AGI of \$123,000 and \$143,000 for 2025. Since John's modified AGI is \$140,000, which is in the phase-out range, most of his contribution would not be

deductible. For Roth IRA contributions, the phase-out range for married filing jointly is between \$230,000 and \$240,000. Since John's modified AGI is \$140,000, he is below the phase-out range and can make a full Roth IRA contribution.

242. a) Tier 1 benefits are treated the same as Social Security benefits for tax purposes

Railroad Retirement Tier 1 benefits are treated the same as Social Security benefits for tax purposes, with up to 85% potentially taxable depending on the recipient's income. Tier 2 benefits are treated as qualified pension benefits and may be partially taxable.

243. b) \$45,000

Form W-2, Box 1 shows wages, tips, and other compensation, which is the amount that should be reported as wages on the tax return. The HSA contributions shown in Box 12 are already excluded from the amount in Box 1.

244. c) \$10,000

Settlements for emotional distress resulting from a non-physical injury are generally fully taxable unless the settlement includes an amount specifically for medical expenses attributable to the emotional distress.

245. d) Nutritional supplements recommended but not prescribed by a doctor

Nutritional supplements are not deductible as medical expenses unless prescribed by a doctor. Prescription medications, medical insurance premiums, and medically necessary cosmetic surgery are all deductible medical expenses.

246. b) \$1,000

The Child Tax Credit phases out for joint filers with modified AGI above \$400,000, with a complete phase-out occurring at \$440,000. At \$425,000, Bob and Mary would be entitled to 25% of the \$4,000 credit (for two children), or \$1,000.

247. c) \$160,000

When converting a traditional IRA to a Roth IRA, the taxable amount is the value of the IRA minus the basis (nondeductible contributions). $\$200,000 - \$40,000 = \$160,000$.

248. b) It is a refundable tax credit equal to 65% of qualified health insurance premiums

The health coverage tax credit is a refundable tax credit equal to 65% of qualified health insurance premiums for eligible individuals. It's not available to all taxpayers who purchase health insurance, and it's not limited to coverage purchased through a Health Insurance Marketplace.

249. a) 2025

For cash basis taxpayers, mortgage interest is generally deductible when paid. Since Susan paid the mortgage payment in December 2025, the interest portion is deductible in 2025.

250. b) \$25,500

Their itemized deductions include \$5,000 in state income taxes, \$6,000 in real estate taxes, \$8,000 in mortgage interest, and \$4,000 in charitable contributions. Medical expenses are only deductible to the extent they exceed 7.5% of AGI. Since 7.5% of \$100,000 is \$7,500, only $\$9,000 - \$7,500 = \$1,500$ of their medical expenses are deductible. For state and local taxes, the deduction is limited to \$10,000, so only \$10,000 of the combined \$11,000 (\$5,000 state income tax + \$6,000 real estate tax) is deductible. Total: $\$1,500 + \$10,000 + \$8,000 + \$4,000 = \$23,500$.

Part 2 (Businesses)

1. b) S Corporation

S Corporations are pass-through entities for federal income tax purposes, meaning the business itself does not pay income tax. Instead, income, deductions, and credits "pass through" to shareholders who report these items on their individual tax returns. C Corporations are not pass-through entities as they pay corporate tax on their income.

2. d) Must maintain inventory using LIFO method

The requirements for S corporation qualification include: being a domestic corporation, having only eligible shareholders (individuals, certain trusts, and estates, but not partnerships, corporations or non-resident aliens), having no more than 100 shareholders, having only one class of stock, and not being an ineligible corporation (certain financial institutions, insurance companies, and domestic international sales corporations). There is no requirement regarding inventory accounting methods.

3. c) No later than 2 months and 15 days after the beginning of the tax year

A corporation must make an S election no later than 2 months and 15 days after the beginning of the tax year for which the election is to take effect. For a new corporation, this election can be made at any time during the tax year preceding the tax year it is to take effect, or by the 15th day of the 3rd month of the tax year it is to take effect.

4. b) A disregarded entity

A single-member LLC that does not elect to be treated as a corporation is, by default, disregarded as an entity separate from its owner for federal tax purposes. If the owner is an individual, the LLC is treated as a sole proprietorship. If the owner is a corporation, the LLC is treated as a branch or division of the corporation.

5. d) Any 12-month period chosen by the partners

Valid tax years for partnerships include: a year ending on the last day of a month (including December 31), any 52/53-week tax year ending with reference to the end of a month, or a tax year that conforms to the tax year of partners owning a majority interest. Partners cannot simply choose any 12-month period they wish.

6. b) Subchapter K

Partnerships are governed by Subchapter K of the Internal Revenue Code. Subchapter C governs corporations, Subchapter S governs S corporations, and Subchapter M governs regulated investment companies and real estate investment trusts.

7. b) C Corporation

C Corporations are subject to "double taxation" because the corporation pays tax on its income, and then shareholders pay tax on dividends they receive from the corporation. S Corporations, partnerships, and LLCs are generally pass-through entities where income is only taxed once at the owner level.

8. b) 80%

In a Section 351 transaction, property can be transferred to a corporation tax-free if the transferors, as a group, receive stock possessing at least 80% of the total combined voting power and at least 80% of the total number of shares of all other classes of stock of the corporation.

9. c) Included in income unless an exception applies

Cancellation of debt income is generally included in gross income. However, there are exceptions where such income may be excluded, including bankruptcy, insolvency, qualified farm indebtedness, qualified real property business indebtedness, and certain student loans.

10. c) Federal income taxes paid

Business expenses that are "ordinary and necessary" are generally deductible. However, federal income taxes are specifically not deductible for federal income tax purposes. Salaries paid to employees, interest on business loans, and insurance premiums for business policies are all deductible business expenses.

11. b) Inventory held for sale to customers

Capital assets include property held by a taxpayer (whether or not connected with a trade or business) but exclude inventory, depreciable property used in a trade or business, real property used in a trade or business, certain copyrights, accounts receivable, and certain other assets. Inventory held for sale to customers is specifically excluded from the definition of capital assets.

12. b) \$1,160,000

The Section 179 expense deduction limit for 2024 is \$1,160,000. This amount is adjusted annually for inflation.

13. b) 200% declining balance method

The 200% declining balance method (also known as double declining balance) allows for the greatest deduction in the first year compared to other methods. Straight-line depreciation provides equal deductions over the recovery period, 150% declining balance provides smaller deductions than 200%, and ADS is generally slower than regular MACRS.

14. c) 60%

For qualified property placed in service during 2024, bonus depreciation is available at 60% of the adjusted basis. This percentage has been phasing down from 100% for property placed in service before January 1, 2023.

15. a) 10%

A corporation's charitable contribution deduction is limited to 10% of its taxable income, computed with certain adjustments. Excess contributions can be carried forward for up to 5 years.

16. b) Meals provided to employees for the convenience of the employer

Meals provided to employees for the convenience of the employer are 100% deductible. Meals with clients discussing business, meals during entertainment activities, and meals during business travel are generally 50% deductible (though there are some exceptions for certain types of employees, like transportation workers).

17. c) Law practice

For Qualified Business Income (QBI) deduction purposes, specified service trades or businesses include fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, and any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners. Real estate brokerage, insurance sales, and plumbing services are not specified service trades or businesses.

18. c) Indefinite

For net operating losses (NOLs) arising in tax years beginning after December 31, 2020, the carryforward period is indefinite. However, the deduction is limited to 80% of taxable income for any tax year.

19. d) Being engaged in a specified service trade or business

The Qualified Business Income deduction under Section 199A does not require the taxpayer to not be engaged in a specified service trade or business. In fact, owners of specified service trades or businesses may still qualify for the deduction if their taxable income is below certain thresholds.

20. b) Type B reorganization

A Type B reorganization involves one corporation acquiring the stock of another corporation solely in exchange for voting stock of the acquiring corporation (or its parent). Type A is a statutory merger or consolidation, Type C involves acquiring substantially all assets of a corporation, and Type D involves a transfer of assets to a controlled corporation.

21. c) Adjusted basis of property given up, adjusted for any boot received or given

In a like-kind exchange, the basis of property received is equal to the adjusted basis of property given up, decreased by any money received and loss recognized, and increased by any gain recognized and additional consideration given.

22. c) Partnership losses allocated to the partner

A partner's basis in their partnership interest decreases for their distributive share of partnership losses, partnership non-deductible expenses, certain depletion deductions, and distributions. It increases for their share of partnership income, additional capital contributions, and their share of increases in partnership liabilities.

23. b) Unrealized receivables and substantially appreciated inventory

"Hot assets" in partnership tax terminology refer to unrealized receivables and substantially appreciated inventory. These assets receive special treatment when a partner sells a partnership interest or receives certain distributions to prevent the conversion of ordinary income into capital gain.

24. c) Ordinary income or loss

For S corporation shareholder basis purposes, items that increase basis (income items) are considered first in the following order: ordinary income, separately stated income items, and tax-exempt income. Items that decrease basis (deduction items) are considered next in the following order: distributions, ordinary loss, separately stated loss items, and non-deductible expenses.

25. b) The partnership's adjusted basis in the property

When a partnership distributes property to a partner, the partner's basis in the distributed property is generally the partnership's adjusted basis in the property, but cannot exceed the partner's adjusted basis in the partnership interest reduced by any money received in the same distribution.

26. b) 100

An S corporation can have no more than 100 shareholders. For this purpose, a husband and wife (and their estates) are treated as one shareholder.

27. d) Percentage completion method for all businesses

The percentage of completion method is only required for certain long-term contracts, not for all businesses. Cash method, accrual method, and hybrid methods are all acceptable accounting methods for tax purposes, subject to certain limitations based on business type and size.

28. a) Any period of 12 consecutive months ending on the last day of any month except December

A fiscal year is any period of 12 consecutive months ending on the last day of any month except December. A 12-month period ending on December 31 is a calendar year.

29. b) A corporation with average annual gross receipts of \$27 million

Under the Tax Cuts and Jobs Act, businesses (including C corporations and partnerships) with average annual gross receipts of \$27 million or less (adjusted for inflation from the original \$25 million threshold) for the 3 prior tax years can use the cash method. Businesses exceeding this threshold are generally required to use the accrual method, with some exceptions for certain types of businesses.

30. c) When all events have occurred and economic performance has taken place

Under the economic performance rules, an accrual basis taxpayer can deduct expenses when all events have occurred to establish the liability, the amount can be determined with reasonable accuracy, and

economic performance has taken place. Economic performance generally occurs when services or property are provided, or when payment is made for certain liabilities.

31. b) 39 years

Under the Modified Accelerated Cost Recovery System (MACRS), nonresidential real property has a recovery period of 39 years.

32. a) 27.5 years

Under the Modified Accelerated Cost Recovery System (MACRS), residential rental property has a recovery period of 27.5 years.

33. a) \$2,000

For a \$10,000 asset with a 5-year recovery period using the half-year convention and 200% declining balance method (without bonus depreciation), the first-year depreciation is $\$10,000 \times 40\% \times 50\% = \$2,000$. The 40% rate comes from $200\% \div 5 \text{ years} = 40\%$, and the 50% comes from the half-year convention.

34. b) Property must be new

Section 179 expensing is available for both new and used property, as long as it meets other requirements. The property must be used more than 50% for business, must be tangible depreciable property, and must be purchased (not gifted or inherited).

35. a) The donor's adjusted basis

The basis of property acquired by gift is generally the donor's adjusted basis. However, for determining loss, if the donor's adjusted basis is greater than the fair market value at the time of the gift, the basis is the fair market value at the time of the gift.

36. c) Its natural business year

A corporation's tax year must generally coincide with its natural business year if it has one. If it doesn't have a natural business year, it must generally use the tax year of its majority shareholders, or if that doesn't apply, a calendar year.

37. c) Marketing costs

Under the uniform capitalization rules (UNICAP), direct materials, direct labor, and indirect costs that directly benefit or are incurred because of production or resale activities must be capitalized. Marketing costs (selling expenses) are not required to be capitalized under UNICAP.

38. b) LIFO

LIFO (Last In, First Out) assumes that the most recently purchased items are sold first. FIFO (First In, First Out) assumes that the oldest items are sold first. Weighted average uses an average cost of all items, and specific identification tracks the actual cost of each specific item sold.

39. a) \$5,000

The maximum deduction for start-up expenses in the first year of business is \$5,000, reduced dollar-for-dollar by the amount by which the start-up expenses exceed \$50,000. Excess start-up expenses over the \$5,000 limit must be amortized over 180 months.

40. d) Always, on the difference between the property's fair market value and adjusted basis

When a corporation distributes property to shareholders, it recognizes gain or loss as if the property had been sold to the shareholders at its fair market value. The gain or loss is the difference between the property's fair market value and its adjusted basis.

41. c) 15 years

Goodwill acquired in a business acquisition is considered a Section 197 intangible and must be amortized over a 15-year period, beginning in the month of acquisition.

42. d) Personal investment account

Qualified retirement plans include employer-sponsored plans such as 401(k) plans, defined benefit plans, and SIMPLE IRAs. Personal investment accounts are not qualified retirement plans as defined by the tax code.

43. c) \$66,000

The 2024 contribution limit for a defined contribution plan per participant is \$66,000 (plus catch-up contributions of \$7,500 for participants age 50 or older).

44. a) The amount is reasonable

A corporation can generally deduct compensation to an employee when it is reasonable in amount, actually paid or incurred in the tax year, for services actually rendered, and is an ordinary and necessary business expense. The reasonableness of compensation is particularly scrutinized when the employee is also a shareholder.

45. d) The corporation's profitability

In determining whether compensation is reasonable in a C corporation, relevant factors include compensation levels for similar positions in the industry, the employee's qualifications and experience, and whether the employee is a shareholder (potentially indicating disguised dividends). The corporation's profitability is generally not a primary factor in determining the reasonableness of compensation.

46. c) Form 1065

A partnership reports its income on Form 1065, U.S. Return of Partnership Income. Form 1120 is used by C corporations, Form 1120S by S corporations, and Form 1040 by individuals.

47. b) Form 1120S

An S corporation reports its income on Form 1120S, U.S. Income Tax Return for an S Corporation. Form 1120 is used by C corporations, Form 1065 by partnerships, and Form 1040 by individuals.

48. d) Shareholder's basis in stock

Tax attributes that can be carried forward after a corporate acquisition include net operating losses, capital loss carryovers, excess charitable contributions, general business credit carryovers, and alternative minimum tax credits. A shareholder's basis in stock is a shareholder-level attribute, not a corporate-level attribute.

49. b) They are subject to an annual limitation

Under Section 382, when a corporation undergoes an ownership change (generally more than a 50-percentage-point change in ownership over a three-year period), the use of net operating losses is subject to an annual limitation, generally equal to the value of the old loss corporation multiplied by the long-term tax-exempt rate.

50. d) Worker's educational background

The determination of whether a worker is an employee or independent contractor is based on three categories of factors: behavioral control, financial control, and the relationship of the parties. The worker's educational background is generally not a significant factor in this determination.

51. a) \$7,000

For Federal Unemployment Tax Act (FUTA) purposes, the wage base limit per employee for 2024 is \$7,000. This means that employers pay FUTA tax on the first \$7,000 of wages paid to each employee during the calendar year.

52. b) January 31

The deadline for providing W-2 forms to employees is January 31 of the year following the calendar year of wages. This is the same deadline for filing W-2 forms with the Social Security Administration if filing on paper (if filing electronically, the deadline for filing with the SSA is later).

53. b) Employers with \$50,000 or less in employment taxes during the lookback period

For employment tax deposits, employers with \$50,000 or less in employment taxes during the lookback period (the four quarters beginning July 1 of the second preceding year and ending June 30 of the prior year) are considered monthly depositors. They must deposit employment taxes by the 15th day of the following month.

54. a) 6.2%

The Social Security tax rate for employers in 2024 is 6.2% on wages up to the Social Security wage base. The combined Social Security and Medicare tax rate for employers is 7.65% (6.2% + 1.45%), and the Medicare tax rate alone is 1.45% (with no wage cap).

55. c) 62.5 cents per mile

The standard mileage rate deduction for business use of a vehicle in 2024 is 62.5 cents per mile. This rate is adjusted annually by the IRS based on various factors including the cost of operating a vehicle.

56. c) Both A and B

To qualify for a home office deduction, the home office must be used exclusively and regularly for business AND it must be the principal place of business for that trade or business, a place where the

taxpayer meets with patients, clients, or customers in the normal course of business, or a separate structure used in connection with the trade or business.

57. c) \$17,000

The annual gift tax exclusion amount per donee for 2024 is \$17,000. This means that gifts up to this amount per recipient per year do not require filing a gift tax return and do not use any of the lifetime estate and gift tax exemption.

58. b) Stock held in a brokerage account

For estate tax purposes, assets that receive a step-up in basis at death include most property owned by the decedent, such as stocks, bonds, real estate, and business interests. IRAs do not receive a step-up in basis as they are income in respect of a decedent. Life insurance proceeds, if included in the estate, are generally not subject to income tax. Property held in certain irrevocable trusts may not be included in the decedent's estate and thus would not receive a step-up in basis.

59. a) Form 706

The generation-skipping transfer tax is reported on Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. Form 709 is used for gift tax returns, Form 8971 is used for reporting basis information to recipients of property from an estate, and Form 8868 is used for extension of time to file for exempt organizations.

60. c) \$12.92 million

The lifetime estate and gift tax exemption amount for 2024 is \$12.92 million per individual. This amount is adjusted annually for inflation.

61. b) 20%

The tax rate on accumulated earnings beyond the reasonable needs of a corporation is 20%. This is an additional tax imposed on corporations that accumulate earnings rather than distributing them as dividends to avoid income tax on shareholders.

62. c) \$100,000

The accumulated earnings tax applies when accumulated earnings exceed \$250,000 for most corporations, or \$150,000 for certain personal service corporations. The tax applies to accumulated taxable income,

which is taxable income with certain adjustments, minus the dividends paid deduction and the accumulated earnings credit.

63. c) Section 199 deduction

The Section 199 deduction for domestic production activities was repealed by the Tax Cuts and Jobs Act for tax years beginning after December 31, 2017. The Section 179 deduction for business property, Section 168(k) bonus depreciation, and Section 199A deduction for qualified business income were not repealed.

64. c) Material participation in a trade or business

Passive activities include any trade or business in which the taxpayer does not materially participate and, with certain exceptions, rental activities. Material participation in a trade or business is active participation, not passive, so it is not considered a passive activity.

65. a) More than \$250,000

A "substantial built-in loss" for partnership property transfers exists if the partnership's adjusted basis in partnership property exceeds the fair market value of the property by more than \$250,000. If there is a substantial built-in loss, the partnership must adjust the basis of its property when a partnership interest is transferred.

66. b) The contributing partner

When a partner contributes property with a built-in gain to a partnership, Section 704(c) generally requires that the built-in gain be allocated to the contributing partner when the property is later sold. This prevents the shifting of tax consequences for pre-contribution gains or losses to non-contributing partners.

67. c) Return of capital to the extent of stock basis

Corporate distributions are treated as dividends to the extent of current or accumulated earnings and profits. After earnings and profits are exhausted, distributions are treated as a return of capital to the extent of the shareholder's stock basis. This portion is not subject to dividend treatment. After stock basis is reduced to zero, any additional distributions are treated as capital gain.

68. b) Capital gain/loss treatment

A stock redemption that qualifies as a substantially disproportionate distribution under Section 302(b)(2) is treated as a sale or exchange of the stock, resulting in capital gain or loss treatment, rather than as a dividend.

69. c) Both gain and loss on distributed property

For tax purposes, a liquidating corporation recognizes both gain and loss on property distributed in complete liquidation, as if the property had been sold to the distributee at its fair market value.

70. a) Begins on the date of distribution

In corporate liquidations, the holding period for property received by the shareholder begins on the date of distribution. It does not include the holding period of the stock surrendered or the corporation's holding period of the property.

71. c) \$1 billion

The threshold amount of gross receipts for a corporation to be subject to the corporate Alternative Minimum Tax for tax years beginning after December 31, 2022, is \$1 billion. This tax applies to "applicable corporations," which generally are corporations with average annual adjusted financial statement income exceeding \$1 billion over a three-year period.

72. c) Both A and B

A C corporation is a personal holding company if both conditions are met: (1) at least 60% of its adjusted ordinary gross income is personal holding company income, and (2) at any time during the last half of the tax year, more than 50% of the value of its outstanding stock is owned, directly or indirectly, by or for five or fewer individuals.

73. b) 20%

The personal holding company tax rate is 20% on undistributed personal holding company income.

74. d) Income from active business operations

Personal holding company income generally includes passive income such as dividends, interest, certain royalties, annuities, and rents (subject to exceptions). Income from active business operations is not personal holding company income.

75. d) The subsidiary must use the same accounting method as the parent

For consolidated return purposes, the requirements for a subsidiary to be part of the affiliated group include: the parent must own at least 80% of the voting power of the subsidiary, the parent must own at least 80% of the value of the subsidiary, and the subsidiary must be a domestic corporation. There is no requirement that the subsidiary must use the same accounting method as the parent.

76. d) The shareholders must pay fair market value for the stock received

In a corporate spin-off under Section 355, the shareholders do not pay for the stock received; it is distributed to them. The requirements include: the distributing corporation must distribute control (at least 80%) of the controlled corporation, both corporations must be engaged in active businesses, the transaction must have a valid business purpose, and the transaction must not be a device to distribute earnings and profits.

77. a) To treat a stock purchase as an asset purchase

The primary purpose of a Section 338 election is to treat a qualified stock purchase as if the target corporation had sold all of its assets at fair market value and then liquidated, allowing the purchasing corporation to receive a stepped-up basis in the target's assets.

78. d) An individual and a C corporation in which the individual owns 25% of the stock

Under Section 267, losses on sales between related parties are disallowed. Related parties include an individual and a corporation in which the individual owns, directly or indirectly, more than 50% of the stock. An individual owning only 25% of a C corporation's stock would not be considered related to the corporation under Section 267.

79. a) Siblings, spouse, ancestors, and lineal descendants

For purposes of the related party rules under Section 267, family attribution includes an individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants. This is broader than just spouse, ancestors, and lineal descendants, or just siblings, spouse, and children.

80. b) Schedule K-1

A partnership reports a partner's share of income, deductions, credits, etc. on Schedule K-1 (Form 1065). Schedule K summarizes all partners' shares of these items, Form 1065 page 1 reports the partnership's income and deductions, and Form 8825 is used to report rental real estate income and expenses.

81. d) Capital losses cannot be carried back

C corporations may not carry back capital losses. Capital losses can only be carried forward to future tax years.

82. b) 5 years

A C corporation's capital loss can be carried forward for 5 years and can be used to offset capital gains during that period.

83. d) The corporation must have at least two shareholders

There is no requirement that an S corporation must have at least two shareholders. An S corporation can have as few as one shareholder. The other options—all shareholders must consent to the election, the corporation must be a domestic corporation, and the corporation must have only one class of stock—are all requirements for a valid S corporation election.

84. c) It is taxed at the corporate level at 21%

Excess net passive income for an S corporation with accumulated earnings and profits is taxed at the corporate level at the highest corporate tax rate, which is currently 21%. This tax applies if the S corporation has accumulated earnings and profits from years when it was a C corporation, and its passive investment income exceeds 25% of gross receipts.

85. c) Having a nonresident alien become a shareholder

An S corporation election will terminate if an ineligible shareholder, such as a nonresident alien, acquires stock in the corporation. Death of a shareholder, transfer of shares to another eligible shareholder, and having one class of voting and one class of non-voting common stock (which is considered one class of stock for S corporation purposes if the only difference is voting rights) do not terminate an S corporation election.

86. c) Charitable contributions

For S corporation reporting purposes, charitable contributions are separately stated on Schedule K-1. This allows shareholders to apply their individual limitations to these items. Rent expense, wage expense, and office supplies expense are generally not separately stated but included in ordinary income or loss.

87. c) Farming business

Certain farming businesses are exempt from the UNICAP rules regardless of gross receipts. Manufacturing, retail, and wholesale businesses are subject to UNICAP rules if their average annual gross receipts exceed the threshold (currently \$27 million, adjusted for inflation).

88. c) Sale of dealer property

The installment method of reporting income is not available for sales of inventory or dealer property (property held primarily for sale to customers in the ordinary course of business). It is available for sales of real property, personal property, and business equipment, provided these are not dealer property.

89. b) Gross profit percentage

Under the installment method, the percentage of each payment that is reported as gain is the gross profit percentage, which is calculated as the gross profit divided by the contract price. Gross profit is the selling price minus the adjusted basis and selling expenses.

90. b) 30% of adjusted taxable income

The limitation on business interest expense deductions for businesses with average annual gross receipts exceeding \$27 million is generally 30% of adjusted taxable income. There are exceptions for certain businesses, including electing real property trades or businesses and electing farming businesses.

91. c) Certain real property businesses that elect out

Certain real property businesses can elect out of the business interest expense limitation rules. C corporations, S corporations, and personal service corporations are subject to the limitation if their average annual gross receipts exceed the threshold.

92. d) The lesser of 20% of qualified business income or 20% of taxable income minus net capital gain

The maximum amount of qualified business income deduction under Section 199A is the lesser of 20% of qualified business income or 20% of taxable income minus net capital gain. For taxpayers with taxable income above certain thresholds, the deduction may be further limited based on W-2 wages and qualified property.

93. b) \$340,100

The threshold amount for the phase-in of W-2 wage limitations for the qualified business income deduction for married filing jointly taxpayers in 2024 is \$340,100. Above this threshold, the wage limitation is phased in, and is fully applicable when taxable income reaches \$440,100 for married filing jointly taxpayers.

94. c) Section 197 intangibles

Section 197 intangibles, including goodwill, going concern value, workforce in place, and certain other intangibles, must be capitalized and amortized over 15 years. Organization costs and start-up costs can be deducted up to \$5,000 each in the first year, with the remainder amortized over 180 months. Research and experimental expenditures for tax years beginning after December 31, 2021, must be capitalized and amortized over 5 years (15 years if foreign).

95. b) Capitalized and amortized over 5 years (15 years if foreign)

For tax years beginning after December 31, 2021, research and experimental expenditures must be capitalized and amortized over 5 years for domestic research and 15 years for foreign research. Prior to this change, these expenditures could be currently deducted under Section 174.

96. d) Marketing research expenses

For the research and development credit, qualified research expenses include wages for employees performing qualified services, supplies used in qualified research, and 65% of contract research expenses. Marketing research expenses are not qualified research expenses for this purpose.

97. c) Deductible up to \$5,000 in the first year, with excess amortized over 180 months

Corporate organizational costs are deductible up to \$5,000 in the first year, reduced dollar-for-dollar by the amount by which the organizational costs exceed \$50,000. Any excess over the \$5,000 limit must be amortized over 180 months (15 years).

98. b) 40%

The maximum Work Opportunity Tax Credit percentage for qualified veterans is 40% of the first \$6,000 of qualified wages (higher wage limits apply for certain categories of veterans). The credit is 25% if the employee works at least 120 hours but less than 400 hours, and 0% if the employee works less than 120 hours.

99. a) A payment to a partner for services rendered that is determined without regard to partnership income

A guaranteed payment is a payment to a partner for services rendered, or for the use of capital, that is determined without regard to partnership income. It is different from a distribution of partnership profits, a return of partner's capital, or a payment to reduce a partner's negative capital account.

100. c) Treated as self-employment income to the recipient partner and a deduction to the partnership

Guaranteed payments to partners are treated as self-employment income to the recipient partner and as a deduction to the partnership for purposes of determining its ordinary income or loss. They are not treated as distributions of partnership profits or as tax-free returns of capital.

101. d) The partner does not recognize gain or loss

When a partner contributes property to a partnership, under Section 721, the partner does not recognize gain or loss. This is a tax-free transaction, provided the partnership is not an investment company.

102. b) The partner's adjusted basis in the property

When a partner contributes property to a partnership, the partnership's basis in the contributed property is the same as the adjusted basis of the property in the hands of the contributing partner.

103. c) Partner's share of partnership tax-exempt income

A partner's basis in their partnership interest is increased by additional capital contributions, partner's share of partnership income (including tax-exempt income), and increases in partner's share of partnership liabilities.

104. d) Partner's share of nondeductible partnership expenses

A partner's basis in their partnership interest is decreased by distributions from the partnership, partner's share of partnership losses, partner's share of nondeductible partnership expenses, and decreases in partner's share of partnership liabilities.

105. a) Partner's adjusted basis in the partnership interest

A partner's deduction for partnership losses is limited to the partner's adjusted basis in the partnership interest. Losses in excess of basis are suspended and can be deducted when the partner's basis increases.

106. b) An election to adjust the basis of partnership assets upon the transfer of a partnership interest or distribution of property

A Section 754 election is an election by a partnership to adjust the basis of partnership assets upon the transfer of a partnership interest or distribution of property. These adjustments apply to the transferee partner or distributee partner and affect the basis of partnership assets for that partner only.

107. a) By the due date of the return for the year of transfer or distribution

A Section 754 election must be made by the due date (including extensions) of the partnership return for the tax year during which the transfer or distribution occurs. Once made, the election applies to all future transfers and distributions unless revoked with IRS permission.

108. b) Federal income taxes paid

For a corporation, federal income taxes paid are not deductible. State income taxes, property taxes on business property, and ordinary and necessary business expenses are generally deductible for federal income tax purposes.

109. c) The entire unused amount

The entire unused amount of Section 179 expense can be carried over to future years. There is no dollar limit on the carryover, but the expense is still subject to the annual limitations in the carryover year.

110. b) Gains recognized during the recognition period on assets held when the corporation converted from C to S

The built-in gains tax for S corporations applies to gains recognized during the recognition period (generally 5 years) on assets that had built-in gain at the time the corporation converted from C to S status. It does not apply to gains on assets acquired after the S election or to all gains recognized during the S corporation period.

111. a) 5 years

The length of the recognition period for the built-in gains tax is 5 years. This period was permanently set at 5 years by the Protecting Americans from Tax Hikes Act of 2015.

112. c) A single-member LLC

Eligible entities that can elect their classification for federal tax purposes include single-member LLCs, multi-member LLCs, and certain foreign entities. Corporations organized under state law are always classified as corporations for federal tax purposes. Partnerships organized under state law are always classified as partnerships, and S corporations have already made an election under Subchapter S.

113. c) Disregarded entity

The default classification for a domestic single-member LLC is a disregarded entity. This means that, for federal tax purposes, the LLC is "disregarded as an entity separate from its owner" and is treated as a sole proprietorship if the owner is an individual, or as a branch or division if the owner is a corporation.

114. a) Corporation

The default classification for a foreign eligible entity where all members have limited liability is a corporation. If at least one member does not have limited liability, the default classification is a partnership if there are two or more members, or a disregarded entity if there is only one member.

115. a) Form 8832

Form 8832, Entity Classification Election, is used to elect entity classification. Form 2553 is used to elect S corporation status, Form 8869 is used to elect qualified subchapter S subsidiary status, and Form 8875 is used to elect REIT TRS status.

116. b) 25% of the taxpayer's net income tax liability over \$25,000

The General Business Credit limitation is 25% of the taxpayer's net income tax liability over \$25,000. Net income tax liability means the income tax liability reduced by certain other credits.

117. d) No carryback allowed

For General Business Credit purposes, no carryback is allowed. Prior to the Tax Cuts and Jobs Act, a 1-year carryback was allowed, but this was repealed for tax years beginning after December 31, 2017.

118. d) 20 years

For General Business Credit purposes, the carryforward period is 20 years. Credits unused after the 20-year carryforward period expire.

119. d) The taxpayer's age

In determining whether an activity is engaged in for profit (as opposed to a hobby), relevant factors include the manner in which the taxpayer carries on the activity, the expertise of the taxpayer or advisors, the time and effort expended, the expectation of appreciation in value, the taxpayer's success in similar activities, the history of income or loss, the amount of occasional profits earned, the taxpayer's financial status, and elements of personal pleasure or recreation. The taxpayer's age is not a factor considered in this determination.

120. b) Activity shows profit in at least 3 of 5 consecutive years

For most activities, the presumption period for the hobby loss rules is that an activity is engaged in for profit if it shows profit in at least 3 of 5 consecutive years. For activities consisting primarily of the breeding, training, showing, or racing of horses, the presumption applies if the activity shows profit in at least 2 of 7 consecutive years.

121. c) \$289,000 (\$578,000 MFJ)

The limitation on excess business losses for non-corporate taxpayers in 2024 is \$289,000 for single taxpayers and \$578,000 for married filing jointly. This means that business losses above these thresholds cannot be used to offset other income in the current year.

122. b) They are treated as net operating losses

Disallowed excess business losses are treated as net operating losses (NOLs) and carried forward to the following tax year. NOLs are generally limited to 80% of taxable income in the carryforward year.

123. b) Repealed by the Tax Cuts and Jobs Act

The Technical Termination rule for partnerships, which caused a partnership to terminate for tax purposes if there was a sale or exchange of 50% or more of the partnership's capital and profits interests within a 12-month period, was repealed by the Tax Cuts and Jobs Act for tax years beginning after December 31, 2017.

124. c) The partner may have a tax liability upon partnership liquidation

A partner's negative capital account generally does not require immediate action. However, upon liquidation of the partnership (or the partner's interest), the partner may have a tax liability if they are not required to restore the deficit or if the deficit exceeds the partner's share of minimum gain.

125. d) The 15th day of the 4th month following the close of its tax year

For a fiscal year C corporation, its tax return is due on the 15th day of the 4th month following the close of its tax year. For a calendar year C corporation, this would be April 15.

126. c) The 15th day of the 3rd month following the close of its tax year

For a partnership, its tax return is due on the 15th day of the 3rd month following the close of its tax year. For a calendar year partnership, this would be March 15.

127. b) 6 months

The maximum extension period for a partnership tax return is 6 months. For a calendar year partnership, this would extend the due date to September 15.

128. c) Foreign tax credit

The Foreign tax credit is not part of the General Business Credit. The General Business Credit includes various credits such as the research credit, low-income housing credit, disabled access credit, and many others, but the foreign tax credit is a separate credit with its own rules and limitations.

129. b) 20%

The tax rate on Personal Holding Company Income is 20%. This is an additional tax imposed on personal holding companies on their undistributed personal holding company income.

130. d) The corporation uses the accrual method of accounting

In determining if a corporation is a professional service corporation, relevant factors include whether substantially all activities involve performing services in health, law, engineering, accounting, actuarial science, performing arts, or consulting; whether substantially all stock is owned by employees performing services; and whether substantially all employees are licensed professionals. The accounting method used by the corporation is not a factor in this determination.

131. b) 100% of current earnings and profits

To avoid the accumulated earnings tax, a corporation should generally distribute 100% of its current earnings and profits, unless it can demonstrate that the retained earnings are for reasonable business needs.

132. b) \$250,000

The base amount of accumulated earnings that are considered reasonable for the needs of most businesses is \$250,000. For certain personal service corporations, the amount is \$150,000.

133. d) Investments in marketable securities unrelated to the business

Reasonable business needs for accumulated earnings tax purposes include business expansion plans, debt retirement, and working capital needs. Investments in marketable securities unrelated to the business are generally not considered a reasonable business need.

134. a) Form 1120, Schedule J

The accumulated earnings tax is reported on Form 1120, Schedule J, Tax Computation and Payment. Schedule N is used for reporting foreign operations, Form 8827 is used for reporting credit for prior year minimum tax, and Form 5471 is used for reporting information on certain foreign corporations.

135. a) Currently deductible as ordinary and necessary business expenses

Expenses incurred in a proxy fight are generally currently deductible as ordinary and necessary business expenses if the fight is related to questions of corporate policy, rather than to a personal power struggle.

136. b) Must be capitalized and depreciated

Expenses for removing asbestos from a building generally must be capitalized and depreciated as improvements to the building, rather than being currently deductible as repairs.

137. c) Currently deductible if they do not increase the value or prolong the life of the property

Environmental cleanup costs are currently deductible if they do not increase the value, substantially prolong the useful life, or adapt the property to a new or different use. If they do any of these things, they must be capitalized.

138. b) 20%

The credit for qualified rehabilitation expenditures for certified historic structures is 20% of qualifying expenditures. For buildings placed in service before 2018, there was also a 10% credit available for non-historic buildings placed in service before 1936, but this was repealed by the Tax Cuts and Jobs Act.

139. c) Not deductible

Lobbying expenses paid or incurred to influence federal or state legislation are generally not deductible. There are some exceptions for local legislation, in-house expenses up to \$2,000, and certain de minimis in-house lobbying expenses.

140. c) Not deductible

Penalties and fines paid to a government for violation of law are not deductible. This includes both civil and criminal penalties, but certain exceptions may apply for certain compensatory penalties or those that are remedial in nature.

141. b) Special allocation

A disproportionate distribution of income, gain, loss, deduction, or credit in a partnership is known as a special allocation. Section 704(b) sets the rules for when such allocations will be respected for tax purposes.

142. b) Substantial economic effect

A special allocation in a partnership will be respected for tax purposes if it has "substantial economic effect." This means the allocation must have economic effect and the economic effect must be substantial.

143. b) Profit-sharing ratios

The allocation of nonrecourse debt among partners is generally based on profit-sharing ratios. By contrast, recourse debt is allocated based on who bears the economic risk of loss.

144. c) The partner's basis is reduced

When a partner is released from recourse liabilities, the partner's basis in the partnership interest is reduced by the amount of the liabilities from which the partner is released. If this reduction exceeds the partner's basis, the excess is treated as gain from the sale or exchange of a partnership interest.

145. b) A transaction designed to avoid the 7-year rule for contributions and distributions of property

A "mixing bowl" transaction in partnership taxation refers to a transaction designed to avoid the 7-year rule (now 7 years for contributions made after August 5, 1997, and previously 5 years) for contributions and distributions of property. Under Sections 704(c)(1)(B) and 737, certain distributions of property within 7 years of contribution can trigger gain recognition.

146. b) A contribution of property followed by a distribution of cash or other property

A "disguised sale" in partnership taxation refers to a contribution of property to a partnership followed by a distribution of cash or other property to the contributing partner. If certain conditions are met, this is treated as a sale of the property by the partner to the partnership, rather than as a contribution and distribution.

147. b) 2 years

The limitation period for a disguised sale transaction is generally 2 years. Transfers within a 2-year period are presumed to be a disguised sale unless the facts and circumstances indicate otherwise.

148. c) Tax-free if certain requirements are met

The tax treatment of a partnership merger is generally tax-free if certain requirements are met. These requirements include that the partners receive only partnership interests and that there is a continuation of at least one of the merging partnerships.

149. c) It is always retained by one of the resulting partnerships based on specific rules

In a partnership division, the EIN of the original partnership is always retained by one of the resulting partnerships based on specific rules. Generally, the resulting partnership that has the assets with the greatest fair market value retains the EIN of the original partnership.

150. a) \$5,000

For a new corporation, the maximum amount of organizational expenditures that can be deducted in the first year is \$5,000, reduced dollar-for-dollar by the amount by which the organizational expenditures exceed \$50,000.

151. a) \$50,000

The phase-out threshold for the first-year deduction of organizational expenditures is \$50,000. If organizational expenditures exceed \$50,000, the \$5,000 first-year deduction is reduced dollar-for-dollar by the excess over \$50,000.

152. c) 180 months

The amortization period for the portion of organizational expenditures that cannot be deducted in the first year is 180 months (15 years), beginning with the month in which the corporation begins business.

153. b) Taxed to shareholders when distributed

A corporation's earnings and profits are taxed to shareholders when distributed as dividends. This is the basis for the "double taxation" of C corporations, as the corporation pays tax on its income when earned, and shareholders pay tax when the earnings are distributed as dividends.

154. c) Nontaxable income

Items that reduce a corporation's earnings and profits include federal income taxes paid, nondeductible penalties and fines, and distributions to shareholders. Nontaxable income, such as tax-exempt interest income, increases earnings and profits even though it is not included in taxable income.

155. c) The fair market value of the property

The basis of property received by a shareholder in a non-liquidating distribution is the fair market value of the property at the time of distribution.

156. c) Can be carried forward 5 years

A C corporation's charitable contribution that exceeds the 10% limitation can be carried forward for 5 years. It cannot be carried back.

157. d) There is no maximum percentage

There is no maximum percentage of stock that can be redeemed in a substantially disproportionate redemption under Section 302(b)(2). The key requirements are that after the redemption, the shareholder owns less than 50% of the voting power of all voting stock, and the shareholder's ownership percentage of voting stock after the redemption is less than 80% of the ownership percentage before the redemption.

158. b) 80%

For a redemption to qualify as substantially disproportionate, the shareholder's ownership of voting stock after the redemption must be less than 80% of the ownership before the redemption. Additionally, the shareholder must own less than 50% of the voting power of all voting stock after the redemption.

159. b) Taxable to the extent of realized gain

Boot received in a Type A reorganization is taxable to the extent of realized gain. If the boot has the effect of a dividend, it is taxed as a dividend to the extent of the shareholder's ratable share of the corporation's earnings and profits. Any excess is treated as capital gain.

160. c) Type C reorganization

In a Type C reorganization, one corporation acquires substantially all the assets of another corporation solely in exchange for voting stock of the acquiring corporation (or its parent). In a Type A reorganization, there is a statutory merger or consolidation. In a Type B reorganization, one corporation acquires the stock of another corporation solely in exchange for voting stock. A Type D reorganization involves a transfer of assets to a controlled corporation.

161. c) Long-term capital loss

The tax treatment of a worthless security in a corporation is generally a long-term capital loss, regardless of the actual holding period. This is treated as occurring on the last day of the tax year in which the security becomes worthless.

162. b) At least 80% of voting power and value

The minimum stock ownership required for a corporation to file a consolidated return with a subsidiary is at least 80% of the voting power of all classes of stock entitled to vote and at least 80% of the total value of all classes of stock.

163. a) The due date of the return for the first consolidated year

The filing deadline for making a consolidated return election is the due date (including extensions) of the return for the first consolidated year. This election is made by filing a consolidated return.

164. d) 100% deductible

Dividends received by a corporation from another domestic corporation are generally eligible for a dividends received deduction (DRD). The DRD is 50% for ownership of less than 20%, 65% for ownership of 20% or more but less than 80%, and 100% for ownership of 80% or more. For members of the same consolidated group, intercompany dividends are eliminated and effectively 100% deductible.

165. b) Deferred until certain triggering events occur

The tax treatment of intercompany transactions in a consolidated group is generally to defer recognition of gain or loss until certain triggering events occur. These triggering events include when the asset leaves the consolidated group or when the effect of the intercompany transaction is otherwise reflected outside the consolidated group.

166. a) The excess of FIFO basis over LIFO basis of inventory

The LIFO recapture amount when a C corporation converts to an S corporation is the excess of the inventory's basis determined using FIFO (first-in, first-out) over its basis determined using LIFO (last-in, first-out). This amount is included in the corporation's income in its last C corporation year.

167. c) Over 4 years, beginning with the last C corporation year

The LIFO recapture tax must be paid in four equal installments, with the first installment due in the last C corporation year and the remaining installments due in the next three tax years.

168. b) 21%

The tax rate on the LIFO recapture amount is the corporate tax rate in effect for the year of conversion, which is currently 21%.

169. b) Taxed at the corporate level if it exceeds 25% of gross receipts

Passive investment income for an S corporation with accumulated earnings and profits is taxed at the corporate level if it exceeds 25% of gross receipts. This tax is imposed at the highest corporate tax rate (currently 21%) on the excess net passive income.

170. b) 21%

The tax rate on excess net passive income for an S corporation is the highest corporate tax rate, which is currently 21%.

171. a) They reduce basis

For S corporation shareholder basis purposes, non-deductible expenses reduce basis, just as deductible losses do. This reduction comes after basis is reduced for distributions.

172. a) Income, loss, deductions, distributions

In an S corporation, the order of adjustments to the Accumulated Adjustments Account (AAA) is: income items that increase AAA, followed by loss and deduction items that decrease AAA, followed by distributions that decrease AAA.

173. c) It remains available if the corporation re-elects S status within certain time limits

When an S corporation election terminates, the Accumulated Adjustments Account (AAA) remains available if the corporation re-elects S status within certain time limits. If the corporation re-elects S status, AAA remains dormant during the intervening C corporation years and becomes available again when the S election is reinstated.

174. c) 5 years

The maximum time period for an S corporation to re-elect S status after a termination is 5 years, unless the IRS consents to an earlier re-election. This is often referred to as the "5-year rule."

175. b) Deductible by the corporation and taxable wages to the shareholder

Health insurance premiums paid by an S corporation for a more than 2% shareholder are deductible by the corporation and must be reported as taxable wages to the shareholder. The shareholder may then be able to claim a deduction for self-employed health insurance on their individual tax return.

176. c) \$1,230,000

For estate tax purposes, the maximum reduction in value allowed for qualified real property under the special use valuation provisions is \$1,230,000 for 2024, adjusted annually for inflation.

177. d) No credit is allowed

For federal estate tax purposes, no credit is allowed for state death taxes paid. Prior to 2005, there was a credit for state death taxes, but this was phased out and replaced with a deduction for state death taxes.

178. c) \$175,000

The annual exclusion for gifts of present interests to non-citizen spouses in 2024 is \$175,000. This amount is adjusted annually for inflation.

179. c) Irrevocable trust created by the decedent where income is payable to others for life

For estate tax purposes, an irrevocable trust created by the decedent where income is payable to others for life is generally not included in the gross estate, provided the decedent retained no prohibited powers or interests. Life insurance owned by the decedent on someone else's life, property in which the decedent had a general power of appointment, and property transferred within 3 years of death where gift tax was paid are all included in the gross estate.

180. d) No specific deduction is available

For estate tax purposes, there is no specific deduction available for qualified family-owned business interests. Such a deduction (QFOBI) was available in the past but was repealed for estates of decedents dying after December 31, 2003, when the estate tax exemption was increased.

181. c) 50% of premiums paid

The maximum Credit for Small Employer Health Insurance Premiums is 50% of premiums paid for taxable small employers (35% for tax-exempt small employers). The credit is available to eligible small employers that provide health insurance coverage to their employees through a Small Business Health Options Program (SHOP) Marketplace.

182. b) \$5,000 per year for 3 years

The maximum Credit for Small Employer Pension Plan Startup Costs is \$5,000 per year for 3 years. This credit is available to eligible small employers that establish a new qualified retirement plan.

183. b) 20%

The credit percentage for the Rehabilitation Tax Credit for certified historic structures is 20% of qualified rehabilitation expenditures. The 10% credit for pre-1936 non-historic buildings was repealed by the Tax Cuts and Jobs Act for amounts paid or incurred after December 31, 2017.

184. c) Reduced by 100% of the credit

When the rehabilitation credit is claimed, the basis of the property is reduced by 100% of the credit. This prevents a double tax benefit from both the credit and depreciation on the same expenditures.

185. b) 40%

The Work Opportunity Tax Credit percentage for qualified summer youth employees is 40% of qualified first-year wages, up to a maximum of \$3,000 of wages per employee.

186. d) Income tax withheld from employees' wages

For tax purposes, income tax withheld from employees' wages is not deductible by the employer because it is considered the employees' tax, not the employer's. The employer is merely acting as a collection agent. Federal unemployment tax, and the employer's share of Social Security and Medicare taxes, are deductible by the employer.

187. b) 0.6%

The threshold for FUTA wage credits for states with outstanding loans is 0.6%. States with outstanding loans to the federal unemployment insurance fund for multiple years face a reduction in the FUTA credit, which effectively increases the FUTA tax rate for employers in those states.

188. d) No dividends received deduction

For a domestic corporation, dividends received from a 10%-owned foreign corporation generally do not qualify for the dividends received deduction, subject to certain exceptions. However, if the foreign corporation has effectively connected income, the dividends attributable to that income may qualify for the deduction.

189. b) 65% dividends received deduction

For a domestic corporation, dividends received from a 10%-owned domestic corporation (one in which the receiving corporation owns at least 10% but less than 80% of the stock) qualify for a 65% dividends received deduction.

190. d) 100%

The dividends received deduction for a domestic corporation that owns 80% or more of another domestic corporation is 100%. This effectively eliminates double taxation of earnings when they are passed from a subsidiary to its parent corporation.

191. c) Fully deductible if they qualify as ordinary and necessary business expenses

The general rule for deductibility of moving expenses for businesses after the Tax Cuts and Jobs Act is that they are fully deductible if they qualify as ordinary and necessary business expenses. While the TCJA suspended the moving expense deduction and exclusion for individuals (except for certain members of the Armed Forces), businesses can still deduct moving expenses if they are ordinary and necessary business expenses.

192. c) 15 years

The depreciation recovery period for qualified improvement property under MACRS is 15 years. This was corrected by the CARES Act in 2020, as the Tax Cuts and Jobs Act had inadvertently assigned a 39-year recovery period to this property.

193. c) 100% of the credit

The Tax Cuts and Jobs Act allows corporations to use 100% of the minimum tax credit to offset regular tax liability for tax years beginning after 2017 and before 2022. This effectively refunds any remaining AMT credits.

194. d) The worker's educational background

In determining whether a worker is an employee or independent contractor, the IRS considers three categories of factors: behavioral control, financial control, and the relationship between the parties. The worker's educational background is generally not a significant factor in this determination.

195. b) 22%

The standard federal income tax withholding rate for supplemental wage payments up to \$1 million is 22%. This applies to bonuses, commissions, and other supplemental wages when they are identified separately from regular wages.

196. d) 37%

The standard federal income tax withholding rate for supplemental wage payments exceeding \$1 million is 37%, which is the highest individual income tax rate.

197. b) An employee who is specifically classified as an employee by statute

For employment tax purposes, a statutory employee is a worker who is specifically classified as an employee by statute, even though they might not be an employee under common law rules. This includes certain drivers, life insurance agents, home workers, and traveling salespeople.

198. d) Corporate officer

A corporate officer is not a statutory employee but is generally considered a common law employee. Statutory employees include full-time life insurance salespersons, home workers performing work according to specifications, and full-time traveling salespersons, among others.

199. a) The 15th day of the following month

The deadline for depositing withheld income taxes and FICA taxes for monthly depositors is the 15th day of the following month. For example, taxes for January must be deposited by February 15.

200. a) \$50,000 or more in employment taxes during the lookback period

The threshold for becoming a semi-weekly depositor for employment taxes is \$50,000 or more in employment taxes during the lookback period. The lookback period is the four quarters beginning July 1 of the second preceding year and ending June 30 of the prior year.

201. a) A penalty equal to 100% of the unpaid tax

The "100% penalty" in employment tax cases, also known as the Trust Fund Recovery Penalty, is a penalty equal to 100% of the unpaid trust fund taxes (the employees' share of Social Security and Medicare taxes, plus income tax withheld). It can be assessed against any person responsible for collecting or paying these taxes who willfully fails to do so.

202. c) Any person responsible for collecting or paying the taxes who willfully fails to do so

The trust fund recovery penalty can be assessed against any person who is responsible for collecting or paying the trust fund taxes, or for accounting for those taxes, and who willfully fails to do so. This can include corporate officers, certain employees, and even outside parties who have sufficient authority or control over the company's finances.

203. c) 10 years from the date the assessment was made

The statute of limitations for the IRS to collect the trust fund recovery penalty is 10 years from the date the assessment was made. The assessment itself must be made within 3 years of the date the employment tax return was filed or due, whichever is later.

204. c) An employee earning more than \$135,000

For fringe benefits purposes, a "highly compensated employee" for 2024 is generally an employee who received more than \$135,000 in compensation from the employer for the preceding year (2023) and, if the employer so elects, was in the top 20% of employees ranked by compensation.

205. c) Excludable if the value is so small that accounting for it would be unreasonable

De minimis fringe benefits are excludable from income if the value is so small that accounting for it would be unreasonable or administratively impracticable. Examples include occasional coffee, doughnuts, or soft drinks, occasional tickets for entertainment events, and holiday gifts of small value.

206. a) \$260 per month for combined transit passes and vanpooling

The limit on the exclusion for qualified transportation fringe benefits in 2024 is \$280 per month for qualified parking, and \$260 per month for combined transit passes and vanpooling. These amounts are adjusted annually for inflation.

207. b) Excludable if provided primarily for noncompensatory business reasons

Employer-provided cell phones are excludable from income if they are provided primarily for noncompensatory business reasons, such as the need to contact the employee at all times for work-related emergencies, the need for the employee to be available to speak with clients when away from the office, or the need to conduct business in areas where communication facilities are limited.

208. c) \$16,800

The limit on the exclusion for qualified adoption assistance in 2024 is \$16,800 per eligible child. This amount is adjusted annually for inflation.

209. a) \$5,250

The exclusion amount for employer-provided educational assistance is \$5,250 per year. This is a fixed amount that has not been adjusted for inflation.

210. a) \$5,000

The limit on the exclusion for dependent care assistance is \$5,000 per year (\$2,500 for married filing separately). This is a fixed amount that has not been adjusted for inflation.

211. c) \$7,750

The maximum contribution to a Health Savings Account (HSA) for an individual with family coverage in 2024 is \$7,750. For self-only coverage, the maximum is \$4,150. These amounts are adjusted annually for inflation.

212. b) \$2,800

The minimum annual deductible required for a high deductible health plan (HDHP) for family coverage in 2024 is \$3,000. For self-only coverage, the minimum is \$1,500. These amounts are adjusted annually for inflation.

213. b) 55

The minimum age for the catch-up contribution to a Health Savings Account is 55. Individuals who are 55 or older by the end of the tax year can make an additional "catch-up" contribution to their HSA.

214. a) \$1,000

The amount of the catch-up contribution to a Health Savings Account is \$1,000. This is a fixed amount that has not been adjusted for inflation.

215. a) 6% of the excess amount

The penalty for excess contributions to a Health Savings Account is 6% of the excess amount for each tax year the excess remains in the account. This excise tax is reported on Form 5329.

216. b) 20%

The tax rate on a C corporation's accumulated taxable income under the accumulated earnings tax is 20%. This is an additional tax imposed on corporations that accumulate earnings beyond the reasonable needs of the business to avoid income tax on shareholders.

217. b) \$250,000

The maximum amount of earnings a C corporation can accumulate for the reasonable needs of the business without being subject to the accumulated earnings tax is \$250,000 for most corporations. For certain personal service corporations, the amount is \$150,000.

218. c) Reasonable compensation to employee-shareholders

Evidence of a plan to avoid income tax when determining if the accumulated earnings tax applies may include loans to shareholders, investments unrelated to the business, and failure to pay dividends despite substantial earnings. Reasonable compensation to employee-shareholders is not evidence of a plan to avoid income tax; in fact, it may indicate the opposite.

219. d) Loans to shareholders

For accumulated earnings tax purposes, reasonable business needs include plant expansion, debt retirement, and product liability claims. Loans to shareholders are generally not considered a reasonable business need unless they are clearly related to the business.

220. b) 20%

The penalty tax rate for personal holding companies is 20%. This tax is imposed on undistributed personal holding company income.

221. d) Income from active business operations

Personal holding company income generally includes passive income such as dividends, interest, royalties (subject to exceptions), annuities, personal service contracts, and certain rental income. Income from active business operations is not personal holding company income.

222. b) At least 60%

For a corporation to be classified as a personal holding company, at least 60% of its adjusted ordinary gross income must be personal holding company income. Additionally, more than 50% of the value of its outstanding stock must be owned by five or fewer individuals at any time during the last half of the tax year.

223. a) More than 50% of value owned by 5 or fewer individuals

For a corporation to be classified as a personal holding company, more than 50% of the value of its outstanding stock must be owned, directly or indirectly, by or for five or fewer individuals at any time during the last half of the tax year.

224. d) All of the above

A "controlled group of corporations" for tax purposes includes a parent-subsidary controlled group, a brother-sister controlled group, and a combined group. Each type of controlled group has specific ownership requirements.

225. a) 50%

For a brother-sister controlled group, two or more corporations are a controlled group if five or fewer persons who are individuals, estates, or trusts own (directly or indirectly) stock possessing more than 50% of the total combined voting power of all classes of stock entitled to vote, or more than 50% of the total value of shares of all classes of stock, taking into account the stock ownership of each person only to the extent such stock ownership is identical with respect to each corporation.

226. b) 80%

For a parent-subsidary controlled group, one or more chains of corporations are a controlled group if a parent corporation owns (directly or indirectly) stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote, or at least 80% of the total value of shares of all classes of stock, of at least one of the other corporations, and the same ratio of ownership applies for each corporation in the chain.

227. b) The annual exclusion only

There is no unlimited lifetime gift tax exclusion for gifts to non-citizen spouses. Gifts to non-citizen spouses are only eligible for the annual exclusion, which is higher than the regular annual exclusion (\$175,000 for 2024 vs. \$17,000 for gifts to other individuals).

228. d) No deduction is allowed unless the property passes to a qualified domestic trust

For estate tax purposes, no marital deduction is allowed for property passing to a non-citizen spouse unless the property passes to a qualified domestic trust (QDOT) or the surviving spouse becomes a U.S. citizen before the estate tax return is filed and was a U.S. resident at all times after the decedent's death and before becoming a citizen.

229. d) \$18,000

The annual GST tax exclusion for 2024 is \$18,000. This amount is adjusted annually for inflation.

230. c) \$17,000

For gift tax purposes, the annual exclusion for gifts to skip persons that qualify for the GST tax exclusion in 2024 is \$17,000. This is the same as the regular gift tax annual exclusion.

231. d) The same as for U.S. citizens or residents

The gift tax annual exclusion for gifts to individuals that are not U.S. citizens or residents is the same as for U.S. citizens or residents (\$17,000 for 2024). However, the annual exclusion for gifts to non-citizen spouses is higher (\$175,000 for 2024).

232. b) 40%

The federal estate tax rate for 2024 is 40% for taxable estates exceeding the exemption amount.

233. b) Credit for taxes paid to the country where the property is located

The maximum credit against U.S. estate tax for foreign death taxes paid is generally limited to the amount of U.S. estate tax attributable to property located in the foreign country and subject to tax in both countries. This is subject to the terms of any applicable tax treaty.

234. b) Form 709

Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, is used to report gifts and generation-skipping transfers. Form 706 is used for estate tax returns, Form 8971 is used for reporting basis information to recipients of property from an estate, and Form 843 is used for claims for refund and requests for abatement.

235. a) The due date of the individual's income tax return for the year

The deadline for filing Form 709 (U.S. Gift Tax Return) is the due date of the individual's income tax return for the year, which is generally April 15 of the year following the gift. Extensions for filing the income tax return automatically extend the time for filing the gift tax return.

236. b) 6 months

The maximum extension period for filing Form 709 is 6 months, which would extend the due date to October 15 for a calendar year taxpayer.

237. b) 9 months after the date of death

The deadline for filing Form 706 (U.S. Estate Tax Return) is 9 months after the date of death. For example, if the decedent died on February 10, the estate tax return would be due on November 10.

238. b) 6 months

The maximum extension period for filing Form 706 is 6 months. This would extend the due date to 15 months after the date of death.

239. c) 14 years

The maximum period for paying estate tax under the installment provisions for closely held businesses is 14 years. The first installment is due 9 months after the date of death (the regular due date for paying estate tax), and the remaining installments are due annually after that.

240. c) 2% on the first \$1,500,000

The maximum interest rate for the 2% portion of estate tax deferred under the installment provisions for closely held businesses is 2% on the first \$1,500,000 of deferred tax (adjusted for inflation). Any deferred tax in excess of this amount is subject to interest at 45% of the regular underpayment rate.

241. c) 35%

For an estate to qualify for installment payment of estate tax for a closely held business, the value of the business interest must exceed 35% of the adjusted gross estate.

242. c) \$14,450

The threshold amount for estates and trusts to be subject to the Net Investment Income Tax in 2024 is \$14,450. This is the dollar amount at which the highest income tax bracket for estates and trusts begins.

243. b) 3.8%

The tax rate for the Net Investment Income Tax is 3.8%. This tax applies to certain net investment income of individuals, estates, and trusts that have income above statutory threshold amounts.

244. b) 37%

The highest income tax bracket for estates and trusts in 2024 is 37%. This rate applies to taxable income over \$14,450.

245. b) \$600

The maximum amount of income that can be distributed to a beneficiary from a trust or estate before a fiduciary income tax return (Form 1041) is required is \$600. If gross income is \$600 or more, a return is generally required.

246. b) April 15

The due date for a calendar year fiduciary income tax return (Form 1041) is the 15th day of the 4th month following the close of the tax year, which is April 15 for a calendar year trust or estate.

247. b) 5 months

The maximum extension period for filing a fiduciary income tax return (Form 1041) is 5 months. This would extend the due date to September 15 for a calendar year trust or estate.

248. d) Medical expenses

For fiduciary income tax purposes, separate deductions on Form 1041 include the personal exemption, charitable contributions made pursuant to the governing instrument, and the income distribution deduction. Medical expenses are not a separate deduction on Form 1041; they are deductible on the individual income tax returns of the beneficiaries.

249. a) Always taxed to the fiduciary

For fiduciary income tax purposes, capital gains that are allocated to corpus under the governing instrument are generally taxed to the fiduciary (the trust or estate), not to the beneficiaries, unless the governing instrument or local law specifically provides for the distribution of those gains.

250. b) For which the taxpayer is considered at risk

The at-risk rules limit losses from an activity to the amount for which the taxpayer is considered at risk in the activity. A taxpayer is considered at risk for the amount of money and the adjusted basis of property contributed to the activity, plus certain amounts borrowed for use in the activity.

Part 3 (Representation, Practices and Procedures)

1. a) Form 2848

Form 2848, Power of Attorney and Declaration of Representative, is used to authorize a representative to represent a taxpayer before the IRS. This form allows the representative to perform acts such as signing documents, receiving confidential information, and representing the taxpayer at meetings. Form 8821 only authorizes a person to receive and inspect confidential information but not represent the taxpayer. Form 8453 is used for e-filing purposes, and Form 1098 is a Mortgage Interest Statement.

2. c) Enrolled Agent, attorney, or CPA credentials

Individuals who can represent taxpayers before the IRS with unlimited representation rights are Enrolled Agents, attorneys, and CPAs. These professionals are referred to as "practitioners" under Circular 230. A PTIN (Preparer Tax Identification Number) alone does not grant representation rights. An accounting degree without proper credentials does not provide representation rights.

3. c) An Enrolled Agent

An Enrolled Agent has unlimited representation rights before the IRS, meaning they can represent taxpayers before any office of the IRS on any tax matter. Unenrolled tax return preparers have limited representation rights (only for returns they prepared and only before certain IRS functions). Bookkeepers and relatives (unless they are EAs, attorneys, or CPAs) generally don't have representation rights, although relatives can represent taxpayers in limited situations as provided in Circular 230.

4. a) Charging contingent fees for preparing original tax returns

Under Circular 230, practitioners are prohibited from charging contingent fees for preparing original tax returns. Contingent fees are based on a percentage of the refund or tax savings. Charging hourly fees based on professional credentials, flat fees for tax preparation, and fees based on the complexity of the return are all permissible fee structures.

5. b) It allows limited representation rights for returns the preparer prepared

The Annual Filing Season Program is a voluntary program that allows non-credentialed preparers who complete certain requirements to represent taxpayers before the IRS, but only for returns they prepared and only before examination personnel, not appeals or collection personnel. It does not grant unlimited representation rights, does not exempt preparers from PTIN requirements, and is not mandatory for all tax return preparers.

6. d) Taxpayer's annual income

Form 2848 requires the taxpayer's name and address, taxpayer's social security number or employer identification number (EIN), and the specific tax matters for which representation is authorized (including tax forms, years, and specific matters). The taxpayer's annual income is not required on Form 2848.

7. a) Until the taxpayer revokes it

A properly executed Form 2848 is valid until it is revoked by the taxpayer, a new power of attorney is filed, or the representative withdraws from representation. It is not automatically limited to one year, three years, or subject to IRS revocation except in limited circumstances such as practitioner misconduct.

8. b) Exercise due diligence in preparing tax returns

Under Circular 230, practitioners **MUST** exercise due diligence in preparing, approving, and filing tax returns, and in determining the correctness of representations made to the IRS. Practitioners should not advise clients to claim all possible deductions regardless of legitimacy, guarantee specific outcomes, or always challenge IRS determinations without merit.

9. c) To govern practice before the Internal Revenue Service

IRS Circular 230 (officially titled "Regulations Governing Practice before the Internal Revenue Service") sets forth the standards of practice, duties and restrictions for tax practitioners representing clients before the IRS. It does not establish electronic filing procedures, regulate only non-credentialed preparers, or create IRS audit procedures.

10. b) Preparing tax returns for a client

Preparing tax returns for a client is not considered "practice before the IRS" under Circular 230. Practice before the IRS includes representing clients in proceedings, written communications, and meetings with the IRS, filing documents with the IRS, and providing written advice concerning tax matters. While tax return preparation is regulated by other provisions, it is specifically excluded from the definition of practice before the IRS.

11. d) They are permitted for representing a client in a claim for refund

Under Circular 230, contingent fees are permitted for representing a client in a claim for refund, but only after the taxpayer has received a notice of examination or a challenge to an item on the tax return. Contingent fees are prohibited for preparing original tax returns, for services related to obtaining private letter rulings, and for representing a client in connection with an original tax return examination.

12. a) 30 days

Under Circular 230, a practitioner must submit records to the IRS promptly upon proper request. Generally, this means within 30 days of the request, unless the practitioner and the IRS agree on a different timeframe.

13. a) May continue to prepare tax returns

A practitioner who is disbarred from practice before the IRS may continue to prepare tax returns, but may not represent clients before the IRS. Disbarment from practice prohibits representation activities such as Appeals conferences and Collection hearings, but does not prevent the preparation of tax returns, which is not considered practice before the IRS.

14. b) Willfully understating a client's tax liability

Willfully understating a client's tax liability is a proper basis for disciplinary action against a practitioner under Circular 230. This involves intentional misconduct. Charging higher than average fees, failing to accept all potential clients, and representing clients in multiple states are not violations of Circular 230 that would justify disciplinary action.

15. d) There is no specific requirement in Circular 230

Circular 230 does not specify a particular record retention period for copies of tax returns prepared for clients. However, practitioners should follow prudent business practices and other applicable regulations, such as the preparer penalty provisions which generally have a 3-year statute of limitations.

16. b) When the practitioner is convicted of a felony

The IRS can immediately suspend a practitioner from practice when the practitioner is convicted of a felony, has been disbarred from practice as an attorney or CPA, or has lost their enrollment status. Other grounds for immediate suspension include presenting a significant risk of harm to taxpayers or tax administration. Mathematical errors on a return, failure to file a personal return, or disagreeing with an IRS determination are not grounds for immediate suspension.

17. c) OPR administers Circular 230 while RPO administers the PTIN program

The Office of Professional Responsibility (OPR) administers Circular 230 and oversees practitioners' conduct, while the Return Preparer Office (RPO) administers the PTIN program and the voluntary Annual Filing Season Program. They are separate offices with different responsibilities, and neither oversees the other.

18. b) Section 6694(b)

Section 6694(b) applies to tax return preparers for willful or reckless conduct, specifically for willful attempts to understate tax liability or reckless or intentional disregard of rules and regulations. Section 6694(a) applies to unreasonable positions, Section 6695 covers various other preparer penalties (such as failing to sign returns), and Section 6701 covers aiding and abetting an understatement of tax liability.

19. a) \$25 per occurrence with a maximum of \$10,000 per calendar year

The penalty for a tax return preparer who fails to furnish a copy of a tax return to a taxpayer is \$50 per occurrence (updated from the previous \$25) with a maximum of \$25,000 per calendar year. This penalty is specified in IRC Section 6695(a).

20. a) Substantial authority

Under IRC Section 6694(a), the required standard for a tax position to avoid preparer penalties is "substantial authority" for a position not related to a tax shelter or reportable transaction. For tax shelters and reportable transactions, the standard is "more likely than not." Reasonable basis is a lower standard, and "realistic possibility of success" is no longer the relevant standard under current law.

21. c) Electronic signature via PIN

For an e-filed return, the taxpayer provides an electronic signature via a Personal Identification Number (PIN). Form 8879 authorizes the electronic filing and use of the PIN but does not itself serve as the signature. Form 8453 is used only in limited circumstances when certain paper forms or documents must be submitted with an electronic return.

22. b) Knowingly omitting income that the client reported

"Willful preparation of a false return" by a preparer involves intentional misconduct, such as knowingly omitting income that the client reported to the preparer. Making a mathematical error, misinterpreting complex tax law, or relying on client-provided information that turns out to be incorrect would generally not rise to the level of willful misconduct unless there was intentional disregard or knowledge.

23. a) Office of Professional Responsibility

The Office of Professional Responsibility (OPR) is responsible for determining whether certain practitioner conduct violates Circular 230 and taking appropriate disciplinary action. The Return Preparer Office handles PTIN registration and the Annual Filing Season Program, the Taxpayer Advocate Service

helps taxpayers resolve problems with the IRS, and the Office of Appeals handles taxpayer appeals of IRS decisions.

24. b) \$50 per return

Under IRC Section 6695(b), the penalty for a preparer who fails to sign a tax return is \$50 per return (updated from the previous \$25), with a maximum of \$25,000 per calendar year.

25. b) 3 years from the date the return was due or filed, whichever is later

The IRS generally has 3 years from the date the return was due or filed, whichever is later, to assess preparer penalties. This follows the general assessment statute of limitations for tax returns, although in cases of fraud, there is no time limit.

26. b) Form 4506-T

Form 4506-T is used to request a taxpayer's transcript from the IRS. Form 4506 is used to request copies of tax returns, Form 8821 is a Tax Information Authorization, and Form 9465 is an Installment Agreement Request.

27. a) Field, office, or correspondence examination

An IRS examination (audit) can be conducted as a field examination (at the taxpayer's place of business or representative's office), an office examination (at an IRS office), or a correspondence examination (by mail). All three methods are used by the IRS depending on the complexity of the issues and other factors.

28. c) 90 days

A taxpayer has 90 days from the date of the notice of deficiency to file a petition with the Tax Court (or 150 days if the notice is addressed to a person outside the United States). This is often referred to as the "90-day letter."

29. d) Both B and C

Both the U.S. District Court and the U.S. Court of Federal Claims have jurisdiction over tax disputes where the taxpayer wishes to pay the tax first and then sue for a refund. The U.S. Tax Court has jurisdiction over cases where the taxpayer wishes to contest the IRS determination before paying the tax.

30. a) Small Business/Self-Employed Division

The Small Business/Self-Employed Division (SB/SE) handles collection of unpaid taxes through its Collection function. The Wage and Investment Division serves individual taxpayers, the Large Business and International Division handles complex business returns, and the Tax-Exempt and Government Entities Division works with non-profit organizations, governmental entities, and retirement plans.

31. a) Generally 3 years from the filing date

The general statute of limitations for the IRS to assess additional tax is 3 years from the later of the date the return was filed or the due date of the return. There are exceptions that can extend this period, such as substantial omission of income (6 years) or fraudulent returns (no time limit).

32. a) When a taxpayer omits items of gross income that exceed 25% of the gross income reported

The statute of limitations for assessment is extended to 6 years when a taxpayer omits items of gross income that exceed 25% of the gross income reported on the return. Filing an amended return or requesting an extension to file does not extend the general 3-year assessment period, and using the standard deduction has no impact on the assessment period.

33. c) 10 years

The statute of limitations for the IRS to collect tax after assessment is generally 10 years from the date of assessment. This period can be extended through various means, such as installment agreements, offers in compromise, bankruptcy filings, and collection due process hearings.

34. a) Filing for bankruptcy

Filing for bankruptcy extends the collection statute of limitations by the time the automatic stay was in effect, plus 6 months. Living outside the United States, filing an amended return, and requesting a payment plan do not automatically extend the collection statute, although certain types of payment plans may include terms that extend the statute.

35. a) They are suspended until the hearing is concluded

When a taxpayer files a timely request for a Collection Due Process (CDP) hearing, IRS collection actions are suspended until the hearing is concluded and any court appeals are exhausted. This is one of the key benefits of a CDP hearing, providing the taxpayer with a collection freeze while contesting the proposed collection action.

36. b) Form 9465

Form 9465, Installment Agreement Request, is used to request an installment agreement with the IRS. Form 433-A is a Collection Information Statement for individuals, Form 656 is used for Offers in Compromise, and Form 12153 is used to request a Collection Due Process hearing.

37. a) The taxpayer's inability to pay the full tax liability

An Offer in Compromise submitted on the basis of doubt as to collectibility addresses the taxpayer's inability to pay the full tax liability based on their assets, income, and expenses. It does not address disagreement with the assessment, the IRS's ability to collect within the statute, or exceptional circumstances (which would be covered under "effective tax administration").

38. b) Form 656

Form 656, Offer in Compromise, is used to submit an Offer in Compromise. Form 9465 is for installment agreements, Form 12153 is for Collection Due Process hearings, and Form 433-D is an installment agreement.

39. d) Tax forgiveness after 5 years

The IRS does not offer "tax forgiveness after 5 years" as a collection alternative. Valid collection alternatives include Currently Not Collectible status (temporary suspension of collection), Installment Agreement (payment plan), and Offer in Compromise (settlement for less than the full amount).

40. c) Form 656, a non-refundable application fee, and Form 433-A or 433-B

When submitting an Offer in Compromise based on doubt as to collectibility, a taxpayer must submit Form 656, a non-refundable application fee (unless qualifying for a low-income exemption), and Form 433-A (for individuals) or 433-B (for businesses) providing detailed financial information. All these components are necessary for the IRS to evaluate the offer.

41. b) To provide detailed financial information for collection purposes

Form 433-A, Collection Information Statement for Wage Earners and Self-Employed Individuals, is used to provide detailed financial information to the IRS for collection purposes. It is required for certain collection alternatives, including Offers in Compromise, certain installment agreements, and Currently Not Collectible status requests. Form 9465 is used to request an installment agreement, Form 12153 is for CDP hearings, and Form 12277 is for lien release requests.

42. b) File a Notice of Federal Tax Lien

The IRS can file a Notice of Federal Tax Lien without a court order. This is a public notice that establishes priority of the IRS's claim against other creditors. The IRS cannot seize a principal residence, garnish 100% of wages, or levy an IRA without appropriate notices and, in the case of a principal residence, a court order.

43. b) 30 days

A taxpayer has 30 days from the date of the Notice of Federal Tax Lien filing to request a Collection Due Process hearing by filing Form 12153. This 30-day period is crucial because it provides the taxpayer with the right to a hearing before the IRS Office of Appeals and the potential for judicial review.

44. a) Bank account levy

Regular levies, including bank account levies, require a 30-day notice (via CP 504 or Letter 1058/LT11) before implementation. Levies on state tax refunds, jeopardy levies, and disqualified employment tax levies are exceptions to this 30-day notice requirement.

45. b) When the tax liability is \$50,000 or less and can be paid within 72 months

The IRS considers an installment agreement request as "streamlined" when the tax liability is \$50,000 or less and can be paid within 72 months (before the collection statute expires). Streamlined agreements typically require less financial documentation and can be processed more quickly. Tax liabilities over \$50,000, self-employment, or previous defaults generally require additional scrutiny.

46. b) File all required returns and pay all taxes when due

To maintain an installment agreement with the IRS, taxpayers must comply with all filing and payment requirements, which means filing all required returns and paying all taxes when due during the agreement period. Failure to do so can result in default of the agreement. Submitting updated financial information annually is not generally required unless specified, and collateral is not typically required.

47. a) The taxpayer is in an open bankruptcy proceeding

A taxpayer is not eligible for an Offer in Compromise if they are in an open bankruptcy proceeding, as the bankruptcy court has jurisdiction over the debts. Having filed all required returns, making installment agreement payments, or submitting a reasonable offer based on ability to pay are not disqualifying factors.

48. b) Form 9423

Form 9423, Collection Appeal Request, is used to appeal a denied Offer in Compromise through the Collection Appeals Program (CAP). Form 12153 is for Collection Due Process hearings, Form 843 is for claims for refund and abatement, and Form 13711 is for requesting an appeal of another decision.

49. c) It handles routine collection cases via telephone and mail

The Automated Collection System (ACS) handles routine collection cases via telephone and mail. It is a computerized system that sends notices, makes calls, and processes responses from taxpayers. It typically handles lower-dollar, less complex cases rather than high-dollar complex cases, and it handles both individual and business tax collection cases.

50. b) Make it easier for taxpayers to get out of tax debt

The IRS Fresh Start initiative, launched in 2011 and expanded since then, is designed to make it easier for taxpayers to get out of tax debt by providing more flexible terms for offers in compromise, installment agreements, and lien withdrawals. It does not eliminate all tax debts, provide tax credits, or forgive all penalties.

51. b) To help taxpayers resolve problems with the IRS

The IRS National Taxpayer Advocate Service is an independent organization within the IRS that helps taxpayers resolve problems with the IRS that have not been resolved through normal channels. It does not represent the IRS in court, prosecute tax evaders, or train revenue officers.

52. b) A taxpayer facing significant hardship due to IRS procedures

The Taxpayer Advocate Service assists taxpayers facing significant hardship due to IRS procedures, such as immediate threat of adverse action, significant costs, irreparable injury, or delay of more than 30 days in resolving account problems. It does not assist taxpayers who simply disagree with the tax law, want to avoid paying legally owed taxes, or filed returns late without reasonable cause.

53. a) Form 911

Form 911, Request for Taxpayer Advocate Service Assistance, is used to request assistance from the Taxpayer Advocate Service. Form 843 is for claims for refund and abatement, Form 12153 is for Collection Due Process hearings, and Form 8857 is for Innocent Spouse Relief.

54. a) A special IRS hotline for tax professionals

The Practitioner Priority Service is a special IRS hotline dedicated to tax professionals that provides expedited access to IRS representatives to resolve client account issues. It is not an expedited audit process, a court system, or a monitoring system.

55. c) Any taxpayer or authorized representative

Any taxpayer or authorized representative can request a Collection Appeals Program (CAP) hearing to appeal certain collection actions. CAP is not limited based on tax debt amount, business status, or previous CDP hearings.

56. c) The underlying tax liability

The underlying tax liability cannot be appealed through the Collection Appeals Program (CAP). CAP is limited to appeals of collection actions such as lien filings, levy notices, seizures, and installment agreement rejections or terminations. Challenges to the underlying tax liability must be made through other channels, such as audit reconsideration or Tax Court.

57. a) CDP hearings allow for judicial review, while CAP hearings do not

The primary difference between a Collection Due Process (CDP) hearing and a Collection Appeals Program (CAP) hearing is that CDP hearings allow for judicial review if the taxpayer disagrees with the Appeals determination, while CAP hearings do not. CAP determinations are binding on the IRS but cannot be appealed to Tax Court. CDP hearings are available to both individuals and businesses, as are CAP hearings.

58. c) The taxpayer can request a reasonable and convenient location

In an examination, a taxpayer has the right to request a reasonable and convenient location for the interview. The IRS will try to accommodate reasonable requests. Neither the taxpayer nor the IRS can unilaterally insist on a particular location in all cases.

59. b) Offer an independent review of examination determinations

The Examination Appeals process is designed to offer an independent review of examination determinations. Appeals officers are separate from examination personnel and provide an impartial review. It is not a court hearing, a binding arbitration process, or limited to negotiating penalties.

60. c) Appeals provides an independent review of IRS determinations

The IRS Appeals process provides an independent review of IRS determinations. Appeals officers work independently from examination and collection personnel, Appeals conferences are conducted in a non-adversarial manner, and Appeals decisions can be further contested in appropriate courts.

61. d) There is no specific form; a written protest is required

There is no specific form for protesting an examination determination to Appeals; a written protest is required. The written protest must contain specific information, including the taxpayer's identifying information, the tax periods involved, the items disputed, and the reasons for disagreement.

62. b) When the total amount in dispute exceeds \$25,000

A formal written protest is required for an Appeals conference when the total amount in dispute exceeds \$25,000. For disputes of \$25,000 or less, a small case request can be made using a less formal process. This applies to all types of returns, not just business returns, and to both tax assessments and penalties.

63. a) For cases involving \$25,000 or less per tax period

The Small Case Request procedure for Appeals is available for cases involving \$25,000 or less per tax period. This simplified procedure requires less formal documentation than a regular appeals protest. It is not limited to individual taxpayers or to certain types of issues.

64. b) A mediation process that brings together the taxpayer, Appeals, and Examination

Fast Track Settlement is a mediation process that brings together the taxpayer, Appeals, and Examination to resolve disputed issues while the case is still in Examination. It is not a Tax Court process, collection process, or offer in compromise process.

65. c) Expedited case resolution and preservation of Appeal rights

The primary benefits of Fast Track Settlement are expedited case resolution (typically within 60 days) and preservation of traditional Appeal rights if the issues are not resolved. It does not guarantee acceptance of the taxpayer's position, eliminate all penalties, or provide automatic acceptance into installment agreements.

66. b) An expedited appeals procedure for complex cases

The Rapid Appeals Process is an expedited appeals procedure designed for complex cases. It brings together Appeals, the taxpayer, and IRS compliance personnel in a mediation-like setting to resolve disputed issues more quickly than the traditional appeals process.

67. a) A letter informing the taxpayer of their right to appeal to Tax Court

A statutory notice of deficiency, also known as a "90-day letter," is a letter informing the taxpayer of a proposed tax deficiency and their right to appeal to Tax Court within 90 days (or 150 days if addressed to a person outside the US). It is not a notice about an impending levy, audit, or tax lien.

68. c) 90 days (150 days if addressed to a person outside the US)

The time limit for filing a petition with the Tax Court after receiving a notice of deficiency is 90 days, or 150 days if the notice is addressed to a person outside the United States. This deadline is jurisdictional and cannot be extended.

69. a) For cases involving \$50,000 or less

The Tax Court's small tax case procedure (S case procedure) is available for cases involving \$50,000 or less in dispute per tax period, including penalties and interest. It is not limited to simple procedural issues, individual taxpayers, or single tax years.

70. c) Cases are heard by special trial judges

A characteristic of the Tax Court's small tax case (S case) procedure is that cases are heard by special trial judges. Decisions in small tax cases cannot be appealed to a higher court, formal rules of evidence are relaxed, and representation by an attorney is not required.

71. b) When filing in U.S. District Court or Court of Federal Claims

A taxpayer must pay the disputed tax before filing a lawsuit in U.S. District Court or the Court of Federal Claims. These are refund forums, meaning the taxpayer is suing for a refund of taxes already paid. In contrast, the Tax Court allows taxpayers to contest tax liabilities before payment.

72. c) 2 years

The time limit for filing a refund suit in District Court or Court of Federal Claims after the IRS denies a claim for refund is 2 years from the date of the denial (or 2 years from the date the claim is deemed denied if the IRS does not respond within 6 months).

73. c) Generally on the taxpayer, but can shift to the IRS in certain circumstances

The burden of proof in tax cases is generally on the taxpayer, but it can shift to the IRS in certain circumstances. This principle follows the general rule that the taxpayer knows more about their own financial affairs than does the IRS.

74. b) When the taxpayer presents credible evidence and meets other requirements

The burden of proof might shift to the IRS in a court proceeding when the taxpayer presents credible evidence and meets other requirements, including maintaining all required records, cooperating with reasonable IRS requests, and meeting certain net worth limitations for some provisions. This shift is provided under Section 7491 of the Internal Revenue Code.

75. d) To allow taxpayers to potentially avoid criminal prosecution by making timely and complete disclosures

The main purpose of the IRS Voluntary Disclosure Practice is to allow taxpayers to potentially avoid criminal prosecution by making timely and complete disclosures of previously unreported income or other tax non-compliance. It does not guarantee avoidance of all penalties, grant immunity, or help taxpayers avoid audits.

76. a) \$10,000 per violation for non-willful violations

The penalties for failing to file an FBAR (FinCEN Form 114) for foreign financial accounts include up to \$10,000 per violation for non-willful violations. The penalty structure is per violation, not per account or with a maximum, and there is no automatic waiver for first-time violations.

77. c) Greater of \$100,000 or 50% of the account balance per violation

The willful FBAR penalty is the greater of \$100,000 or 50% of the account balance at the time of the violation, per violation. This can result in exceptionally high penalties in cases of willful failure to report foreign accounts.

78. b) A taxpayer with signature authority over foreign accounts with aggregate balances exceeding \$10,000

A taxpayer is required to file an FBAR if they have a financial interest in or signature authority over foreign accounts with aggregate balances exceeding \$10,000 at any time during the calendar year. This applies regardless of whether income is received from the accounts and is separate from any foreign real estate ownership.

79. b) A program that offers reduced penalties for taxpayers who meet certain criteria

The Streamlined Filing Compliance Procedure for offshore accounts is a program that offers reduced penalties for taxpayers who meet certain criteria, particularly those whose failure to report foreign accounts was non-willful. It does not eliminate all penalties for all cases, nor does it allow reporting without filing past returns.

80. d) No penalty

Under the Streamlined Foreign Offshore Procedures (for taxpayers residing outside the United States), no penalty is imposed on the foreign financial assets. This contrasts with the Streamlined Domestic Offshore Procedures, which impose a 5% penalty on the highest aggregate balance of foreign financial assets.

81. b) April 15

The deadline for filing Form 1040 for a calendar year taxpayer is April 15 of the year following the tax year (or the next business day if April 15 falls on a weekend or holiday). This is the standard filing deadline for individual income tax returns.

82. b) April 15

The deadline for filing Form 1120 for a calendar year C corporation is the 15th day of the 4th month following the close of the tax year, which is April 15 for calendar year corporations. (Note: Prior to tax years beginning after December 31, 2015, the deadline was March 15.)

83. a) March 15

The deadline for filing Form 1065 for a calendar year partnership is the 15th day of the 3rd month following the close of the tax year, which is March 15 for calendar year partnerships.

84. a) March 15

The deadline for filing Form 1120S for a calendar year S corporation is the 15th day of the 3rd month following the close of the tax year, which is March 15 for calendar year S corporations.

85. c) 6 months

The maximum extension period allowed for Form 1040 is 6 months, which extends the filing deadline to October 15 for calendar year taxpayers. This extension is requested using Form 4868.

86. c) 6 months

The maximum extension period allowed for Form 1120 (C corporation) is 6 months, which extends the filing deadline to October 15 for calendar year corporations. This extension is requested using Form 7004.

87. c) 6 months

The maximum extension period allowed for Form 1065 (Partnership) is 6 months, which extends the filing deadline to September 15 for calendar year partnerships. This extension is requested using Form 7004.

88. c) 6 months

The maximum extension period allowed for Form 1120S (S corporation) is 6 months, which extends the filing deadline to September 15 for calendar year S corporations. This extension is requested using Form 7004.

89. b) 5% per month up to 25% of the unpaid tax

The failure-to-file penalty for individual income tax returns is 5% of the unpaid tax per month or part of a month, up to a maximum of 25% of the unpaid tax. If the return is filed more than 60 days late, the minimum penalty is the smaller of \$435 (adjusted for inflation) or 100% of the unpaid tax.

90. a) 0.5% per month up to 25% of the unpaid tax

The failure-to-pay penalty for individual income tax returns is 0.5% of the unpaid tax per month or part of a month, up to a maximum of 25% of the unpaid tax. This rate increases to 1% per month if the tax remains unpaid 10 days after a notice of intent to levy is issued.

91. b) 47.5% of the unpaid tax

The combined maximum failure-to-file and failure-to-pay penalty is 47.5% of the unpaid tax (25% for failure to file plus 22.5% for failure to pay). When both penalties apply in the same month, the failure-to-file penalty is reduced by the amount of the failure-to-pay penalty for that month, resulting in a combined 5% penalty per month for the first 5 months.

92. c) \$5,000

The penalty for filing a frivolous tax return is \$5,000, as specified in IRC Section 6702. A frivolous return is one that reflects a position that the IRS has identified as frivolous or indicates a desire to delay or impede the administration of the tax laws.

93. c) \$5,000

The penalty for filing a frivolous tax submission other than a return is also \$5,000, as specified in IRC Section 6702(b). This applies to frivolous submissions such as requests for collection due process hearings, offers in compromise, and applications for installment agreements.

94. a) Misdemeanor with maximum \$25,000 fine and/or 1 year imprisonment

The penalty for willful failure to file a return, supply information, or pay tax is a misdemeanor with a maximum \$25,000 fine (\$100,000 for corporations) and/or 1 year imprisonment, as specified in IRC Section 7203. More severe criminal penalties apply to tax evasion and filing fraudulent returns.

95. b) 20% of the underpayment

The accuracy-related penalty for negligence or disregard of rules and regulations is 20% of the underpayment, as specified in IRC Section 6662. Negligence includes failure to make a reasonable attempt to comply with tax laws, and disregard includes careless, reckless, or intentional disregard.

96. d) 75% of the underpayment

The fraud penalty under Section 6663 is 75% of the portion of the underpayment attributable to fraud. This is a significant penalty that applies when the IRS can prove that the underpayment was due to fraud, which involves an intentional wrongdoing with the specific intent to evade a tax known to be due.

97. b) 20% of the underpayment

The penalty for a substantial understatement of income tax is 20% of the underpayment, as specified in IRC Section 6662. This is the same percentage as other accuracy-related penalties.

98. a) The greater of 10% of the tax required to be shown or \$5,000

For individual taxpayers, a "substantial understatement" of income tax is defined as an understatement that exceeds the greater of 10% of the tax required to be shown on the return or \$5,000. This threshold determines when the substantial understatement penalty applies.

99. c) The lesser of 10% of the tax required to be shown (or if greater, \$10,000) or \$1 million

For corporate taxpayers, a "substantial understatement" of income tax is defined as an understatement that exceeds the lesser of 10% of the tax required to be shown on the return (or if greater, \$10,000) or \$1 million. This threshold determines when the substantial understatement penalty applies to corporations.

100. c) Exercise of ordinary business care and prudence

A reasonable cause defense to penalties is based on the taxpayer's exercise of ordinary business care and prudence despite failing to comply with tax obligations. Ignorance of the law, reliance on incorrect advice from a friend, and inability to pay the tax owed are generally not considered reasonable cause, though specific circumstances may alter this determination.

101. b) Federal short-term rate plus 3%

The most common interest rate charged by the IRS on underpayments is the federal short-term rate plus 3 percentage points. This rate is applied to most taxpayers for underpayments of tax.

102. c) Federal short-term rate plus 6%

For large corporate underpayments (exceeding \$100,000), the interest rate is the federal short-term rate plus 5 percentage points. This higher rate applies after a formal notice is issued and a specified period has passed.

103. b) Quarterly

The IRS interest rate is adjusted quarterly, based on the federal short-term rate determined during the first month of the previous calendar quarter. This ensures that the rate is relatively current with market conditions.

104. a) On the due date of the return

Interest on underpayments of tax begins to accrue from the due date of the return (without regard to extensions), regardless of when the return is actually filed or when the tax is assessed. Interest continues to accrue until the tax is paid in full.

105. b) Failure-to-file penalty

The IRS First-Time Penalty Abatement program typically applies to failure-to-file penalties, failure-to-pay penalties, and failure-to-deposit penalties. It does not apply to fraud penalties, accuracy-related penalties, or criminal penalties, which require different standards for abatement.

106. a) The taxpayer must have filed all required returns or filed extensions

A requirement for First-Time Penalty Abatement is that the taxpayer must have filed all required returns or filed extensions and must have a good compliance history for the prior three years. It is not necessary to have been audited previously, have a balance due under \$1,000, or be a first-time filer.

107. b) By calling the IRS or writing a letter

A taxpayer can request First-Time Penalty Abatement by calling the IRS or writing a letter explaining that they qualify. Form 843 can also be used but is not required. Form 12153 is for Collection Due Process hearings, and amended returns are not used for penalty abatement requests.

108. a) A statutory exception that applies only to certain penalties

The reasonable cause exception for penalties is a statutory exception that applies only to certain penalties as specified in the Internal Revenue Code. It is not an automatic exception for first-time offenders, limited to late filing penalties, or a purely administrative exception.

109. b) Death or serious illness of the taxpayer or immediate family

Death or serious illness of the taxpayer or immediate family is generally considered reasonable cause for penalty abatement. Forgetfulness, inability to pay the tax, and lack of knowledge of tax laws are generally not considered reasonable cause for penalty abatement, though specific circumstances may affect this determination.

110. b) \$500 per check

The penalty for a tax return preparer who endorses or negotiates a client's refund check is \$500 per check, as specified in IRC Section 6695(f). This is a significant penalty because such actions create a risk of fraud and misappropriation of client funds.

111. b) \$50 per failure

The penalty for a tax return preparer who fails to furnish a copy of the return to the taxpayer is \$50 per failure, with a maximum of \$25,000 per calendar year, as specified in IRC Section 6695(a).

112. b) \$50 per failure

The penalty for a tax return preparer who fails to sign a return is \$50 per failure, with a maximum of \$25,000 per calendar year, as specified in IRC Section 6695(b).

113. a) \$1,000 per return

The maximum penalty for a tax return preparer for understating a taxpayer's liability due to unreasonable positions is \$1,000 per return or claim, as specified in IRC Section 6694(a). This applies when the preparer takes a position that does not have substantial authority.

114. c) Greater of \$5,000 or 50% of the income derived

The maximum penalty for a tax return preparer for understating a taxpayer's liability due to willful or reckless conduct is the greater of \$5,000 or 50% of the income derived (or to be derived) by the preparer with respect to the return or claim, as specified in IRC Section 6694(b).

115. b) \$500 per failure

The penalty for tax return preparers who fail to exercise due diligence in determining EITC eligibility is \$500 per failure, as specified in IRC Section 6695(g). This penalty has been increased to \$500 from a previous amount of \$100, reflecting the importance of proper EITC compliance.

116. b) Arguing that filing a tax return violates the Fifth Amendment

Arguing that filing a tax return violates the Fifth Amendment is considered a frivolous position by the IRS. Other frivolous positions include claims that wages are not income, that the income tax is voluntary, and that Federal Reserve Notes are not legal tender. Claiming valid deductions with proper substantiation,

using authorized depreciation methods, or claiming legitimate business expenses are not frivolous positions.

117. b) The greater of \$1,000 or 100% of gross income derived

The penalty for promoting abusive tax shelters under IRC Section 6700 is the greater of \$1,000 or 100% of the gross income derived from the activity. This significant penalty reflects the severity of promoting tax schemes designed to improperly reduce tax liability.

118. a) \$1,000 per taxpayer

The penalty for aiding and abetting an understatement of tax liability under IRC Section 6701 is \$1,000 per taxpayer (\$10,000 for corporate taxpayers). This penalty applies to anyone who assists or advises on a document that they know will result in an understatement of tax liability.

119. a) \$250 per disclosure with a maximum of \$10,000

The penalty for unauthorized disclosure or use of tax return information by a preparer is \$250 per disclosure or use, with a maximum of \$10,000 per calendar year, as specified in IRC Section 6713. Criminal penalties under IRC Section 7216 may also apply in egregious cases.

120. a) The extension of attorney-client privilege to accountants working under an attorney's direction

The "Kovel privilege" in tax practice refers to the extension of attorney-client privilege to accountants working under an attorney's direction to assist the attorney in providing legal advice. This privilege stems from the case *United States v. Kovel* and allows communications with the accountant to remain privileged under certain circumstances.

121. b) Tax advice related to a criminal tax matter

Communications regarding tax advice related to a criminal tax matter are NOT protected by practitioner-client privilege under IRC Section 7525. The privilege extends to tax advice between federally authorized practitioners (EAs, CPAs, attorneys) and their clients for non-criminal tax matters before the IRS or federal courts.

122. d) All of the above

The requirement for maintaining client confidentiality under Circular 230 includes that practitioners cannot disclose client information without consent, can disclose information if required by law, and can

disclose information if necessary to defend against accusations. All these provisions are part of the confidentiality standards in Circular 230.

123. b) Due diligence requirements only

Written advice concerning a Federal tax matter is subject to due diligence requirements under Circular 230. The "covered opinions" requirements were eliminated in the 2014 revisions to Circular 230. Written advice is not subject to a requirement to have substantial authority, though that standard is relevant to other tax compliance matters.

124. d) All of the above

Under Circular 230, when providing written advice concerning a Federal tax matter, a practitioner must base the advice on reasonable factual and legal assumptions, consider all relevant facts the practitioner knows or should know, and use reasonable efforts to identify and ascertain the relevant facts. All these requirements are part of the due diligence standards in Circular 230.

125. c) For all positions where penalties may apply

Under Circular 230, a practitioner must inform a client of potential penalties related to a tax position for all positions where penalties may apply, not just positions on original tax returns, positions with a reasonable basis, or positions with no substantial authority. This is part of the practitioner's duty to ensure clients are fully informed.

126. c) Original, copy, or faxed signatures

For filing a completed power of attorney, the IRS accepts original signatures, copies of original signatures, or faxed signatures. Electronic signatures are also permitted in many circumstances. The key requirement is that the signature must be verifiable and authentic.

127. b) Only attorneys, CPAs, and Enrolled Agents

Only attorneys, CPAs, and Enrolled Agents (and certain other practitioners with full representation rights) can represent a taxpayer in a Collection Due Process hearing. Individuals with only a PTIN, without proper credentials, do not have representation rights. Written authorization alone is not sufficient; the representative must have proper credentials.

128. b) It identifies the representative in the IRS computer system

The significance of the Centralized Authorization File (CAF) number is that it identifies the representative in the IRS computer system. It is not a license number, does not show the level of authority, and does not indicate the number of clients represented. The CAF number is assigned when a representative first submits a power of attorney or tax information authorization.

129. b) Records must be returned promptly upon request

Under Circular 230, the requirement for returning client records is that records must be returned promptly upon request. Practitioners cannot withhold records even if fees are unpaid or if the records relate to current representation. There is no specific 30-day requirement, though "promptly" generally means without undue delay.

130. a) The practitioner is responsible only for information actually known

The "actual knowledge" standard for practitioners regarding client information means that the practitioner is responsible only for information actually known to the practitioner. Practitioners are not required to verify all client-provided information, audit client records, or automatically distrust client statements, but they cannot ignore obvious errors or inconsistencies.

131. d) All of the above

Under Circular 230, a practitioner should withdraw from representing a client when the client refuses to provide required information, when the practitioner knows the client has provided false information, and when the representation would result in violation of Circular 230. All these situations require withdrawal from representation to maintain ethical standards.

132. a) Copies of all tax returns prepared

Under Circular 230, practitioners must maintain copies of all tax returns prepared. Circular 230 does not specifically mandate maintenance of all reports and papers related to representation or records of client interactions and advice given, though maintaining such records is a good practice and may be required by other professional standards.

133. b) 36 months from the date of submission to the IRS

Circular 230 requires practitioners to retain copies of tax returns, claims, and other documents submitted to the IRS for 36 months from the date of submission. This 3-year period aligns with the general statute of limitations for assessment.

134. b) A person who can represent taxpayers only for returns they prepared

A limited practice representative is a person who can represent taxpayers only for returns they prepared. This typically refers to Annual Filing Season Program participants, who have limited representation rights for returns they prepared and only before examination personnel, not appeals or collection.

135. b) Only for returns they prepared and only before examination, not appeals

Under Circular 230, an unenrolled preparer who has completed the Annual Filing Season Program can represent clients only for returns they prepared and only before examination personnel, not appeals or collection. They do not have unlimited representation rights or representation rights for all administrative proceedings.

136. b) Practitioners can advertise but cannot make false, fraudulent, or coercive statements

Under Circular 230, practitioners can advertise but cannot make false, fraudulent, misleading, deceptive, unduly influencing, coercive, or unfair statements in their advertising. Practitioners are not prohibited from advertising altogether, limited to professional journals, or required to include disclaimers in all advertising.

137. b) Direct, in-person solicitation is prohibited in most circumstances

Under Circular 230, the rule regarding solicitation of business is that direct, in-person solicitation is prohibited in most circumstances. Other forms of solicitation, such as written or electronic communications, are generally permitted as long as they do not violate other Circular 230 provisions regarding false or misleading statements.

138. b) Fees must be communicated to clients in writing

Under Circular 230, the requirement for fee arrangements is that fees must be communicated to clients, preferably in writing. Fees do not need to be contingent, approved by OPR, or limited to industry averages. Clear communication about fees helps prevent misunderstandings and disputes.

139. b) Practitioners may not perform services unless competent to do so

Under Circular 230, practitioners may not perform services unless competent to do so. Disclosing lack of competence, being supervised, or obtaining additional education does not override the fundamental requirement that practitioners must be competent to perform the services they provide.

140. a) Representing a client in an examination of an original return

Under Circular 230, representing a client in an examination of an original return is NOT permitted under a valid contingent fee arrangement. Contingent fees are permitted for representing a client in a claim for refund, in a case originating from an examination of an amended return, or in obtaining a private letter ruling, but not for original return examinations.

141. b) The practitioner must advise the client of the noncompliance and consequences

Under Circular 230, when a practitioner knows a client has not complied with the tax laws, the practitioner must advise the client of the noncompliance and consequences. The practitioner is not required to immediately withdraw, report the client to the IRS, or amend returns without client consent, though withdrawal may be necessary if the client refuses to comply after being advised.

142. b) Private Letter Ruling

A Private Letter Ruling (PLR) can be used to obtain IRS guidance on a specific transaction. A PLR is a written determination issued to a specific taxpayer in response to a written request, and it applies only to that taxpayer. Revenue Procedures and Revenue Rulings are general guidance documents, and Technical Advice Memoranda are issued within the IRS in response to questions arising during audits.

143. c) No specific form; requires a written request

There is no specific form used to request a private letter ruling; it requires a written request following specific guidelines provided in the annually updated Revenue Procedure (e.g., Rev. Proc. 2024-1). Form 2848 is a power of attorney, Form 8821 is a tax information authorization, and Form 843 is for claims for refund and abatement.

144. d) 6 months or more

The general time frame for receiving a response to a private letter ruling request is 6 months or more. The actual time can vary depending on the complexity of the issue, the workload of the IRS office handling the request, and whether additional information is needed from the taxpayer.

145. c) Revenue Procedure updated annually (e.g., Rev. Proc. 2024-1)

The Revenue Procedure updated annually (e.g., Rev. Proc. 2024-1) provides guidance on submitting a private letter ruling request. This detailed procedure explains what must be included in the request, the fee structure, and how the request will be processed. Publication 1 is Your Rights as a Taxpayer, Publication

947 covers practice before the IRS, and Circular 230 governs practice before the IRS but does not provide specific PLR procedures.

146. b) To apply the tax laws to a specific set of facts

The purpose of a determination letter from the IRS is to apply the tax laws to a specific set of facts, typically in areas where the determination is straightforward and based on clear precedent. Determination letters differ from private letter rulings in that they generally address simpler, more established issues.

147. a) Advice from Chief Counsel on technical or procedural questions

A Technical Advice Memorandum (TAM) is advice from the IRS Chief Counsel on technical or procedural questions that arise during an audit, appeal, or other tax administration proceeding. TAMs are initiated by IRS personnel, not taxpayers directly, and provide guidance on the proper interpretation of tax laws in specific cases.

148. c) No, private letter rulings apply only to the requesting taxpayer

A taxpayer cannot rely on a private letter ruling issued to another taxpayer. Private letter rulings apply only to the taxpayer who requested the ruling and only for the specific transaction addressed in the ruling. While they may provide insight into the IRS's thinking, they have no precedential value for other taxpayers.

149. a) A final determination of tax liability that cannot be reopened

A closing agreement with the IRS is a final determination of tax liability that cannot be reopened except in cases of fraud, malfeasance, or misrepresentation of a material fact. Once executed, a closing agreement is binding on both the taxpayer and the IRS and is not subject to appeal or review.

150. c) There is no specific form

There is no specific form used to request a closing agreement; the request is typically made in writing to the appropriate IRS office. Form 866 is the actual Closing Agreement on Final Determination form, Form 906 is the Closing Agreement on Final Determination Covering Specific Matters form, and Form 12153 is for Collection Due Process hearings.

151. b) To request assistance from the Taxpayer Advocate Service

The purpose of IRS Form 911 is to request assistance from the Taxpayer Advocate Service. This form is used when taxpayers are experiencing significant hardship due to IRS actions or inactions and have been unable to resolve their issues through normal IRS channels.

152. b) A request to reopen a closed audit based on new information

An IRS Audit Reconsideration is a request to reopen a closed audit based on new information that was not previously considered. It is not a formal appeal, a request for a second opinion on an open audit, or a petition to the Tax Court. Audit reconsideration is an administrative process, not a statutory right.

153. d) All of the above

The requirements for requesting audit reconsideration include that the assessment must still be unpaid or unresolved, the taxpayer must provide new information not previously considered, and the taxpayer must have a good reason for not providing the information during the audit. All these factors are considered in determining whether audit reconsideration is appropriate.

154. b) They restrict the IRS from auditing the same return more than once

The Repetitive Audit Procedures under IRC Section 7605(b) restrict the IRS from auditing the same return more than once unless the taxpayer requests it or the IRS Commissioner (or delegate) approves it after determining that an additional inspection is necessary. This provision protects taxpayers from harassment through repeated audits.

155. b) A review to determine if a taxpayer is meeting tax responsibilities that is not an audit

An IRS Compliance Check is a review to determine if a taxpayer is meeting tax responsibilities that is not an audit. Compliance checks typically focus on record-keeping and reporting requirements rather than determining a tax liability. It is not a formal examination, criminal investigation, or review of a preparer's procedures.

156. c) A program to measure taxpayer compliance with the tax laws

The IRS National Research Program (NRP) is a program to measure taxpayer compliance with the tax laws. NRP examinations are used to gather data for statistical purposes, which helps the IRS improve audit selection criteria and identify areas of non-compliance. It is not primarily an educational program, criminal investigation tool, or training program.

157. b) To determine which taxpayers to audit

IRS Discriminant Function System (DIF) scores are used to determine which taxpayers to audit. The DIF system uses mathematical formulas to assign scores to returns based on their potential for yielding additional tax revenue. Higher scoring returns are more likely to be selected for audit. DIF scores are not used to identify fraud, calculate penalties, or assess ability to pay.

158. d) All of the above

Taxpayers with tax debts can request that the IRS reconsider a lien notice through lien subordination, lien discharge, and lien withdrawal programs. Each of these programs serves a different purpose in helping taxpayers manage the impact of federal tax liens while they work to resolve their tax debts.

159. b) To allow another creditor's lien to take priority

The purpose of a Subordination of Federal Tax Lien is to allow another creditor's lien to take priority over the federal tax lien for certain property. This might be done, for example, to allow a taxpayer to refinance a mortgage to obtain a lower interest rate, potentially improving their ability to pay the tax debt.

160. a) To remove the lien from specific property

The purpose of a Certificate of Discharge of Federal Tax Lien is to remove the lien from specific property. This allows the property to be sold or refinanced free of the lien, typically when there is sufficient equity to satisfy the IRS or when the IRS determines it has no interest in the property. The lien remains in effect for other property.

161. c) To withdraw the public notice while the lien remains in effect

The purpose of a Withdrawal of Notice of Federal Tax Lien is to withdraw the public notice while the lien technically remains in effect. This removes the lien from public records, potentially improving the taxpayer's credit, while the underlying tax liability remains. It does not release the lien or change priority with other creditors.

162. c) Under certain circumstances including installment agreements for small liabilities

A taxpayer can request a withdrawal of notice of federal tax lien under certain circumstances, including when they have an installment agreement for small liabilities (generally under \$25,000), when withdrawal would facilitate collection, when the taxpayer has satisfied certain compliance requirements, or when withdrawal is in the best interest of both the taxpayer and the government. It is not limited to cases where the tax is paid in full or the lien was filed in error.

163. b) Form 14135

Form 14135, Application for Certificate of Discharge of Property from Federal Tax Lien, is used to request a Certificate of Discharge of Federal Tax Lien. Form 12277 is used for lien withdrawal, Form 9465 is for installment agreements, and Form 668-Z is the Certificate of Release of Federal Tax Lien issued by the IRS.

164. b) To hold responsible persons liable for unpaid employment taxes

The primary purpose of the Trust Fund Recovery Penalty is to hold responsible persons liable for unpaid employment taxes, specifically the employee's withheld income taxes and the employee portion of FICA taxes (the "trust fund" portion). It is not designed to penalize businesses for operating at a loss, collect penalties for late filing, or recover taxes from bankruptcy proceedings.

165. c) Anyone with authority over financial affairs of the business

A "responsible person" for the Trust Fund Recovery Penalty can be anyone with authority over financial affairs of the business who willfully fails to collect, account for, or pay over the trust fund taxes. This can include owners, officers, employees, or even third parties with sufficient control. It is not limited to the business owner, corporate officers, or the person who signs returns.

166. c) Only the employee's share of withheld income and FICA taxes

The Trust Fund Recovery Penalty applies only to the employee's share of withheld income and FICA taxes, which are considered held in trust for the government. It does not apply to the employer's share of FICA, FUTA, or other business taxes, which remain liabilities of the business entity.

167. a) 3 years from the date the employment tax return was filed

The time limit for the IRS to assess the Trust Fund Recovery Penalty is generally 3 years from the date the employment tax return was filed or due, whichever is later. This follows the standard assessment statute of limitations. However, if no return is filed or in cases of fraud, there is no time limit.

168. b) Letter 1153

Letter 1153, Proposed Trust Fund Recovery Penalty Notification, is used by the IRS to propose the Trust Fund Recovery Penalty. Form 4180 is the Report of Interview with Individual Relative to Trust Fund Recovery Penalty, which is used to gather information during the investigation. Form 941-X is used to correct employment tax returns, and CP 504 is a notice informing taxpayers of intent to levy.

169. c) 60 days

The time period for responding to a proposed Trust Fund Recovery Penalty assessment is 60 days from the date of the Letter 1153. Within this period, the taxpayer can appeal the proposed assessment by requesting an appeal in writing.

170. c) Third Party Designee section on the tax return

The Third Party Designee section on a tax return allows a taxpayer to authorize another person to discuss that specific tax return with the IRS. Form 2848 is a power of attorney for representation, Form 8821 is a tax information authorization for multiple years or issues, and Form 911 is used to request Taxpayer Advocate Service assistance.

171. c) 1 year from the return processing date

The duration of the authorization provided by the Third Party Designee section on a tax return is 1 year from the return processing date. This is a limited authorization designed to help resolve processing issues or respond to basic questions about the specific return.

172. b) Only information related to the specific return

A Third Party Designee can receive from the IRS only information related to the specific return for which they are designated. They cannot access all taxpayer information, information about collection actions, or information from other tax years or returns.

173. a) Form 2848 grants representation rights, Form 8821 grants information access only

The main difference between Form 2848 and Form 8821 is that Form 2848 (Power of Attorney) grants representation rights, allowing the representative to act on behalf of the taxpayer, while Form 8821 (Tax Information Authorization) grants information access only, allowing the designee to receive and inspect confidential information but not represent the taxpayer. Both forms apply to tax matters and can be used for various types of taxpayers.

174. a) A suite of web-based tools for tax professionals

IRS e-Services is a suite of web-based tools for tax professionals that provides enhanced electronic services. It includes services such as the Transcript Delivery System, TIN Matching, and registration for e-file providers. It is not electronic filing software, a tax payment service, or a taxpayer self-service website.

175. a) Transcript Delivery System

The Transcript Delivery System is an available service through the IRS e-Services platform. It allows authorized tax professionals to obtain tax account transcripts, wage and income documents, and tax return transcripts for their clients. Electronic Account Resolution is no longer available, electronic filing of all IRS forms is not a feature of e-Services, and direct deposit verification is not a specific e-Services feature.

176. b) Submission of an application and passing a suitability check

To become an authorized e-file provider, a tax professional must submit an application (through the IRS e-file Application) and pass a suitability check, which includes a criminal background check, credit check, and tax compliance check. Having a PTIN alone is not sufficient, certification by a professional organization is not required, and purchase of approved software, while necessary for e-filing, is not part of the authorization process.

177. a) To process powers of attorney and tax information authorizations

The function of the Centralized Authorization File (CAF) unit is to process powers of attorney (Form 2848) and tax information authorizations (Form 8821). The CAF unit records representative authorizations on the IRS's computer system, allowing representatives to interact with the IRS on behalf of taxpayers. It does not maintain general taxpayer records, process e-file applications, or issue PTINs.

178. a) To replace the preparer's Social Security Number on tax returns

The primary purpose of the Preparer Tax Identification Number (PTIN) is to replace the preparer's Social Security Number on tax returns, enhancing privacy and security. While the PTIN is required for all paid preparers and is used to track continuing education for Annual Filing Season Program participants, its primary purpose is to serve as an identifying number that replaces the SSN on returns.

179. c) Before preparing any returns for compensation

A tax return preparer must obtain a PTIN before preparing any returns for compensation. This requirement applies regardless of the number of returns prepared, whether the preparer represents clients before the IRS, or other factors. The PTIN is a fundamental requirement for all paid preparers.

180. d) Annually

The renewal period for PTINs is annually. PTINs expire on December 31 each year and must be renewed for the next calendar year. This annual renewal ensures that the IRS has current information on active tax return preparers.

181. c) Any taxpayer participating in a reportable transaction

Any taxpayer participating in a reportable transaction is required to file Form 8886, Reportable Transaction Disclosure Statement. This includes individuals, corporations, and other entities participating in transactions identified as reportable by the IRS, which include listed transactions, transactions with contractual protection, confidential transactions, transactions with significant book-tax differences, and transactions with brief asset holding periods.

182. b) A transaction specifically identified by the IRS as a tax avoidance transaction

A "listed transaction" for tax reporting purposes is a transaction specifically identified by the IRS as a tax avoidance transaction. These are transactions that the IRS has determined are the same as or substantially similar to transactions previously identified as tax avoidance transactions. They must be reported on Form 8886.

183. a) \$10,000 for individuals, \$50,000 for entities

The penalty for failure to disclose a listed transaction is \$10,000 for individuals and \$50,000 for entities. The penalty increases significantly (to \$100,000 for individuals and \$200,000 for entities) if the failure continues after IRS notification. These penalties reflect the seriousness with which the IRS views listed transactions.

184. b) To report material advisors to a reportable transaction

Form 8918, Material Advisor Disclosure Statement, is used to report material advisors to a reportable transaction. Material advisors are those who provide material aid, assistance, or advice with respect to organizing, managing, promoting, selling, implementing, insuring, or carrying out a reportable transaction and who receive a certain threshold amount of compensation for such services.

185. b) A person who provides material aid on a reportable transaction and earns fees above threshold amounts

A "material advisor" for reportable transaction purposes is a person who provides material aid, assistance, or advice on a reportable transaction and earns fees above threshold amounts (generally \$50,000 for transactions involving individuals and \$250,000 for transactions involving entities). It is not limited to any person providing tax advice, licensed professionals, or attorneys.

186. a) \$10,000 per day of failure

The penalty for a material advisor who fails to maintain a list of advisees for a reportable transaction is \$10,000 per day of failure after the first business day following the day the IRS requests the list. This significant daily penalty reflects the importance of these lists for IRS enforcement efforts regarding reportable transactions.

187. c) To report tax fraud or underpayment

The primary purpose of the IRS Whistleblower Program is to report tax fraud or underpayment by individuals or entities. The program allows individuals to report violations of tax laws and potentially receive an award based on the additional tax, penalties, and interest collected. It is not designed for reporting unauthorized practitioners, Circular 230 violations, or improper IRS employee conduct.

188. a) Form 211

Form 211, Application for Award for Original Information, is used to submit information to the IRS Whistleblower Office. This form allows potential whistleblowers to provide details about alleged tax violations and apply for a potential award. Form 3949-A is for reporting suspected tax fraud without seeking an award, Form 14242 is for reporting misconduct by tax return preparers, and there is no Form 912 for this purpose.

189. b) 15-30% of collected proceeds

The potential award for information provided under the IRS Whistleblower Program if the case involves more than \$2 million is 15-30% of collected proceeds, depending on the extent to which the whistleblower substantially contributed to the action. For cases involving less than \$2 million or individual taxpayers with gross income under \$200,000, the award is discretionary up to 15% of collected proceeds.

190. a) To report suspected tax fraud

The purpose of Form 3949-A is to report suspected tax fraud. This form allows individuals to report potential violations of tax laws without seeking an award through the Whistleblower Program. Form 211 is for whistleblower claims, Form 14157 is for reporting tax return preparer misconduct, and Form 14242 is for reporting Circular 230 violations.

191. d) To report misconduct by a tax return preparer

The purpose of Form 14157 is to report misconduct by a tax return preparer. This form allows taxpayers and others to report preparers who have engaged in improper practices. Form 14242 is for reporting

violations of Circular 230, Form 3949-A is for reporting suspected tax fraud, and Form 211 is for whistleblower claims.

192. a) To report violations of Circular 230

The purpose of Form 14242 is to report violations of Circular 230, which governs practice before the IRS. This form is used to report misconduct by practitioners who are subject to Circular 230, such as attorneys, CPAs, and Enrolled Agents. Form 14157 is for reporting tax return preparer misconduct, Form 3949-A is for reporting suspected tax fraud, and Form 211 is for whistleblower claims.

193. a) A list of 10 fundamental rights taxpayers have when dealing with the IRS

The Taxpayer Bill of Rights is a list of 10 fundamental rights taxpayers have when dealing with the IRS. It includes rights such as the right to be informed, the right to quality service, the right to pay no more than the correct amount of tax, and the right to challenge the IRS's position. It is not a set of laws restricting enforcement, a list of responsibilities, or a collection of court decisions.

194. b) The Right to Challenge the IRS's Position and Be Heard

The Right to Challenge the IRS's Position and Be Heard directly addresses a taxpayer's ability to challenge the IRS's position. This right ensures that taxpayers can raise objections and provide additional documentation in response to IRS actions or proposed actions. The Right to Be Informed ensures taxpayers know what they need to do to comply with tax laws, the Right to Appeal addresses contesting decisions in an independent forum, and the Right to a Fair and Just Tax System addresses the consideration of facts and circumstances.

195. b) The IRS must wait 30 days after sending a notice before levying assets

The correct statement about IRS Collections is that the IRS must wait 30 days after sending a notice before levying assets. This notice, often a CP 504 followed by a Letter 1058 or LT11, gives taxpayers the opportunity to pay the tax or make other arrangements before a levy is issued. The IRS does not need a court order to file a lien, cannot seize a personal residence without court approval, and must provide notice before contacting third parties.

196. b) To help taxpayers resolve problems with the IRS

The primary responsibility of the Taxpayer Advocate Service is to help taxpayers resolve problems with the IRS that have not been resolved through normal channels. The TAS is an independent organization within the IRS that advocates for taxpayers' rights. It does not represent taxpayers in Tax Court, enforce compliance, or create legislation.

197. a) A six-digit number assigned to taxpayers to prevent fraudulent returns

An Identity Protection Personal Identification Number (IP PIN) is a six-digit number assigned to taxpayers to prevent fraudulent tax returns. The IP PIN is known only to the taxpayer and the IRS and must be included on an electronic or paper tax return for it to be accepted for processing. It is not used for IRS online services, assigned to practitioners, or used for e-filing generally.

198. b) It expanded taxpayer rights and improved IRS customer service

The significance of the Taxpayer First Act of 2019 is that it expanded taxpayer rights and improved IRS customer service. The Act made numerous changes to the IRS's organizational structure, customer service, enforcement procedures, and taxpayer rights. It did not establish OPR (which existed previously), create the position of Taxpayer Advocate (established in 1996), or establish e-filing requirements.

199. b) To provide an independent review of IRS determinations

The role of the Office of Appeals in the IRS is to provide an independent review of IRS determinations. Appeals offers an impartial forum to resolve disputes between taxpayers and the IRS outside of court. It does not represent the IRS in court, create regulations, or investigate fraud.

200. a) Innocent Spouse provides relief for all understated tax; Separation of Liability divides the understated tax

The difference between an Innocent Spouse Claim and Separation of Liability is that Innocent Spouse provides relief for all understated tax when the requesting spouse did not know or have reason to know of the understatement, while Separation of Liability divides the understated tax between the spouses. Both forms of relief can apply to married or divorced taxpayers, both can apply to fraud or negligence cases, and both have different knowledge requirements.

201. a) Form 8857

Form 8857, Request for Innocent Spouse Relief, is used to request Innocent Spouse Relief. This form is used for all three types of relief: innocent spouse relief, separation of liability relief, and equitable relief. Form 12153 is for Collection Due Process hearings, Form 843 is for claims for refund and abatement, and Form 911 is for Taxpayer Advocate Service assistance.

202. c) No specific time limit for traditional innocent spouse relief

There is no specific time limit for requesting traditional innocent spouse relief under Section 6015(b), as long as the statute of limitations on collection remains open. Previously, there was a 2-year time limit from the first collection activity, but this was eliminated for certain types of relief. The timeframe is not tied to filing the return or discovery of the tax.

203. c) When it would be unfair to hold the taxpayer liable for underpayment or understatement

A taxpayer might qualify for Equitable Relief under innocent spouse provisions when it would be unfair to hold the taxpayer liable for underpayment or understatement of tax. Equitable relief can apply to both understatements and underpayments (taxes shown on the return but not paid), is available to married couples, and does not require fraud by the other spouse.

204. b) Collection activities on the requesting spouse are suspended

When a request for Innocent Spouse Relief is pending, collection activities on the requesting spouse are suspended. Collection activities can continue against the non-requesting spouse. The IRS is prohibited from levying or initiating court proceedings against the requesting spouse while the request is pending.

205. b) It may result in passport denial, revocation, or limitation

The significance of a "seriously delinquent tax debt" under passport certification rules is that it may result in passport denial, revocation, or limitation. The IRS certifies to the State Department that a taxpayer has a seriously delinquent tax debt, and the State Department then takes action regarding the passport. This does not trigger immediate levy actions, mandatory criminal prosecution, or automatic bankruptcy.

206. b) A tax debt exceeding \$55,000, including penalties and interest, for which the IRS has filed a lien or levy

A "seriously delinquent tax debt" for passport certification purposes generally constitutes a tax debt exceeding \$55,000 (adjusted for inflation from the original \$50,000), including penalties and interest, for which the IRS has filed a lien or levy. Certain debts are excluded, such as those being paid under an approved installment agreement, accepted offer in compromise, or where a Collection Due Process hearing is pending.

207. c) Accrual of penalties and interest

When a taxpayer submits an initial offer in compromise, the accrual of penalties and interest is NOT suspended. The IRS generally suspends issuance of new liens and filing of new levies during the evaluation of the offer, but penalties and interest continue to accrue on the unpaid tax liability.

208. b) The original tax debt is reinstated, minus any payments made

If a taxpayer defaults on an accepted offer in compromise, the original tax debt is reinstated, minus any payments made under the offer. The IRS does not automatically file criminal charges, ban the taxpayer from future offers, or impose a specific default penalty. The reinstated debt is subject to the remaining time on the collection statute of limitations.

209. b) They determine allowable living expenses for collection purposes

The significance of the Collection Financial Standards used by the IRS is that they determine allowable living expenses for collection purposes. These standards are used to evaluate a taxpayer's ability to pay when considering collection alternatives such as installment agreements, offers in compromise, and currently not collectible status. They do not establish tax rates, interest rates, or penalty amounts.

210. c) Income taxes for returns filed within 2 years of bankruptcy

Income taxes for returns filed within 2 years of bankruptcy generally cannot be discharged in a Chapter 7 bankruptcy. Other non-dischargeable tax debts include trust fund recovery penalties and taxes for which returns were not filed or were filed late within 2 years of bankruptcy. Income taxes for returns due more than 3 years ago and filed more than 2 years ago may be dischargeable if they meet other criteria.

211. b) It extends the statute by the time the automatic stay was in effect, plus 6 months

Bankruptcy affects the collection statute of limitations by extending it by the time the automatic stay was in effect, plus 6 months. This ensures that the IRS has the same amount of time to collect the tax after bankruptcy as it had before bankruptcy. It does not terminate or reset the statute.

212. c) It generally prohibits IRS collection actions

The significance of the automatic stay in bankruptcy for IRS collection actions is that it generally prohibits IRS collection actions. The automatic stay prevents the IRS from filing liens, issuing levies, or taking other collection actions while it is in effect. Certain actions, such as audits and assessments of tax, may still proceed.

213. b) Form 12203

Form 12203, Request for Appeals Review, is used to appeal a rejected innocent spouse claim. This form, along with a statement explaining why the taxpayer disagrees with the determination, is submitted to the address shown on the determination letter. Form 8857 is the initial request for innocent spouse relief, Form 9423 is for Collection Appeals, and Form 12509 is not a standard IRS form.

214. b) To maintain records of information used to determine eligibility

The tax preparer's responsibility regarding the Earned Income Tax Credit due diligence requirements includes maintaining records of information used to determine eligibility. Preparers must complete Form 8867, comply with knowledge requirements, maintain records, and compute the credit correctly. Verifying only the taxpayer's identity, contacting the IRS, or visiting the home are not specified requirements.

215. a) Form 8867

Form 8867, Paid Preparer's Due Diligence Checklist, documents a tax preparer's EITC due diligence. This form must be completed for each return claiming EITC, Child Tax Credit, Additional Child Tax Credit, Credit for Other Dependents, American Opportunity Tax Credit, or Head of Household filing status. Form 8862 is for taxpayers claiming certain credits after disallowance, Form 8863 is for education credits, and Form 8879 is for e-file signature authorization.

216. b) \$500 per return

The penalty for failure to comply with EITC due diligence requirements is \$500 per return (adjusted for inflation). This significant penalty reflects the importance of proper compliance with EITC requirements due to the high error rate and potential for fraud in EITC claims.

217. b) Preparers who reasonably expect to file 11 or more returns must file electronically

The general rule for electronic filing by tax return preparers is that preparers who reasonably expect to file 11 or more individual, trust, or estate returns must file these returns electronically. There are exceptions for clients who choose not to e-file and for certain types of returns. Not all preparers must file all returns electronically, e-filing is not limited to enrolled preparers, and it is not always optional.

218. a) There is no longer a specific required language

Under current Circular 230 regulations, there is no longer a specific required language for a Circular 230 disclosure in written tax advice. The "covered opinion" standards were eliminated in 2014, along with the

specific disclaimer requirements. While practitioners may still include disclaimers, no specific language is mandated.

219. c) The concept was eliminated in 2014 revisions to Circular 230

The concept of a "covered opinion" was eliminated in the 2014 revisions to Circular 230. Prior to 2014, Circular 230 had specific requirements for "covered opinions," but these were replaced with more general standards for written tax advice. "Covered opinions" are no longer a concept in Circular 230.

220. c) To maintain copies for at least 3 years

The return preparer's responsibility regarding client records is to maintain copies for at least 3 years after the return is filed. This allows the preparer to respond to IRS inquiries, which generally must be made within the 3-year assessment period. Preparers should also return all original records to clients after preparing the return.

221. b) It authorizes the preparer to file electronically and use a PIN as the signature

The significance of the IRS e-file Signature Authorization (Form 8879) is that it authorizes the preparer to file electronically and use a PIN as the signature. It does not authorize representation, discussion of the return (which is done through the Third Party Designee section or Form 8821), or direct deposit of refunds (though banking information may be included on the form).

222. c) Preparer's PTIN, name, and electronic signature

On an electronically filed return, the preparer must be identified by their PTIN, name, and electronic signature. The electronic signature statement affirms that the preparer has reviewed the return and it is true, correct, and complete. Social Security Numbers are not used for preparer identification.

223. a) It allows a preparer to file returns electronically

The significance of the Electronic Return Originator (ERO) designation is that it allows a preparer to file returns electronically. EROs are authorized e-file providers who originate the electronic submission of returns to the IRS. The designation does not grant representation rights, exempt from due diligence, or qualify for reduced penalties.

224. c) Either original or electronic signatures may be used

For obtaining client signatures for e-filed returns, either original or electronic signatures may be used on Form 8879. The IRS accepts various forms of electronic signatures, including typed names with a PIN, scanned or digitized signatures, and signatures created through electronic signature software. The key requirement is that the signature method must be authenticated.

225. b) It must be retained by the preparer for 3 years

Form 8879 must be retained by the preparer for 3 years from the filing date or due date of the return, whichever is later. It is not mailed to the IRS, retained by the client, or uploaded with the electronic return. The form must be available for IRS inspection upon request.

226. a) When the preparer files fewer than 11 returns

A tax return preparer is exempt from the e-file requirement when the preparer files fewer than 11 returns in a calendar year. Other exemptions include hardship waivers and client opt-outs (clients who choose not to e-file). Working for a non-profit, age, or years of experience do not provide automatic exemptions.

227. c) Permanent until revoked

The typical duration of a CAF number assignment is permanent until revoked. Once assigned, a CAF number does not expire with time. The authorizations (powers of attorney) associated with a CAF number may expire or be revoked, but the CAF number itself remains associated with the representative indefinitely.

228. b) By written statement, by filing a new Form 2848, or by filing a revocation

A taxpayer may revoke a power of attorney by written statement, by filing a new Form 2848, or by filing a revocation (Form 2848 with "REVOKE" written at the top). The revocation can be for all matters or limited to specific matters. It cannot be done through Form 8821 or exclusively through OPR.

229. d) Third Party Designee section on the tax return

The Third Party Designee section on a tax return is used to authorize a paid preparer to discuss a tax return with the IRS. This limited authorization lasts for one year from the processing date of the return. Form 2848 grants representation rights, Form 8821 grants information access for multiple years or issues, and Form 8879 authorizes electronic filing.

230. a) To implement safeguards that will protect taxpayer information

The authorized e-file provider's responsibility regarding security of taxpayer information is to implement safeguards that will protect taxpayer information from unauthorized disclosure. This includes physical, electronic, and procedural safeguards. Sharing information with software providers or other providers, or limiting transmission times, are not acceptable security practices.

231. c) 72 months

The maximum period the IRS will generally agree to for an installment agreement without financial verification (streamlined agreement) is 72 months (6 years). This applies to tax liabilities of \$50,000 or less for individuals. The agreement must fully pay the liability before the collection statute expires.

232. c) 6-12 months

The typical processing time for an offer in compromise is 6-12 months. This timeframe can vary depending on the complexity of the case, the workload of the IRS office handling the offer, and whether additional information is needed from the taxpayer. Some offers may take longer, especially if they are complex or need to be appealed.

233. c) The original tax liability is reinstated

If a taxpayer fails to comply with tax filing and payment requirements during the 5-year period following an accepted offer in compromise, the original tax liability is reinstated, minus any payments made under the offer. This is a key term of the offer agreement. The default does not result in a penalty or future offer bar.

234. b) \$50,000 or less

The Streamlined Installment Agreement dollar threshold for individual taxpayers is \$50,000 or less. Taxpayers with liabilities up to this amount can establish a streamlined installment agreement without providing detailed financial information, as long as the liability can be paid within 72 months (and before the collection statute expires).

235. c) Lump sum cash or periodic payment

The payment methods available for an offer in compromise are lump sum cash or periodic payment. A lump sum cash offer is paid in 5 or fewer installments within 5 months after acceptance. A periodic payment offer is paid in 6 or more monthly installments, with payments continuing during the evaluation of the offer.

236. b) 20% of the offer amount

The non-refundable payment required with a lump sum offer in compromise is 20% of the offer amount, plus the application fee (unless qualifying for a low-income exemption). This payment is required at submission and is not refunded even if the offer is rejected. Periodic payment offers require the first proposed installment payment with submission.

237. a) \$2,500 in employment taxes

The threshold for mandatory electronic federal tax deposits for employment taxes is \$2,500 in employment taxes. If the total tax liability for the quarter is \$2,500 or more, the employer must make all federal tax deposits electronically using the Electronic Federal Tax Payment System (EFTPS). Deposits under \$2,500 can be made with the return.

238. c) Release of Levy

Form 668-D is a Release of Levy. This form is issued by the IRS when a levy is released, either because the tax has been paid, the statute of limitations has expired, the levy is creating an economic hardship, or releasing the levy will facilitate collection. It removes the legal effect of a levy that has been issued.

239. b) Notice of Levy

Form 668-A is a Notice of Levy. This form is issued by the IRS to seize (levy) property to satisfy a tax debt. It is the document that legally seizes a taxpayer's property held by a third party, such as wages or bank accounts. It notifies the third party that they must turn over the taxpayer's property to the IRS.

240. a) Certificate of Release of Federal Tax Lien

Form 668-Z is a Certificate of Release of Federal Tax Lien. This form is issued by the IRS to release a federal tax lien when the tax liability has been satisfied or has become legally unenforceable. It removes the lien from public records and releases the taxpayer's property from the effects of the lien.

241. b) When the liability is fully paid or becomes unenforceable

The IRS must release a levy when the liability is fully paid or becomes unenforceable due to the expiration of the collection statute of limitations. The IRS may also release a levy if it determines that the levy is creating an economic hardship, if the taxpayer enters into an installment agreement that includes a condition that the levy be released, or if releasing the levy will facilitate collection.

242. c) It is binding on both the IRS and the taxpayer

The significance of a Collection Appeal Program (CAP) determination is that it is binding on both the IRS and the taxpayer. Once a decision is made through CAP, neither party can appeal the decision. This is a key difference from Collection Due Process hearings, which can be appealed to Tax Court.

243. c) Agreements for liabilities over \$50,000 or that cannot be paid within 72 months

Installment agreements for liabilities over \$50,000 or that cannot be paid within 72 months require a full financial statement (Form 433-A or 433-F for individuals, Form 433-B for businesses). This allows the IRS to evaluate the taxpayer's ability to pay and determine an appropriate payment amount. Streamlined agreements (up to \$50,000, paid within 72 months) generally do not require financial statements.

244. a) An assessment made in cases where collection is in jeopardy

A jeopardy assessment is an assessment made in cases where collection is in jeopardy. It allows the IRS to assess and collect tax immediately when there is a risk that the taxpayer will hide assets, flee the jurisdiction, or take other actions that would prevent collection of tax. It bypasses normal assessment procedures to protect the government's interest.

245. b) An assessment made for the current tax year or prior year

A termination assessment is an assessment made for the current tax year or prior year, before the due date of the return, when collection appears to be in jeopardy. It allows the IRS to assess and collect tax for an incomplete tax period when there is a risk that the taxpayer's actions will hinder collection of tax for that period.

246. a) The taxpayer must demonstrate inability to pay

To qualify for currently not collectible status, the taxpayer must demonstrate inability to pay based on their income, expenses, and assets. The taxpayer does not need to be unemployed, and there are no specific dollar thresholds or age requirements for the tax. The IRS evaluates the taxpayer's financial situation using Collection Financial Standards.

247. b) It has no effect on the statute of limitations

Currently not collectible status has no effect on the statute of limitations for collection. The 10-year collection statute continues to run while a taxpayer is in currently not collectible status. If the taxpayer's financial situation improves before the statute expires, the IRS may resume collection actions.

248. b) A program where the IRS prepares returns for non-filers

The Substitute for Return program is a program where the IRS prepares returns for non-filers based on information reported to the IRS (such as W-2s, 1099s, etc.). These returns typically include income but not deductions or credits, often resulting in a higher tax liability than if the taxpayer had filed their own return. It is not a simplified return program, a correction program, or a preparation program for clients.

249. b) The right to prepare and file their own return even after assessment

When the IRS prepares a Substitute for Return, the taxpayer has the right to prepare and file their own return even after assessment. If the taxpayer files a return showing a lower tax liability than the SFR assessment, the IRS will generally adjust the assessment accordingly, provided the return is accurate and complete. The taxpayer is not limited to Tax Court challenges, and a representative can prepare the return.

250. b) It subordinates the federal tax lien to certain other creditors

The significance of IRC Section 6325(e), the "Certificate of Subordination of Federal Tax Lien," is that it subordinates the federal tax lien to certain other creditors. This means that the identified creditor's lien takes priority over the federal tax lien for the specific property described in the certificate. It does not release the lien, discharge property, or withdraw the notice.