

PRACTICE EXAM 26: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Total Questions: 50 | **Time Limit:** 140 Minutes | **Passing Score:** 73% (37/50)

1. A contractor operating as a limited partnership has gross receipts of \$2,500,000, net earnings of \$305,000, net worth of \$380,000, and tangible property valued at \$345,000 in Tennessee. What combination of Tennessee taxes applies to this entity?

- A. Business tax only, because limited partnerships are exempt from franchise and excise tax
- B. Franchise and excise tax only, because limited partnerships are exempt from business tax
- C. Business tax on gross receipts, franchise tax based on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings — all three apply to limited partnerships
- D. No Tennessee taxes apply because limited partnerships are pure pass-through entities at the state level

2. A contractor has total assets of \$1,080,000, total liabilities of \$690,000, current assets of \$415,000, and current liabilities of \$83,000. Does the contractor qualify for an unlimited license classification?

- A. Yes, because both net worth (\$390,000) and working capital (\$332,000) each independently exceed the \$300,000 threshold required for unlimited status
- B. No, because the combined total of \$722,000 does not meet the \$800,000 minimum for unlimited
- C. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital
- D. Yes, because only the net worth must exceed \$300,000 for unlimited classification

3. A contractor enters into a \$680,000 lump-sum contract for a commercial tenant improvement. During construction, the owner verbally approves a \$17,500 upgrade to the reception area lighting. The contractor completes the upgrade immediately. Three weeks later, the owner disputes the \$17,500 charge. What is the core procedural issue?

- A. The change order should have been written and signed by both parties before the work began — the lack of written documentation weakens the contractor's ability to recover the cost

- B. The verbal approval is enforceable because the owner accepted the benefit of the completed upgrade
- C. The architect must authorize all change orders before the owner or contractor can approve them
- D. The owner cannot dispute work that has been physically completed and integrated into the building

4. A contractor operating as a C-corporation has net earnings of \$420,000, net worth of \$550,000, and tangible property valued at \$490,000 in Tennessee. What is the company's Tennessee excise tax liability?

- A. \$1,375, calculated at \$0.25 per \$100 of the net worth of \$550,000
- B. \$1,225, calculated at \$0.25 per \$100 of tangible property of \$490,000
- C. \$0, because C-corporations with tangible property under \$500,000 are exempt from excise tax
- D. \$27,300, calculated at 6.5% of the net earnings of \$420,000

5. A contractor is reviewing the standard order of precedence for a \$3,200,000 commercial construction contract. The specifications require low-VOC latex paint throughout. The pre-bid addenda changed the requirement to standard latex paint in the mechanical rooms only. The drawings show epoxy paint in the mechanical rooms. Which paint should be used in the mechanical rooms?

- A. Low-VOC latex, because specifications always take precedence over both addenda and drawings
- B. Epoxy paint, because the drawings provide the most detailed room-by-room finish requirements
- C. Standard latex, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may choose the least expensive option and document the selection in the project record

6. An employer with 8 employees in Tennessee terminates a 62-year-old worker and replaces the position with a 27-year-old hire. The terminated worker believes the termination was age-based. Under which law can the worker file a complaint?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- B. The federal ADEA, which applies to all employers with 5 or more employees in the construction industry

- C. Title VII of the Civil Rights Act, which covers age discrimination for employers with 8 or more employees
- D. No federal or state law covers age discrimination claims for an employer with only 8 employees

7. A contractor enters into a cost-plus-percentage contract with a 14% fee for a \$520,000 estimated commercial renovation. The contractor discovers that substituting a standard HVAC unit for the specified premium unit would save the owner \$20,000 while meeting all code and performance requirements. What financial impact does recommending the savings create?

- A. No impact because the owner makes all final equipment selection decisions independently
- B. A positive impact because value engineering credits increase the contractor's fee by an additional 5%
- C. The contractor loses \$2,800 in fee income because 14% of the \$20,000 reduction is eliminated from the total fee
- D. The impact is neutral because the owner must independently verify all equipment substitution proposals

8. A contractor's employee suffers a severe eye injury from a welding flash on a commercial construction site at 3:00 PM on Monday. The site foreman reports the injury to the company's safety office at 3:30 PM. The injury results in permanent loss of vision in the affected eye. By what time must the employer report this to OSHA?

- A. By 11:30 PM on Monday, which is within 8 hours of the employer learning about the incident
- B. By 3:30 PM on Tuesday, which is within 24 hours of the employer learning about the eye loss
- C. By 3:00 PM on Tuesday, which is within 24 hours of the actual time the injury occurred
- D. By 3:30 PM the following Monday, which is within 5 working days of the employer's knowledge

9. A contractor purchases \$62,000 in structural steel for a commercial warehouse project. The combined state and local sales tax rate is 9.5%. The project is being built for a nonprofit hospital with a valid Tennessee sales tax exemption. Can the contractor use the hospital's exemption?

- A. Yes, because materials installed in tax-exempt facilities inherit the owner's exemption status
- B. Yes, if the contractor provides the steel supplier with the hospital's exemption certificate
- C. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.5% sales tax of \$5,890 at purchase regardless of the owner's exempt status

D. No, but the contractor can file a quarterly refund application with the Tennessee Department of Revenue

10. A contractor files a mechanic's lien on a private residential property on June 14, 2026. The homeowner's attorney delays all settlement discussions until January 2027. The contractor's attorney warns that time is running out. By what date must the enforcement lawsuit be filed?

- A. By September 12, 2026, which is 90 days from the date the lien was filed
- B. By June 14, 2027, which is one year from the date the lien was filed — settlement delays do not toll or extend this statutory deadline
- C. By December 12, 2026, which is 180 days from the date the lien was filed
- D. By June 14, 2028, which is two years from the filing date

11. A contractor licensed in North Carolina wants to obtain a Tennessee license. The contractor holds a valid NC license, has passed the NC trade exam, and holds a NASCLA Accredited Commercial Examination credential. What testing requirements apply?

- A. Both exams are fully waived because the NASCLA credential provides complete reciprocity
- B. The trade exam may be waived through reciprocity, the NASCLA credential is accepted for BC-B classification, but the Tennessee Business and Law exam must still be passed
- C. The NASCLA credential waives the Business and Law exam, but the trade exam must be taken
- D. No reciprocity exists with North Carolina, requiring both exams independently

12. A contractor has a net worth of \$295,000 and working capital of \$325,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. Yes, because the working capital exceeds \$300,000 and only one value needs to meet the threshold
- B. Yes, because the average of the two values exceeds \$300,000
- C. No, because unlimited requires a minimum net worth of \$500,000 regardless of working capital
- D. No, because both net worth and working capital must each independently exceed \$300,000, and the net worth of \$295,000 falls short

13. A contractor operating as a sole proprietorship has gross receipts of \$750,000, net earnings of \$98,000, and tangible property valued at \$110,000. The contractor's accountant says the business owes franchise and excise tax. Is the accountant correct?

- A. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- B. Yes, because all businesses with tangible property in Tennessee owe franchise tax regardless of structure
- C. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- D. No, because sole proprietorships are exempt from all Tennessee state-level business taxes

14. A contractor enters into a unit-price contract to pour 5,000 cubic yards of concrete at \$175 per cubic yard for a parking structure. Field conditions require 5,800 cubic yards. Who bears the cost of the additional 800 cubic yards?

- A. The contractor bears the cost because unit-price contracts include an implied quantity guarantee
- B. The owner bears the quantity risk and must pay for the additional 800 cubic yards at \$175 per yard, totaling \$140,000 in additional cost
- C. The cost is split equally between the owner and contractor under the standard risk-sharing clause
- D. The owner pays for the additional concrete but at a reduced unit price reflecting the economy of scale

15. A contractor wants to hire an HVAC subcontractor for a \$26,500 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

- A. Yes, because the BC classification excludes HVAC work exceeding \$25,000, and the \$26,500 scope exceeds that threshold
- B. No, because the general contractor's BC-B license covers all mechanical trades on commercial projects
- C. No, because HVAC subcontractor licensing is required only for scopes exceeding \$50,000
- D. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

16. An employer with 52 employees at a single Memphis location has a worker employed for 14 months who requests 12 weeks of FMLA leave to care for a spouse undergoing chemotherapy. Is the worker eligible?

- A. No, because FMLA leave for spousal care is limited to 6 weeks of unpaid leave
- B. Yes, because the employer has 50+ employees, the worker has more than 12 months of service, and spousal care for a serious health condition is a qualifying event

- C. No, because the employee must have worked at least 24 months to qualify for FMLA leave
- D. Yes, but only if the spouse's chemotherapy requires inpatient hospitalization for more than 72 hours

17. A contractor enters into a cost-plus-fixed-fee contract with a \$70,000 fixed fee for a \$850,000 estimated commercial renovation. Owner-directed upgrades increase actual costs to \$980,000. What fee does the contractor receive?

- A. \$80,706, adjusted proportionally because actual costs exceeded the original estimate
- B. \$98,000, recalculated at 10% of actual costs because the fee converts when costs change significantly
- C. \$70,000 plus a separate change order fee of \$13,000 for the additional \$130,000 in work
- D. \$70,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease

18. A contractor is excavating a storm drainage trench that reaches 5 feet 7 inches deep in soil classified as Type C. The excavation superintendent says no protective system is needed because "Type C soil at this depth is holding fine." Is the superintendent correct?

- A. Yes, because a competent person's field assessment can authorize unprotected entry at this depth
- B. Yes, because Type C soil requires protection only at depths exceeding 8 feet under Tennessee rules
- C. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock — Type C soil is not stable rock
- D. No, because Type C soil requires protective systems at all depths regardless of the 5-foot threshold

19. A contractor enters into a \$1,150,000 stipulated-sum contract for a commercial office building. After completing 50% of the work, the owner terminates for convenience. The contractor has incurred \$517,500 in costs and earned \$57,500 in profit on completed work. The contractor also claims \$57,500 in anticipated profit on the unperformed 50%. What does the contractor receive?

- A. \$1,150,000, the full contract price, because the owner terminated without contractor fault
- B. \$632,500, consisting of costs plus earned profit plus anticipated profit on the remaining work
- C. \$517,500, consisting of only the direct costs with no profit on any portion
- D. \$575,000, consisting of costs (\$517,500) plus profit earned on the completed portion (\$57,500), with no recovery of anticipated profit on unperformed work

20. A roofing subcontractor wants to bid on a \$46,000 re-roofing project for a commercial office building. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

- A. Yes, because roofing subcontractor licensing is required only for projects exceeding \$75,000
- B. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- C. Yes, because the general contractor's license covers all roofing subcontractor work on the project
- D. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 is license-exempt

21. A contractor operating as a general partnership has two partners and 5 employees. One partner wants both partners exempted from workers' compensation. What is the correct obligation?

- A. Workers' compensation is required for all 5 employees because Tennessee mandates coverage for employers with one or more employees, but the partners can individually exempt themselves by registering with the Secretary of State
- B. Both partners and all employees are automatically exempt because general partnerships are not employers
- C. Workers' compensation is required for all workers including partners with no exemption available
- D. Coverage is optional because partnerships with fewer than 10 total workers are exempt

22. A contractor wants to determine whether a pergola construction project requires a Tennessee contractor license. The project includes: lumber \$12,200, hardware \$1,800, labor \$8,600, concrete footings \$1,500, and profit \$1,600. Does this project require a license?

- A. No, because pergolas are classified as landscaping features exempt from contractor licensing
- B. Yes, because the total project cost is \$25,700 (lumber + hardware + labor + footings + profit), exceeding the \$25,000 threshold
- C. No, because the labor cost of \$8,600 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving concrete footings require a contractor license regardless of cost

23. A contractor operating as an S-corporation has net earnings of \$250,000, net worth of \$320,000, and tangible property valued at \$290,000. The company's CFO says S-corporations are exempt from Tennessee franchise and excise tax. Is the CFO correct?

- A. No, because S-corporations are subject to both franchise and excise tax in Tennessee despite their federal pass-through classification
- B. Yes, because S-corporations receive the same state tax treatment as sole proprietorships in Tennessee
- C. No, but only the excise tax applies — S-corporations are exempt from franchise tax in Tennessee
- D. Yes, because all pass-through entities are exempt from franchise and excise tax under Tennessee law

24. A masonry subcontractor is bidding on a \$107,000 scope of masonry work for a new commercial retail center. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. No, because the LMC threshold is \$125,000 for commercial masonry projects in Tennessee
- B. Yes, because the LMC license is required when masonry subcontractor work reaches \$100,000 or more, and \$107,000 exceeds that threshold
- C. No, because the general contractor's license covers all masonry subcontractor work on the project
- D. Yes, because all masonry subcontractors must hold an LMC license regardless of contract value

25. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,700,000 on a restaurant renovation. The contract includes a 50/50 shared savings clause. Actual costs total \$1,620,000. How are the savings distributed?

- A. The contractor receives the entire \$80,000 as a performance incentive for completing under budget
- B. The owner receives \$40,000 and the contractor receives \$40,000, splitting the \$80,000 savings equally
- C. The owner receives the full \$80,000 because the GMP ceiling exists solely for the owner's benefit
- D. The savings are deposited in a shared escrow until all warranty obligations expire

26. A contractor holds a Tennessee license with a monetary limit of \$1,850,000. The contractor carries \$750,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. No, because the \$1,850,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL coverage
- B. Yes, because \$750,000 exceeds the \$500,000 minimum for the \$501,000–\$1,500,000 tier
- C. No, because all contractors with limits above \$1,500,000 must carry GL equal to the monetary limit
- D. Yes, because GL requirements are based on individual project values rather than the monetary limit

27. A subcontractor furnishes labor and materials to a city-funded library construction project. The general contractor has not paid the subcontractor for \$83,000 in completed work. Can the subcontractor file a mechanic's lien against the library property?

- A. Yes, because educational and cultural facilities are treated as private property for lien purposes
- B. Yes, but only if the subcontractor files the lien within 30 days of the last day of furnishing
- C. No, and no alternative remedy exists because municipal cultural facilities have sovereign immunity
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

28. A material supplier delivers \$74,000 in custom millwork to a private commercial project. The supplier has no direct contract with the building owner. The general contractor has not paid. What must the supplier do to preserve mechanic's lien rights?

- A. File a mechanic's lien directly within 90 days of the last delivery — no prior notice is required
- B. Send a demand letter to the general contractor by certified mail within 30 days of each invoice
- C. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, and file a mechanic's lien within 90 days of the last furnishing date
- D. File a breach of contract lawsuit within one year, which automatically creates a lien on the property

29. A contractor's qualifying agent submits a resignation effective April 15. The contractor reports the departure to the Board on April 24. Was the report filed timely, and what is the replacement deadline?

- A. No, because departures must be reported within 5 business days, making the deadline April 22
- B. Yes, because the 30-day reporting period gives the contractor until May 15

- C. No, because the report was due within 10 days by April 25, and — April 15 + 10 = April 25, making April 24 timely
- D. Yes, because the 10-day reporting window gives the contractor until April 25, and the report on April 24 is timely — the replacement must be designated within 90 days by July 14

30. A contractor with 58 employees is hiring new workers. The HR director requires I-9 forms for all new hires but has not enrolled in E-Verify. Is this compliant with Tennessee law?

- A. Yes, because E-Verify is a voluntary federal program with no state mandate in Tennessee
- B. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 58 employees, both I-9 and E-Verify are required
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count
- D. Yes, because E-Verify is mandatory only for employers holding government contracts

31. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,300,000. The contractor has a reviewed financial statement. Does this meet the Board's requirements?

- A. Yes, because reviewed statements are acceptable for monetary limits up to \$5,000,000
- B. Yes, because the Board requires audited statements only when the limit exceeds \$4,000,000
- C. No, because all monetary limits exceeding \$2,500,000 require an audited financial statement
- D. No, because monetary limits exceeding \$3,000,000 require an audited financial statement

32. A contractor is building a medical office using the percentage-of-completion method. Contract price is \$1,800,000, costs incurred to date are \$648,000, and total estimated costs are \$1,440,000. What revenue should be recognized?

- A. \$648,000, matching revenue to costs incurred without applying a completion ratio
- B. \$900,000, calculated as 50% of the contract price because the project is approximately half complete
- C. \$1,800,000, because revenue is fully recognized once a project surpasses 35% completion
- D. \$810,000, calculated as costs to date (\$648,000) divided by total estimated costs (\$1,440,000) multiplied by the contract price (\$1,800,000)

33. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The employer's policy includes pre-employment, reasonable suspicion, and random testing but omits post-accident testing. Does this program qualify?

- A. No, because all four components are required — pre-employment, reasonable suspicion, post-accident, and random — and omitting any one disqualifies the program
- B. Yes, because three of four components satisfy the minimum program requirements for the credit
- C. No, because the program must also include annual screening of all current employees
- D. Yes, because post-accident testing is an optional component that increases the credit to 7.5%

34. A contractor enters into a \$940,000 lump-sum contract for a restaurant build-out. During demolition, the contractor discovers hidden water damage behind the walk-in cooler walls requiring \$52,000 in structural repair. The contract contains no differing site conditions clause. Who bears the repair cost?

- A. The owner bears the cost because hidden water damage is a pre-existing property defect
- B. The cost is shared equally between the owner and contractor under the standard risk-sharing doctrine
- C. The contractor can file a mechanic's lien specifically for the \$52,000 without prior notice
- D. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen conditions

35. A project owner terminates a contractor for cause on a \$2,000,000 commercial project after documented material breaches and two written cure notices. The contractor completed 45% of the work. A replacement contractor charges \$1,300,000 to complete the remaining 55%. The original remaining contract balance was \$1,100,000. What does the original contractor receive?

- A. \$900,000, representing 45% of the contract price for all completed work
- B. The value of acceptably completed work with no offset for the replacement contractor's higher cost
- C. \$900,000 plus a 10% termination fee for early contract dissolution by the owner
- D. The value of acceptably completed work, reduced by the \$200,000 difference between the replacement cost (\$1,300,000) and the remaining contract balance (\$1,100,000)

36. A contractor wants to hire a plumbing subcontractor for a \$24,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate license?

- A. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value
- B. No, because the \$24,000 scope falls below the \$25,000 threshold — the BC classification excludes plumbing exceeding \$25,000, and this scope does not exceed it
- C. No, because the general contractor's BC-B license covers all subcontractor trades

D. Yes, because plumbing subcontractors must be licensed for any work exceeding \$10,000

37. A contractor enters into a time-and-materials contract for emergency hail damage repair on a commercial building. After two weeks, costs reach \$165,000 with additional work still needed. The building owner demands the contractor stop work and cap costs at \$200,000. What is the fundamental issue?

A. The owner can unilaterally impose a stop-work order and cost cap at any time during a T&M contract

B. T&M contracts include an implied cost ceiling equal to 200% of the first week's billing

C. The owner should have negotiated a GMP before work began because T&M contracts cannot be modified

D. T&M contracts have no inherent cost ceiling — any cap requires a written contract modification agreed to by both parties

38. A contractor operating as an LLC has gross receipts of \$1,850,000. The company paid \$1,300,000 to properly licensed subcontractors and \$125,000 to an unlicensed cleanup crew. What amount is deductible from gross receipts for Tennessee business tax?

A. \$1,425,000, because all payments to subcontractors and crews are deductible regardless of licensing

B. \$1,300,000, because only payments to properly licensed subcontractors qualify for the deduction

C. \$0, because Tennessee does not permit deductions from gross receipts for business tax purposes

D. \$650,000, because the deduction is capped at 50% of total subcontractor and crew payments

39. A contractor signs an unconditional lien waiver and delivers it to the general contractor before receiving the corresponding \$45,000 progress payment. One month later, the general contractor declares bankruptcy. The payment is never made. What is the status of the unconditional waiver?

A. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received or the general contractor's financial condition

B. The unconditional waiver is void because the general contractor's bankruptcy constitutes a material breach

C. The unconditional waiver converts to a conditional waiver upon the bankruptcy filing

D. The unconditional waiver is suspended until the bankruptcy court rules on the payment claim

40. A contractor is building a commercial parking garage. A scaffold platform stands 13 feet above ground. The scaffold has a 3.7:1 safety factor. The scaffold was designed by the project foreman with 16 years of general construction experience but no specific scaffold design training. Does this scaffold meet OSHA requirements?

- A. Yes, because the 3.7:1 safety factor exceeds the minimum 3:1 requirement for commercial projects
- B. Yes, because 16 years of experience qualifies the foreman as both competent and qualified
- C. No, because the safety factor must be at least 4:1 and the scaffold must be designed by a qualified person with specific scaffold design knowledge — both requirements are unmet
- D. No, because scaffolds above 10 feet require a licensed professional engineer for design certification

41. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal capacity. The project involves constructing an addition specifically designed to house an illegal drug manufacturing operation. What element is missing?

- A. Consideration, because contracts for illegal purposes cannot be supported by valid consideration
- B. Legal capacity, because parties engaged in illegal activities lack the capacity to contract
- C. Legal purpose — the contract lacks legal purpose because it involves constructing a facility intended for illegal activity
- D. Offer, because offers involving illegal activities are automatically void under Tennessee contract law

42. A contractor holds a Tennessee license with a monetary limit of \$460,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. No, because all Tennessee contractors must carry a minimum of \$250,000 in GL insurance
- B. No, because the GL minimum is 25% of the monetary limit, requiring \$115,000
- C. Yes, because GL requirements are based on individual project values rather than the monetary limit
- D. Yes, because the \$460,000 monetary limit falls in the up-to-\$500,000 tier, which requires \$100,000 minimum GL coverage

43. A contractor operating as a C-corporation has net worth of \$420,000 and tangible property valued at \$490,000 in Tennessee. What is the franchise tax liability?

- A. \$1,050, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth
- B. \$100, the minimum franchise tax for Tennessee corporations regardless of financial position
- C. \$1,225, calculated at \$0.25 per \$100 of tangible property of \$490,000 because it is the greater value
- D. \$2,275, calculated at \$0.25 per \$100 of the combined net worth and tangible property

44. A contractor wants to apply for a BC-A/r restricted residential license classification. Which set of restrictions accurately describes this classification?

- A. Projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited
- B. Projects under \$100,000, no trade exam, joint ventures prohibited, subcontractors prohibited
- C. Projects under \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted
- D. Projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

45. A contractor operating as a sole proprietorship earns \$175,000 in net self-employment income. What is the approximate self-employment tax liability?

- A. Approximately \$26,775 at 15.3%, covering both the Social Security portion at 12.4% and the Medicare portion at 2.9%
- B. Approximately \$13,388 at 7.65% because sole proprietors pay only the employee half of FICA
- C. Approximately \$5,075 at 2.9% for the Medicare portion only
- D. Approximately \$21,700 at 12.4% for the Social Security portion only

46. A contractor completes all work on a private commercial warehouse renovation on August 22. The project owner withholds \$52,000 in retainage. The contractor files a mechanic's lien on November 17, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

- A. No, because commercial liens must be filed within 60 days of the last day of furnishing
- B. Yes, but the enforcement lawsuit must be filed within 90 days of the lien filing date
- C. Yes, because the filing is within the 90-day statutory period, and the enforcement lawsuit must be filed within one year of the lien filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

47. A contractor enters into a \$1,400,000 stipulated-sum contract for a commercial warehouse. After completing 60% of the work, the owner terminates for convenience. The contractor has incurred \$756,000 in costs and earned \$84,000 in profit on completed work. The contractor also claims \$56,000 in anticipated profit on the unperformed 40%. What does the contractor receive?

- A. \$1,400,000, the full contract price, because the owner terminated without contractor fault
- B. \$896,000, consisting of costs plus earned profit plus anticipated profit on the remaining work
- C. \$756,000, consisting of only the direct costs with no profit recovery
- D. \$840,000, consisting of costs (\$756,000) plus profit earned on the completed portion (\$84,000), with no recovery of anticipated profit on unperformed work

48. An employer with 19 employees in Tennessee wants to know which federal employment discrimination laws apply. Which combination is correct?

- A. Title VII and ADA apply at 15+ employees, but ADEA does not apply because it requires 20+ employees
- B. Title VII, ADA, and ADEA all apply because all three have a 15-employee threshold
- C. Only Title VII applies at 15+ employees — ADA and ADEA both require 25+ employees
- D. None of these federal laws apply because the minimum threshold is 20+ employees

49. A contractor wants to determine whether a storage shed construction project requires a Tennessee contractor license. The project includes: materials \$12,600, labor \$9,200, gravel base \$1,800, and profit \$1,900. Does this project require a license?

- A. Yes, because the total project cost is \$25,500 (materials + labor + gravel + profit), exceeding the \$25,000 threshold
- B. No, because storage sheds are classified as accessory structures exempt from licensing requirements
- C. No, because the labor portion of \$9,200 is under \$25,000 and the threshold applies only to labor costs
- D. Yes, because all projects involving gravel base preparation require a contractor license

50. A contractor licensed in Louisiana wants to obtain a Tennessee license. The contractor holds a valid Louisiana license and has passed the Louisiana trade exam. What testing requirements apply?

- A. Both exams are fully waived because Louisiana has comprehensive reciprocity with Tennessee

- B. The trade exam may be waived through reciprocity with Louisiana, but the Tennessee Business and Law exam must still be passed
- C. No reciprocity exists between Tennessee and Louisiana, requiring both exams independently
- D. The Business and Law exam is waived through reciprocity, but the trade exam must be taken

Practice Exam 26: Answer Key and Explanations

1. C. Limited partnership taxes — All three apply: business tax on gross receipts, franchise tax on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings. Limited partnerships are not exempt.
2. A. Unlimited license — Net worth = \$390,000. Working capital = \$415,000 - \$83,000 = \$332,000. Both exceed \$300,000. Qualifies.
3. A. Change order — Should be written and signed before work begins. Lack of documentation weakens position.
4. D. Excise tax — $6.5\% \times \$420,000 = \$27,300$. Options A and B describe franchise tax calculations.
5. C. Addenda — Modify previously issued documents. Standard latex in addenda controls for mechanical rooms.
6. A. Age discrimination — ADEA requires 20+ (doesn't apply at 8). THRA at 8+ covers age discrimination.
7. C. Cost-plus-percentage — $14\% \times \$20,000 = \$2,800$ lost fee. Percentage structure penalizes savings.
8. B. OSHA reporting — Eye loss requires 24-hour reporting from employer learning. 3:30 PM + 24 hours = 3:30 PM Tuesday.
9. C. Sales tax — Contractor is end user. $\$62,000 \times 9.5\% = \$5,890$. Hospital's exemption doesn't transfer.
10. B. Lien enforcement — One year from filing. June 14, 2027. Settlement delays don't toll.
11. B. NC reciprocity and NASCLA — Trade exam waived. NASCLA for BC-B. Business and Law exam required.
12. D. Unlimited license — Both must each exceed \$300,000. Net worth (\$295,000) falls short.
13. C. Sole proprietorship taxes — Exempt from franchise and excise tax. Only business tax applies.
14. B. Unit-price quantity risk — Owner bears quantity risk. $800 \times \$175 = \$140,000$ additional.

15. A. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$26,500 exceeds threshold.
16. B. FMLA — 50+ employees, 14 months tenure, spousal care qualifies. All conditions met.
17. D. Cost-plus-fixed-fee — \$70,000 fee constant regardless of actual costs.
18. C. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. Type C not stable rock.
19. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$517,500 + \$57,500 = \$575,000$.
20. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.
21. A. Workers' compensation — Required for 1+ employees. Partners can individually exempt through Secretary of State.
22. B. Licensing threshold — Total = $\$12,200 + \$1,800 + \$8,600 + \$1,500 + \$1,600 = \$25,700$. Exceeds \$25,000.
23. A. S-corporation taxes — Subject to both franchise and excise tax despite pass-through status.
24. B. LMC threshold — Required at \$100,000+. \$107,000 exceeds threshold.
25. B. GMP shared savings — \$80,000 split 50/50: \$40,000 each.
26. A. GL tiers — \$1,850,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$750,000 insufficient.
27. D. Public property liens — Cannot file against public property. Remedy is payment bond claim.
28. C. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
29. D. QA departure — April 15 + 10 = April 25. Report on April 24 is timely. Replacement within 90 days = July 14.
30. B. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 58.
31. D. Financial statements — Limits exceeding \$3,000,000 require audited statement.
32. D. Percentage of completion — Revenue = $(\$648,000 \div \$1,440,000) \times \$1,800,000 = 0.45 \times \$1,800,000 = \$810,000$.

33. A. Drug-Free Workplace — All four components required. Omitting post-accident disqualifies.
34. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
35. D. Termination for cause — Value of acceptable work offset by \$200,000 additional completion cost.
36. B. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$24,000 below threshold.
37. D. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
38. B. Business tax deduction — Only licensed subcontractor payments (\$1,300,000) deductible.
39. A. Unconditional waiver — Effective immediately upon signing regardless of payment or bankruptcy.
40. C. Scaffold — 4:1 minimum (3.7:1 fails). Qualified person required (general experience insufficient). Both unmet.
41. C. Legal purpose — Constructing a facility for illegal activity lacks legal purpose. Contract is void.
42. D. GL tiers — \$460,000 in up-to-\$500,000 tier. \$100,000 minimum. Policy meets requirement.
43. C. Franchise tax — \$0.25 per \$100 of greater value (\$490,000 tangible property). $\$490,000 \div 100 \times \$0.25 = \$1,225$.
44. C. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
45. A. Self-employment tax — $15.3\% \times \$175,000 = \$26,775$.
46. C. Lien timing — Filed 87 days after last furnishing, within 90 days. Timely. Enforcement within one year.
47. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$756,000 + \$84,000 = \$840,000$.
48. A. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.

49. A. Licensing threshold — Total = $\$12,600 + \$9,200 + \$1,800 + \$1,900 = \$25,500$. Exceeds \$25,000.

50. B. Louisiana reciprocity — Trade exam waived. Business and Law exam always required.