

PRACTICE EXAM 28: 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 C-corporation has net earnings of \$345,000, net worth of \$430,000, and tangible property valued at \$500,000 in Tennessee. What is the company's Tennessee franchise tax liability?

- A. \$1,075, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth
- B. \$100, the minimum franchise tax for all Tennessee corporations regardless of financial size
- C. \$1,250, calculated at \$0.25 per \$100 of tangible property of \$500,000 because it is the greater value
- D. \$2,325, calculated at \$0.25 per \$100 of the combined net worth and tangible property

2. A contractor files a mechanic's lien on a private commercial property on February 20, 2026. The property owner's attorney delays all settlement discussions. The contractor's attorney warns that the enforcement deadline is approaching. By what date must the lawsuit be filed?

- A. By May 21, 2026, which is 90 days from the lien filing date
- B. By February 20, 2027, which is one year from the filing date — settlement delays do not toll this deadline
- C. By August 19, 2026, which is 180 days from the lien filing date
- D. By February 20, 2028, which is two years from the filing date

3. A contractor has total assets of \$1,150,000, total liabilities of \$740,000, current assets of \$440,000, and current liabilities of \$118,000. Does the contractor qualify for unlimited license status?

- A. Yes, because both net worth (\$410,000) and working capital (\$322,000) each independently exceed the \$300,000 threshold
- B. No, because unlimited requires both values to exceed \$400,000
- C. Yes, because the net worth alone exceeding \$300,000 satisfies the sole requirement
- D. No, because unlimited requires a minimum net worth of \$500,000

4. A contractor enters into a cost-plus-percentage contract with a 12% fee for a \$700,000 estimated commercial renovation. The contractor discovers that substituting a stock window package for the specified custom windows would save the owner \$26,000 while meeting code. What financial disincentive exists?

- A. No disincentive exists because the owner makes all final material selections independently
- B. A positive disincentive because value engineering credits increase the contractor's fee by 5%
- C. The contractor loses \$3,120 in fee income because 12% of the \$26,000 savings is eliminated from the total fee
- D. The disincentive is eliminated if the contractor obtains three competitive quotes for the substitution

5. A contractor operating as a general partnership has two partners and 6 employees. The partnership earns gross receipts of \$950,000 and net earnings of \$125,000. The contractor's accountant says the partnership owes franchise and excise tax in addition to business tax. Is the accountant correct?

- A. Yes, because all business entities with gross receipts exceeding \$500,000 owe all three taxes
- B. Yes, because partnerships with employees owe franchise and excise tax regardless of structure
- C. No, because general partnerships are exempt from franchise and excise tax — only business tax on gross receipts applies
- D. No, because general partnerships are exempt from all Tennessee state-level business taxes

6. A subcontractor furnishes labor and materials to a county-funded courthouse renovation project. The general contractor has not paid the subcontractor for \$95,000. The subcontractor wants to file a mechanic's lien against the courthouse. Is this viable?

- A. Yes, because courthouse renovation projects exceeding \$50,000 are subject to mechanic's lien provisions
- B. Yes, but the lien must be filed within 30 days rather than the standard 90 days for government buildings
- C. No, and no remedy exists because county facilities have sovereign immunity from all claims
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

7. An employer with 16 employees in Tennessee terminates a worker who recently disclosed a hearing disability. Under which laws can the worker file a discrimination claim?

- A. Only the federal ADA, because the THRA does not cover disability discrimination
- B. Both the federal ADA and the Tennessee Human Rights Act — the ADA applies at 15+ employees and the THRA applies at 8+ employees, both covering disability
- C. Only the ADEA, which covers all forms of employment discrimination for employers with 15+ employees
- D. No law covers disability discrimination for employers with fewer than 20 employees

8. A contractor enters into a cost-plus-fixed-fee contract with a \$58,000 fixed fee for a \$720,000 estimated commercial renovation. Owner-directed upgrades increase actual costs to \$840,000. What fee does the contractor receive?

- A. \$67,667, adjusted proportionally because actual costs exceeded the original estimate
- B. \$58,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease
- C. \$84,000, recalculated at 10% of actual costs because the fee converts when costs exceed the estimate
- D. \$58,000 plus a separate change order fee of \$12,000 for the \$120,000 cost increase

9. A contractor is excavating a storm drainage trench that reaches 5 feet 5 inches deep in soil classified as Type B. The foreman says "it's barely over 5 feet and Type B soil is holding fine." Is the foreman correct that no protective system is needed?

- A. Yes, because a competent person can authorize unprotected entry for trenches barely over 5 feet
- B. Yes, because Type B soil at shallow depths has sufficient cohesion to prevent cave-ins
- C. No, because Type B soil requires protection at all depths regardless of the 5-foot threshold
- D. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock — there is no exception for trenches barely over the threshold

10. A contractor wants to hire an electrical subcontractor for a \$29,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the electrical subcontractor need a separate license?

- A. No, because the general contractor's BC-B license covers all subcontractor trades on the project
- B. Yes, because the BC classification excludes electrical work exceeding \$25,000, and the \$29,000 scope exceeds that threshold
- C. No, because electrical subcontractor licensing is required only for scopes exceeding \$50,000

D. Yes, because all electrical work on commercial buildings requires a separate license regardless of value

11. A roofing subcontractor wants to bid on a \$41,000 re-roofing project for a commercial retail 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 \$50,000
- 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
- D. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 is exempt

12. A contractor operating as a sole proprietorship earns \$195,000 in net self-employment income. What is the approximate self-employment tax liability and payment schedule?

- A. Approximately \$29,835 at 15.3%, with estimated payments due April 15, June 15, September 15, and January 15
- B. Approximately \$14,918 at 7.65% because sole proprietors pay only the employee half of FICA
- C. Approximately \$5,655 at 2.9% for the Medicare portion only, paid annually on April 15
- D. Approximately \$24,180 at 12.4% for the Social Security portion only, paid semi-annually

13. A contractor enters into a \$1,350,000 stipulated-sum contract for a commercial warehouse. After completing 60% of the work, the owner terminates for convenience. The contractor has incurred \$729,000 in costs and earned \$81,000 in profit on completed work. The contractor claims \$54,000 in anticipated profit on the unperformed 40%. What does the contractor receive?

- A. \$1,350,000, the full contract price, because the owner terminated without fault
- B. \$864,000, consisting of costs plus earned profit plus anticipated profit on unperformed work
- C. \$729,000, consisting of only the direct costs with no profit recovery
- D. \$810,000, consisting of costs (\$729,000) plus profit earned on the completed portion (\$81,000), with no recovery of anticipated profit on unperformed work

14. A contractor is reviewing the standard order of precedence for a \$2,600,000 commercial project. The specifications require Type X fire-rated drywall throughout. The addenda changed

the requirement to standard drywall in the janitor's closet only. The drawings show moisture-resistant drywall in the janitor's closet. Which drywall should be installed in the janitor's closet?

- A. Type X fire-rated, because specifications always take precedence over addenda and drawings
- B. Moisture-resistant, because drawings provide the most detailed room-by-room material specifications
- C. Standard drywall, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may choose any type and document the selection in the project submittal log

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

- A. Both exams are fully waived because Mississippi has comprehensive reciprocity with Tennessee
- B. The trade exam may be waived through reciprocity with Mississippi, but the Tennessee Business and Law exam must still be passed
- C. No reciprocity exists between Tennessee and Mississippi, requiring both exams independently
- D. The Business and Law exam is waived, but the trade exam must be taken in Tennessee

16. An employer with 48 employees at a single Knoxville location has a worker employed for 2 years who requests 12 weeks of FMLA leave to care for a parent with a terminal illness. Is the worker eligible?

- A. Yes, because the 48-employee count is close enough to meet the FMLA threshold
- B. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 48
- C. Yes, because parental care for a terminal illness qualifies regardless of employer size
- D. No, because FMLA leave for parental care is limited to 4 weeks per calendar year

17. A contractor purchases \$55,000 in mechanical equipment for a commercial HVAC installation. The combined state and local sales tax rate is 9.25%. The building owner is a tax-exempt government agency. Can the contractor use the agency's exemption?

- A. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.25% sales tax of \$5,088 at purchase regardless of the owner's status
- B. Yes, because materials for government projects are exempt from state sales tax at purchase

- C. Yes, if the contractor provides the supplier with the agency's exemption certificate
- D. No, but the contractor can file a quarterly refund with the Tennessee Department of Revenue

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

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

19. A contractor's employee suffers a fatal scaffold collapse at 11:30 AM on Tuesday. The site superintendent calls the office at 11:50 AM. By what time must the employer report this fatality to OSHA?

- A. By 11:50 AM on Wednesday, which is within 24 hours of the employer learning about the death
- B. By 11:30 AM on Wednesday, which is within 24 hours of the actual time of the fatality
- C. By 11:50 AM the following Tuesday, which is within 5 working days
- D. By 7:50 PM on Tuesday, which is within 8 hours of the employer learning about the fatality

20. A masonry subcontractor is bidding on a \$112,000 scope of masonry work for a new commercial office building. 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
- B. Yes, because the LMC license is required when masonry work reaches \$100,000 or more, and \$112,000 exceeds that threshold
- C. No, because the general contractor's license covers all masonry subcontractor work
- D. Yes, because all masonry subcontractors must hold an LMC license regardless of value

21. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,800,000 on a hotel renovation. The contract includes a 50/50 shared savings clause. Actual costs total \$1,720,000. How are the savings distributed?

- A. The contractor receives the entire \$80,000 as an efficiency bonus
- B. The owner receives the full \$80,000 because the GMP exists solely for owner protection
- C. The savings are held in joint escrow until all warranty obligations expire
- D. The owner receives \$40,000 and the contractor receives \$40,000, splitting the \$80,000 equally

22. A contractor operating as an S-corporation has net earnings of \$220,000, net worth of \$310,000, and tangible property valued at \$275,000. The company's bookkeeper says S-corporations are exempt from Tennessee franchise and excise tax. Is this correct?

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

23. A contractor has a net worth of \$340,000 and working capital of \$285,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$285,000 falls short
- B. Yes, because the net worth exceeds \$300,000 and that is the only requirement
- C. Yes, because the average of the two values exceeds \$300,000
- D. No, because unlimited requires a minimum net worth of \$500,000

24. A contractor wants to determine whether a covered deck project requires a Tennessee contractor license. The project includes: lumber \$12,800, hardware \$1,600, labor \$8,200, concrete piers \$1,400, and profit \$1,700. Does this require a license?

- A. No, because covered decks are classified as accessory structures exempt from licensing
- B. Yes, because the total project cost is \$25,700 (all components), exceeding the \$25,000 threshold
- C. No, because the labor cost of \$8,200 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving concrete piers require licensing regardless of total cost

25. A contractor holds a Tennessee license with a monetary limit of \$1,350,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because the \$1,350,000 limit falls in the \$501,000–\$1,500,000 tier, which requires \$500,000 minimum GL
- B. No, because the minimum GL for limits above \$1,000,000 is \$750,000
- C. No, because all contractors with limits above \$1,000,000 must carry \$1,000,000 minimum GL
- D. Yes, because GL requirements are based on individual project values, not the monetary limit

26. A contractor operating as an LLC has gross receipts of \$2,100,000. The company paid \$1,450,000 to properly licensed subcontractors and \$180,000 to an unlicensed cleanup crew. What is deductible from gross receipts for Tennessee business tax?

- A. \$1,450,000, because only payments to properly licensed subcontractors qualify for the deduction
- B. \$1,630,000, because all payments to subcontractors and crews are deductible regardless of licensing
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax calculation
- D. \$725,000, because the deduction is capped at 50% of total subcontractor and crew payments

27. A contractor enters into a \$820,000 lump-sum contract for a commercial tenant improvement. During demolition, the contractor discovers hidden asbestos-containing materials behind the office walls, requiring \$58,000 in professional abatement. The contract does not contain a differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because asbestos is a pre-existing environmental condition
- B. The cost is split equally under the implied environmental liability doctrine
- C. The contractor can file a mechanic's lien for the \$58,000 without providing 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

28. A project owner terminates a contractor for cause on a \$1,800,000 commercial project after documented defects and three written cure notices. The contractor completed 55% of the work. A replacement contractor charges \$950,000 to complete the remaining 45%. The original remaining balance was \$810,000. What does the original contractor receive?

- A. \$990,000, representing 55% of the contract price for all completed work

- B. The value of acceptably completed work with no offset for the replacement cost
- C. \$990,000 plus a 10% termination fee for early contract dissolution
- D. The value of acceptably completed work, reduced by the \$140,000 difference between the replacement cost (\$950,000) and the remaining contract balance (\$810,000)

29. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. What testing components must the program include?

- A. Only pre-employment and post-accident testing are required for the premium credit
- B. Pre-employment, reasonable suspicion, and post-accident only — random testing is optional
- C. All four components are required: pre-employment, reasonable suspicion, post-accident, and random drug testing
- D. Only random and post-accident testing because pre-employment testing is prohibited

30. A contractor wants to hire a plumbing subcontractor for a \$24,200 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. No, because the \$24,200 scope falls below the \$25,000 threshold — the BC classification excludes plumbing exceeding \$25,000, and this scope does not exceed it
- B. Yes, because all plumbing work on commercial buildings requires a separate license
- 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

31. A contractor operating as a limited partnership has gross receipts of \$2,300,000, net earnings of \$290,000, net worth of \$370,000, and tangible property valued at \$330,000. What is the combined franchise and excise tax liability?

- A. \$925 in franchise tax only, because limited partnerships are exempt from excise tax
- B. \$18,850 in excise tax only, because limited partnerships are exempt from franchise tax
- C. \$19,775, consisting of \$925 in franchise tax based on net worth of \$370,000 plus \$18,850 in excise tax at 6.5% of net earnings
- D. \$0, because limited partnerships are pass-through entities exempt from both taxes

32. A contractor is building a commercial office using the percentage-of-completion method. Contract price is \$1,600,000, costs to date are \$640,000, and total estimated costs are \$1,280,000. What revenue should be recognized?

- A. \$640,000, matching revenue to costs incurred without applying a completion ratio
- B. \$800,000, calculated as 50% of the contract price
- C. \$1,600,000, because revenue is fully recognized once the project surpasses 40% completion
- D. \$800,000, calculated as costs to date (\$640,000) divided by total estimated costs (\$1,280,000) multiplied by the contract price (\$1,600,000)

33. A contractor signs an unconditional lien waiver and delivers it to the project owner before receiving the \$50,000 progress payment. The owner's financing falls through and the payment is never made. What is the legal effect?

- A. The unconditional waiver is void because the owner's financing failure constitutes a material breach
- B. The unconditional waiver converts to a conditional waiver after 30 days without payment
- C. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received
- D. The waiver is suspended until the owner secures alternative financing and issues the payment

34. A contractor is building a commercial parking structure. A scaffold platform stands 12 feet above ground. The scaffold has a 3.6:1 safety factor and was designed by the project superintendent with 18 years of general construction experience but no specific scaffold design training. Does this scaffold meet OSHA requirements?

- A. Yes, because the 3.6:1 safety factor exceeds the 3:1 minimum for commercial construction
- B. Yes, because 18 years of experience qualifies the superintendent as both competent and qualified
- C. No, because scaffolds above 10 feet require a licensed professional engineer for design
- D. 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

35. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,400,000. The contractor has a reviewed financial statement. Does this meet the Board's requirements?

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

36. An employer with 52 employees at a single Memphis location has a worker employed for 15 months who requests 12 weeks of FMLA leave to care for a newborn. Is the worker eligible?

- A. No, because FMLA leave for newborn 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 newborn care is a qualifying event
- C. No, because the employee must have worked at least 24 months for birth-related FMLA leave
- D. Yes, but only if the worker is the birth mother — fathers are not eligible for newborn FMLA

37. A contractor enters into a time-and-materials contract for emergency water damage restoration on a commercial building. After three weeks, costs reach \$240,000. The owner demands a cost cap of \$300,000. What is the fundamental issue?

- A. The owner can unilaterally impose a cost cap because the owner controls the project budget
- B. T&M contracts include an implied ceiling equal to 150% of the initial verbal estimate
- C. T&M contracts have no inherent cost ceiling — any cap requires a written contract modification agreed to by both parties
- D. The owner should have negotiated a GMP before work began because T&M contracts cannot be modified

38. A contractor operating as a sole proprietorship has gross receipts of \$680,000 and net earnings of \$88,000. The contractor's CPA says the business owes franchise and excise tax. Is the CPA correct?

- A. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- C. No, because sole proprietorships are exempt from all Tennessee state-level business taxes
- D. Yes, because all businesses with net earnings exceeding \$75,000 owe excise tax

39. A contractor enters into a \$660,000 lump-sum contract for a dental clinic. During construction, the owner verbally approves a \$16,000 upgrade to the operatory cabinetry. The contractor completes the work immediately. Three weeks later, the owner disputes the charge. What is the core issue?

- A. The change order should have been written and signed by both parties before the work began — the lack of documentation weakens the contractor's position
- B. The verbal approval is enforceable because the owner accepted the benefit of the work

- 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

40. A contractor holds a Tennessee license with a monetary limit of \$2,400,000. The contractor carries \$750,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$750,000 exceeds the \$500,000 minimum for the \$501,000–\$1,500,000 tier
- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because the \$2,400,000 limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL
- D. No, because all contractors with limits above \$2,000,000 must carry GL equal to the monetary limit

41. A contractor licensed in Georgia wants to obtain a Tennessee license. The contractor holds a valid Georgia license, has passed the Georgia trade exam, and holds a NASCLA Accredited Commercial Examination credential. What testing is required?

- A. 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
- B. Both exams are fully waived because the NASCLA credential provides complete reciprocity
- C. The NASCLA credential waives the Business and Law exam, but the trade exam must be taken
- D. No reciprocity exists with Georgia, requiring both exams independently

42. A contractor is excavating a utility trench that reaches 5 feet 3 inches deep in soil classified as Type C. The superintendent says Type C soil at this depth poses no risk. Is the superintendent correct?

- A. Yes, because a competent person's field assessment overrides standard OSHA requirements
- B. Yes, because Type C soil requires protection only at depths exceeding 8 feet
- C. No, because Type C soil requires protective systems at all depths regardless of the threshold
- D. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock

43. A material supplier delivers \$72,000 in custom stone veneer 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 — no prior notice is required for suppliers
- B. Send a demand letter to the general contractor by certified mail within 30 days
- 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 to create an automatic lien

44. A contractor has total assets of \$790,000, total liabilities of \$490,000, current assets of \$305,000, and current liabilities of \$172,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this?

- A. No, because the monetary limit is ten times the lesser of net worth (\$300,000) or working capital (\$133,000) — the limit is \$1,330,000, which falls below \$1,400,000
- B. Yes, because the net worth of \$300,000 supports a limit of \$3,000,000
- C. Yes, because total assets of \$790,000 support any project under \$2,000,000
- D. No, because the Board requires a minimum current ratio of 2.0 for projects above \$1,000,000

45. A contractor's qualifying agent resigns effective March 20. The contractor reports the departure to the Board on March 29. Was the report timely, and what is the replacement deadline?

- A. No, because departures must be reported within 5 business days, making the deadline March 27
- B. Yes, because the 10-day window gives the contractor until March 30, and the replacement must be designated within 90 days by June 18
- C. Yes, because the 30-day reporting period gives the contractor until April 19
- D. No, because the replacement period is only 60 days, not 90 days

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

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

47. A contractor enters into a \$560,000 lump-sum contract for a veterinary clinic. During excavation, the contractor encounters an abandoned septic system requiring \$32,000 for removal. The contract has no differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because abandoned septic systems are environmental liabilities
- B. The cost is split equally between the owner and contractor
- C. 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
- D. The contractor can suspend work until the owner agrees to fund removal separately

48. A contractor with 54 employees is hiring workers. The HR director requires I-9 forms 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
- B. No, because Tennessee requires E-Verify for employers with 50 or more 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 government contractors

49. A contractor completes all work on a private commercial renovation on October 8. The owner withholds \$42,000 in retainage. The contractor files a mechanic's lien on January 3, 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 enforcement must be filed within 90 days of the lien filing date
- C. Yes, the filing is within the 90-day period, and enforcement must be filed within one year of the filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

50. A contractor operating as a C-corporation has net earnings of \$280,000, net worth of \$370,000, and tangible property valued at \$420,000. What is the combined franchise and excise tax liability?

- A. \$1,050 in franchise tax only, because C-corporations are exempt from excise tax
- B. \$19,250, consisting of \$1,050 in franchise tax based on tangible property of \$420,000 plus \$18,200 in excise tax at 6.5% of net earnings
- C. \$18,200 in excise tax only, because franchise tax applies only to LLCs and limited partnerships
- D. \$0, because C-corporations with net earnings under \$300,000 are exempt from both taxes

Practice Exam 28: Answer Key and Explanations

1. C. Franchise tax — $\$0.25$ per $\$100$ of greater value ($\$500,000$ tangible vs. $\$430,000$ net worth). $\$500,000 \div 100 \times \$0.25 = \$1,250$.
2. B. Lien enforcement — One year from filing. February 20, 2027. Settlement delays don't toll.
3. A. Unlimited license — Net worth = $\$410,000$, working capital = $\$322,000$. Both exceed $\$300,000$. Qualifies.
4. C. Cost-plus-percentage — $12\% \times \$26,000 = \$3,120$ lost fee. Percentage structure penalizes savings.
5. C. General partnership taxes — Exempt from franchise and excise. Only business tax applies.
6. D. Public property — Liens cannot be filed against public property. Remedy is payment bond claim.
7. B. Disability discrimination — ADA at 15+ and THRA at 8+. Both apply at 16 employees.
8. B. Cost-plus-fixed-fee — $\$58,000$ fee constant regardless of costs.
9. D. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. No "barely over" exception.
10. B. Electrical licensing — BC excludes electrical exceeding $\$25,000$. $\$29,000$ exceeds threshold.
11. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.
12. A. Self-employment tax — $15.3\% \times \$195,000 = \$29,835$. Quarterly: April 15, June 15, September 15, January 15.
13. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$729,000 + \$81,000 = \$810,000$.
14. C. Addenda — Modify previously issued documents. Standard drywall in addenda controls for janitor's closet.
15. B. Mississippi reciprocity — Trade exam waived. Business and Law exam always required.
16. B. FMLA — Requires 50+ employees. Only 48. Threshold not met.

17. A. Sales tax — Contractor is end user. $\$55,000 \times 9.25\% = \$5,088$. Owner's exemption doesn't transfer.
18. A. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
19. D. Fatality reporting — 8 hours from employer learning. $11:50 \text{ AM} + 8 = 7:50 \text{ PM Tuesday}$.
20. B. LMC threshold — Required at \$100,000+. \$112,000 exceeds threshold.
21. D. GMP shared savings — \$80,000 split 50/50: \$40,000 each.
22. D. S-corporation taxes — Subject to both franchise and excise despite pass-through status.
23. A. Unlimited license — Both must each exceed \$300,000. Working capital (\$285,000) falls short.
24. B. Licensing threshold — Total = $\$12,800 + \$1,600 + \$8,200 + \$1,400 + \$1,700 = \$25,700$. Exceeds \$25,000.
25. A. GL tiers — \$1,350,000 in \$501,000–\$1,500,000 tier. \$500,000 minimum. Policy meets requirement.
26. A. Business tax deduction — Only licensed subcontractor payments (\$1,450,000) deductible.
27. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
28. D. Termination for cause — Value of acceptable work offset by \$140,000 additional completion cost.
29. C. Drug-Free Workplace — All four components required for the 5% premium credit.
30. A. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$24,200 below threshold.
31. C. Limited partnership taxes — Franchise = $\$0.25 \text{ per } \$100 \text{ of } \$370,000 = \925 . Excise = $6.5\% \times \$290,000 = \$18,850$. Combined = \$19,775.
32. D. Percentage of completion — Revenue = $(\$640,000 \div \$1,280,000) \times \$1,600,000 = 0.50 \times \$1,600,000 = \$800,000$.
33. C. Unconditional waiver — Effective immediately upon signing regardless of payment.

34. D. Scaffold — 4:1 minimum (3.6:1 fails). Qualified person required (general experience insufficient). Both unmet.
35. D. Financial statements — Limits exceeding \$3,000,000 require audited statement.
36. B. FMLA — 50+ employees, 15 months tenure, newborn care qualifies. All conditions met.
37. C. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
38. A. Sole proprietorship taxes — Exempt from franchise and excise. Only business tax applies.
39. A. Change order — Should be written and signed before work. Lack of documentation weakens position.
40. C. GL tiers — \$2,400,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$750,000 insufficient.
41. A. Georgia reciprocity and NASCLA — Trade exam waived. NASCLA for BC-B. Business and Law exam required.
42. D. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. Type C not stable rock.
43. C. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
44. A. Monetary limit — Net worth = \$300,000. Working capital = \$305,000 - \$172,000 = \$133,000. Limit = $10 \times \$133,000 = \$1,330,000$. Below \$1,400,000.
45. B. QA departure — March 20 + 10 = March 30. Report on March 29 is timely. Replacement within 90 days = June 18.
46. D. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.
47. C. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
48. B. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 54.
49. C. Lien timing — 87 days after last furnishing, within 90 days. Timely. Enforcement within one year.
50. B. Corporate taxes — Franchise = \$0.25 per \$100 of \$420,000 tangible = \$1,050. Excise = $6.5\% \times \$280,000 = \$18,200$. Combined = \$19,250.

