

PRACTICE EXAM 8 — NASCLA MARYLAND — QUESTIONS 1-55

Instructions: 55 questions total. Recommended time limit: 150 minutes. Passing threshold: 70% (39 of 55 correct). Open book — the NASCLA Maryland reference may be consulted.

1. A person who applies for a Maryland Home Improvement Contractor license must, at a minimum, be:
 - A. A graduate of a state-approved trade school program in construction
 - B. A current member of the Maryland Builders Industry Association of Maryland
 - C. A resident of the State of Maryland for at least one continuous year
 - D. At least eighteen years of age and capable of entering into a contract

2. An MHIC contractor license is valid for a period of:
 - A. One calendar year from the date the original license was issued
 - B. Two years from the date the original license was issued by Commission
 - C. Three years from the date the original license was issued by Commission
 - D. Four years from the date the original license was issued by Commission

3. The Maryland Home Improvement Law is codified at which Annotated Code citation?
 - A. Real Property Article §§9-101 to 9-114 inclusive of the statute
 - B. Commercial Law Article §§14-301 to 14-322 inclusive of the statute
 - C. Business Regulation Article §§8-101 et seq. inclusive of the statute

D. Public Safety Article §§12-101 to 12-189 inclusive of the statute

4. The MHIC license is generally required only for work performed on:

- A. The residence, residential property, or related noncommercial improvements of an owner
- B. Multi-story office buildings located within commercial business district zones
- C. Manufacturing facilities operating under a Maryland industrial use permit only
- D. Public infrastructure projects funded entirely by state or federal grant money

5. Before a Maryland home improvement contractor begins work on a project, the contractor must generally:

- A. Submit fingerprints to the Maryland State Police identification division
- B. Deposit five percent of the contract price into a state-administered escrow
- C. Notify all adjoining property owners by certified U.S. Postal Service mail
- D. Obtain any required building permits and verify zoning clearance for the work

6. If a contractor fails to perform substantially in accordance with the home improvement contract, the homeowner's available remedies include:

- A. The right to keep all materials on site without paying any portion of the contract
- B. Automatic forfeiture of the contractor's vehicles parked on the homeowner's lot
- C. Filing a complaint with the Commission and a Guaranty Fund claim for actual loss
- D. Personally arresting and detaining the contractor pending criminal investigation

7. A homeowner who performs improvements on his or her own personal residence:

- A. Is generally not required to hold a Maryland Home Improvement Contractor license
- B. Must hold a Maryland Home Improvement Contractor license like any other contractor

- C. Must register the work with the Commission within seven days of project start
- D. Is required to obtain a special owner-builder permit from the MHIC by statute

8. A Maryland LLC operating as a contractor must file an annual personal property return with:

- A. The Maryland Office of the Attorney General by January thirty-first each year
- B. The Maryland State Department of Assessments and Taxation by April fifteenth
- C. The Maryland Home Improvement Commission by the license renewal due date
- D. The Maryland Comptroller of the Treasury by July first of the calendar year

9. A home improvement contract that includes a written arbitration clause:

- A. Is void as a matter of Maryland law and may not be enforced by either party ever
- B. Requires homeowner consent in front of a notary before being read or signed
- C. Must be reviewed by an MHIC hearing officer before the work may proceed forward
- D. May, if properly drafted and disclosed, require the parties to arbitrate disputes

10. The federal Magnuson-Moss Warranty Act applies to:

- A. Written warranties on consumer products costing more than a specified threshold
- B. Only commercial transactions between businesses where both parties are licensed
- C. Used-equipment auction sales conducted by Maryland-licensed auctioneers only
- D. Real estate transactions between licensed real estate brokers and home buyers

11. A Maryland home improvement contractor's express written warranty must, at minimum:

- A. Cover all defects in workmanship for the entire useful life of the structure
- B. State the warranty terms, duration, and what the warranty covers and excludes

- C. Be approved by the local building inspector before the warranty becomes valid
- D. Match exactly the terms offered by every other contractor doing similar work

12. The implied warranty of habitability in Maryland new home construction generally:

- A. Survives indefinitely with no statute of repose limiting later claims at all
- B. Applies only to commercial buildings, not residential single-family dwellings ever
- C. Promises that the home is fit for habitation and reasonably free of defects
- D. Excludes any structural component, including the foundation and load-bearing walls

13. A contractor who furnishes labor and materials may file a Maryland mechanics' lien against:

- A. The real property and any improvement on it benefited by the contractor's work
- B. The homeowner's automobile, boat, or recreational vehicles located in the driveway
- C. The homeowner's checking, savings, and retirement accounts at any local bank
- D. The homeowner's federal income tax refund claimed for the current calendar year

14. A Maryland general contractor whose work covers multiple trade specialties:

- A. Must hold a separate MHIC license for each individual trade specialty performed
- B. Is exempt from holding any MHIC license at all if registered with SDAT properly
- C. Must have one of each trade specialty subcontract in writing prior to bidding work
- D. Generally needs one MHIC license but separate trade licenses for regulated trades

15. Under Maryland law, residential design work prepared for a building permit application:

- A. May be prepared by any individual regardless of credentials or licensure status
- B. Must, for certain projects, be prepared by a Maryland-licensed architect or engineer

- C. Must always be prepared by the contractor and the contractor only on every job
- D. Must be approved by the homeowner association president before submission for permit

16. A Maryland-licensed professional engineer's seal is generally required on:

- A. The contract document between homeowner and contractor for any home improvement
- B. A simple paint and wallpaper interior refresh of a single-family detached dwelling
- C. Structural designs for new construction, additions, and major structural alterations
- D. The certificate of occupancy issued by the local jurisdiction on completed projects

17. Within a typical residential construction project in Maryland, the contractor will generally be required to obtain:

- A. Only the master building permit issued by the Maryland Department of the Environment
- B. Only a state-issued occupational license from the Department of Health and Mental Hygiene
- C. A federal HUD inspection certificate for each enclosed habitable space of the home
- D. Separate trade permits for electrical, plumbing, and mechanical work where required

18. The local plan review process for a residential addition typically involves:

- A. Submission of plans, code review by a plans examiner, and corrections before issuance
- B. Approval by a panel of three building professionals selected by the local mayor
- C. A public hearing at which any neighbor may object and prevent the permit from issuing
- D. Automatic permit issuance within twenty-four hours of plan submission to the jurisdiction

19. During construction, building department inspections are typically performed in this general sequence:

- A. Finish inspection first, then rough-in inspection, then footing inspection last
- B. Final inspection, then framing inspection, then footing inspection at the end

- C. Footing inspection first, then framing and rough-in inspections, then final inspection
- D. Random order at the inspector's discretion regardless of project sequence completed

20. A certificate of occupancy (C of O) is generally:

- A. An optional document the homeowner may request after move-in for insurance purposes
- B. Required by the jurisdiction before a new dwelling or addition may be legally occupied
- C. A federal document issued by HUD after every residential construction project finishes
- D. A document that authorizes the contractor to remove tools and equipment from the site

21. Occupying a newly constructed dwelling without first obtaining a required certificate of occupancy may expose the parties to:

- A. A small token courtesy fee that is waived if paid within thirty days of notice
- B. No legal consequence as long as the structure passes a privately commissioned inspection
- C. A waiver of any future warranty claims against the contractor for any reason
- D. Civil penalties, fines, and possible orders requiring the occupants to vacate the premises

22. Most Maryland mechanics' lien petitions filed in court must be served on the property owner along with:

- A. A summons commanding the owner to appear and answer the petition within a stated time
- B. A signed statement of net worth from the contractor or supplier seeking the lien
- C. The contractor's complete tax returns for the three most recent calendar years
- D. A copy of the contractor's MHIC license issued by the Maryland Commission

23. A homeowner's residential property insurance policy generally covers:

- A. All work performed by the licensed home improvement contractor automatically

- B. Sudden and accidental property damage to the dwelling from listed covered perils
- C. Faulty workmanship and defective materials supplied by any subcontractor on site
- D. Wear and tear of the home's appliances, finishes, and exterior siding materials

24. A worker permanently disabled by a workplace injury and unable to return to any work may receive workers' compensation benefits for:

- A. A maximum total of one hundred four weeks of wage replacement at full weekly rate
- B. Permanent total disability benefits, calculated under the schedule in the MD WC Act
- C. A flat lump-sum settlement of exactly ten thousand dollars across all claim categories
- D. Three years of medical-only benefits without any wage replacement at all whatsoever

25. Subrogation in the context of construction insurance refers to:

- A. The insured's right to collect the policy proceeds twice from two separate insurers
- B. The insured's promise to repair its own loss without filing any insurance claim
- C. The insurer's right to step into the insured's shoes and pursue a third party
- D. The insured's obligation to pay any deductible before the policy provides any coverage

26. A builder's risk insurance policy primarily covers:

- A. Physical damage to the building under construction from listed covered perils
- B. Bodily injury and property damage to third parties at the job site location
- C. Loss of the contractor's tools and equipment when stored at the contractor's office
- D. Lost income suffered by the homeowner during any project schedule delay period

27. Compared to a basic commercial general liability (CGL) policy, an umbrella liability policy:

- A. Replaces the underlying CGL policy completely once a single claim is filed against it

- B. Provides only first-dollar coverage from the very first dollar of any single liability claim
- C. Covers only claims arising under federal but not state law in Maryland or elsewhere
- D. Provides additional limits above the underlying policies' limits when triggered

28. A workers' compensation policy in Maryland generally:

- A. Eliminates the employer's tort liability completely for all employee injuries and claims
- B. Requires the injured worker to file suit in federal district court for any benefits owed
- C. Provides medical benefits and a portion of lost wages for covered work-related injuries
- D. Covers off-the-job injuries occurring during the worker's evening and weekend hours

29. A Maryland sole-proprietor contractor with no employees:

- A. Must always carry workers' compensation coverage on himself or herself by statute
- B. Generally may, but is not required to, elect workers' compensation coverage on himself
- C. Is automatically covered by Maryland's Subsequent Injury Fund without any election
- D. Is required to maintain MD short-term disability insurance for the proprietor only

30. Before paying a new independent contractor, a contracting business should generally obtain a completed:

- A. IRS Form W-9 with the payee's name, address, and taxpayer identification number
- B. IRS Form 1040 with the payee's most recent federal personal income tax return
- C. IRS Form 1099-MISC with the prior calendar year's nonemployee compensation paid
- D. Maryland resident certificate signed by the Maryland Comptroller's office in Annapolis

31. Under the IRS common-law right-of-control analysis, a true independent contractor:

- A. Is paid hourly wages with employer-provided benefits and uses employer tools daily

- B. Receives a Form W-2 from the payer at the end of each calendar year worked
- C. Generally controls the means and methods of how the work is performed and completed
- D. Works on the payer's premises exclusively at hours dictated by the payer day-to-day

32. The Federal Unemployment Tax Act (FUTA) tax:

- A. Is paid jointly by employer and employee through equal payroll withholding deductions
- B. Applies only to construction industry employers operating across state lines exclusively
- C. Is collected by the State of Maryland and remitted to the federal Treasury monthly
- D. Is paid by the employer based on a federally set rate and taxable wage base per employee

33. Maryland's state income tax structure is best characterized as:

- A. A single flat-rate tax applied uniformly to all taxable income for every taxpayer
- B. A graduated rate structure with multiple brackets that rise with taxable income
- C. A consumption tax assessed only on retail purchases, not on personal income directly
- D. A federal-style minimum tax that exempts every Maryland resident under sixty years old

34. The standard Maryland sales and use tax rate on most taxable retail sales is:

- A. Six percent of the taxable sales price of the goods or services purchased
- B. Three percent of the taxable sales price of the goods or services purchased
- C. Eight and one-quarter percent of the taxable sales price of the goods or services
- D. Ten percent of the taxable sales price of the goods or services purchased by the buyer

35. Maryland's motor fuel tax:

- A. Is collected only on diesel fuel sold for commercial highway trucking purposes

- B. Is paid by the retail customer in addition to local county sales tax on every fuel purchase
- C. Does not apply to any fuel used by Maryland-licensed home improvement contractors
- D. Is included in the pump price of motor fuels and dedicated mostly to transportation

36. Tools, equipment, vehicles, and inventory owned by a Maryland contractor business are generally subject to:

- A. Maryland real property tax assessed against the contractor's office land and buildings only
- B. Maryland personal property tax administered by the State Department of Assessments and Taxation
- C. A federal excise tax collected on the gross value of all business assets each calendar year
- D. A municipal employment privilege tax based on the number of employees on payroll

37. If a contractor business fails to pay federal payroll taxes, the IRS may:

- A. Assess a trust fund recovery penalty personally against responsible individuals
- B. Suspend the contractor's MHIC license for the duration of the federal collection action
- C. Order the Maryland Comptroller to seize all real property held by the contractor
- D. Pursue criminal prosecution before any administrative civil collection has been attempted

38. A federal tax lien arising from unpaid taxes:

- A. Attaches only to specific real property identified in the lien notice with parcel number
- B. Becomes enforceable only after a federal grand jury has indicted the taxpayer for fraud
- C. Generally attaches to all property and rights to property of the taxpayer in default
- D. Expires automatically after ninety days from the filing of the original notice with the clerk

39. Maryland's "Buy American" preference on state contracts generally requires that:

- A. Every fastener and bolt used on a state project bear a "Made in Maryland" stamp

- B. State contractors employ only United States citizens on Maryland public projects
- C. State agencies refuse to consider any bid that includes any non-domestic component
- D. Certain iron, steel, or manufactured goods used on state projects be domestically produced

40. Maryland's Minority Business Enterprise (MBE) program for state contracts:

- A. Reserves all state contracts for businesses owned exclusively by Maryland minority residents
- B. Sets goals for participation by certified MBEs as subcontractors on state-funded projects
- C. Prohibits any prime contractor from subcontracting work to any nonminority business firm
- D. Provides cash grants directly to certified MBEs in lieu of any contracting opportunities

41. Maryland's Prompt Payment Act applies to:

- A. Cash transactions between a homeowner and an unlicensed handyman for any repair work
- B. Federal contracts performed for the U.S. General Services Administration's regional office
- C. Payments by state agencies and certain prime-to-subcontractor flows on state contracts
- D. Personal services contracts between a Maryland citizen and a private investigator only

42. Retainage on a construction contract is typically:

- A. A percentage of each progress payment withheld pending satisfactory final completion
- B. A direct cash deposit paid by the contractor to the homeowner at contract signing
- C. A bond posted by the subcontractor in favor of the prime contractor for safety purposes
- D. The amount of profit the contractor agrees to forgo to receive prompt full payment

43. Final acceptance of construction work by the owner generally requires:

- A. The contractor to sign over title to all leftover construction materials to the owner

- B. A federal HUD inspector to perform a final walk-through with both the parties present
- C. The owner to pay an additional ten percent of the contract price as a closeout fee
- D. Substantial completion, completion of the punch list, and final inspection sign-off

44. Under most Maryland construction contracts, the owner's duty to make payment is generally:

- A. Triggered by the contractor's verbal request, regardless of work progress completed
- B. Conditioned on the contractor's performance reaching the contractual payment milestone
- C. Suspended until the owner has personally toured every adjacent property in the neighborhood
- D. Eliminated entirely if any minor punch list item remains uncompleted on the project site

45. Termination of a construction contract for cause by the owner generally requires:

- A. A material breach by the contractor, proper notice, and an opportunity to cure where allowed
- B. Approval by the local building official and a court order before the termination takes effect
- C. A unanimous vote by both parties' boards of directors at a joint formally noticed meeting
- D. The contractor's voluntary written consent to the termination signed in front of a notary

46. Termination of a construction contract for the owner's convenience generally:

- A. Is presumed to be a breach by the owner unless the contract explicitly forbids it
- B. Voids the contractor's right to recover any payment for work already performed on site
- C. Allows the owner to end the contract without cause, with compensation per the clause
- D. Requires the owner to pay double the contract value as a settlement to the contractor

47. Mutual rescission of a construction contract:

- A. Is automatically void as against Maryland public policy regardless of the parties' intent

- B. Requires a court order from the Maryland circuit court before either party can stop work
- C. Eliminates each party's right to retain anything paid or performed under the contract
- D. Is a voluntary agreement between the parties to terminate the contract and unwind obligations

48. The doctrine of substantial performance in construction contracts generally:

- A. Allows a contractor to abandon a job halfway through and still receive full payment
- B. Permits recovery of the contract price minus the cost to complete or correct minor defects
- C. Requires perfect performance of every contract specification down to the last detail
- D. Limits the contractor's recovery to the actual cost of materials supplied to the homeowner

49. A "time is of the essence" clause in a construction contract:

- A. Makes timely performance a material term of the contract subject to breach for delay
- B. Has no legal effect whatsoever and is treated as boilerplate that may be safely ignored
- C. Excuses any contractor delay caused by ordinary weather changes during construction
- D. Requires the contractor to start work at exactly the same hour each business day worked

50. A force majeure clause in a construction contract:

- A. Allows the contractor to charge a fifty percent premium for every project change order
- B. Doubles the contract price when the contractor experiences any minor scheduling difficulty
- C. Limits the homeowner's right to recover damages for any reason or cause whatsoever
- D. Excuses or extends performance when extraordinary events beyond control occur

51. A "notice of completion" or similar local instrument in Maryland generally:

- A. Discharges the contractor from any future warranty obligations for any reason

- B. Doubles the period within which a mechanics' lien claim may be filed against property
- C. May start or shorten lien-related deadlines and notify interested parties of completion
- D. Eliminates the homeowner's obligation to make the final progress payment as scheduled

52. A construction project "punch list" is best described as:

- A. A list of remaining minor items the contractor must address before final acceptance
- B. A daily roster of workers and subcontractors assigned to the site for the shift
- C. A summary of all the contractor's tools and equipment stored at the project location
- D. The schedule of subcontractor progress payments tied to each completed project phase

53. A typical residential contractor's express written warranty in Maryland covers workmanship for:

- A. The remaining useful life of the structure regardless of any other factor whatsoever
- B. A defined period such as one year for general workmanship, with structural items longer
- C. Only the first thirty days after substantial completion of the project work on site
- D. No defined period since written warranties are not permitted under Maryland law

54. A "latent defect" in residential construction is best described as:

- A. A defect immediately visible upon a casual visual inspection of finished work
- B. A cosmetic blemish in surface finishes such as paint, wallpaper, or trim work
- C. A defect the homeowner discovered during the initial walk-through before move-in
- D. A hidden defect not reasonably discoverable through ordinary inspection at completion

55. A manufacturer's warranty on installed building products typically:

- A. Provides coverage equal to the value of the entire dwelling for catastrophic loss

- B. Is fully assumed by the installing contractor and not by the underlying manufacturer
- C. Passes through to the end-user homeowner subject to the manufacturer's stated terms
- D. Replaces any contractor express warranty on materials and labor for the same items

PRACTICE EXAM 8 – NASCLA MARYLAND – EXPLAINED ANSWER KEY

- 1. D** — Under Maryland Business Regulation Article §8-301, a Home Improvement Contractor license applicant must be at least eighteen years of age and have legal capacity to enter into a contract. The age-of-majority requirement reflects the fact that the licensee will be signing binding consumer contracts on a regular basis.
- 2. B** — An MHIC contractor license is issued for a two-year term and must be renewed every two years thereafter. The biennial cycle aligns with the Commission's audit, bond verification, and continuing-eligibility checks on each licensee.
- 3. C** — The Maryland Home Improvement Law is codified in the Business Regulation Article beginning at §8-101 and is enforced by the Maryland Home Improvement Commission. Knowing the statutory home of the law is essential for locating definitions, license categories, and Guaranty Fund provisions.
- 4. A** — The MHIC license covers home improvement work performed on the residence, residential property, or related noncommercial improvements of a homeowner. Pure commercial, industrial, and public projects fall under different licensing schemes and contracting rules.
- 5. D** — Before starting work, a contractor must obtain any required building permits and verify that the work complies with applicable zoning rules. Permits drive the inspection regime that protects the homeowner and the public, and starting without them invites stop-work orders.
- 6. C** — A homeowner facing a contractor's substantial nonperformance may file a complaint with the Commission and a Guaranty Fund claim for actual loss, in addition to ordinary civil remedies. The dual administrative-and-civil track is the framework Maryland built to protect home improvement consumers.
- 7. A** — An owner performing improvements on his or her own personal residence is generally outside the MHIC license requirement; the license is triggered by contracting with another homeowner for compensation. The exemption is narrow and does not extend to owners who develop multiple residences or sell soon after improving.
- 8. B** — A Maryland LLC or corporation operating as a contractor must file an annual personal property return with the State Department of Assessments and Taxation by April 15. Filing on time preserves the entity's good standing and prevents forfeiture of the right to do business in Maryland.

- 9. D** — A properly drafted and disclosed arbitration clause is enforceable in a Maryland home improvement contract, though courts will closely scrutinize clauses imposed on consumers. Arbitration is a recognized alternative dispute resolution mechanism in construction and commercial agreements.
- 10. A** — The federal Magnuson-Moss Warranty Act governs written warranties on consumer products costing more than a defined threshold and requires clear disclosure of the warranty's terms. The Act applies to many products installed in home improvements, including appliances and fixtures.
- 11. B** — A written express warranty must, at a minimum, state its terms, the duration of coverage, and what the warranty covers and excludes. Clear scope and duration language lets the consumer know what to expect and reduces post-completion disputes.
- 12. C** — The implied warranty of habitability in new home construction promises that the home is fit for human habitation and reasonably free from significant defects. The warranty is implied by law and arises independent of any express written warranty in the contract.
- 13. A** — A Maryland mechanics' lien attaches to the real property of the owner and to any building or improvement on it benefited by the labor or materials furnished. It is a property-based remedy, not a personal-asset remedy, so vehicles, bank accounts, and tax refunds are off-limits.
- 14. D** — A general contractor whose work crosses regulated trades will typically need a single MHIC home improvement license at the business level, plus separate trade licenses (electrical, plumbing, HVAC) for the specific regulated work being performed. The licensing schemes are layered rather than alternative.
- 15. B** — Maryland law requires that residential design work for certain projects — especially those involving structural changes or exceeding size thresholds — be prepared by a Maryland-licensed architect or professional engineer. The requirement protects safety where lay design is inadequate to the structural demands.
- 16. C** — A professional engineer's seal is generally required on structural designs for new construction, additions, and major structural alterations. The seal certifies that a licensed engineer has reviewed and accepts professional responsibility for the structural adequacy of the design.
- 17. D** — A typical residential project requires separate trade permits for electrical, plumbing, and mechanical work in addition to the building permit. Each trade permit triggers trade-specific inspections at the rough-in and final stages of the work.
- 18. A** — The plan review process generally involves submission of construction documents, code review by a plans examiner, and revisions to address comments before the permit is issued. The back-and-forth ensures that the design complies with the adopted code before construction begins.
- 19. C** — Residential inspections proceed in the order in which the work is built up: footing first, then framing and rough-in inspections (electrical, plumbing, mechanical), then the final inspection. Each must pass before the next phase may be covered or finished over.

- 20. B** — A certificate of occupancy (C of O) is the local jurisdiction's authorization that a new dwelling or addition has been built and inspected in compliance with the applicable code and may be legally occupied. Occupying without one violates the building code and may also violate insurance and mortgage terms.
- 21. D** — Occupying a dwelling without a required C of O can result in civil penalties, monetary fines, and orders requiring the occupants to vacate until the deficiencies are corrected. The enforcement teeth give the C of O requirement practical meaning beyond paperwork.
- 22. A** — A Maryland mechanics' lien petition is filed in circuit court and served on the owner together with a summons commanding the owner to appear and answer within a stated time. The summons triggers the owner's procedural right to contest the lien before it is established by the court.
- 23. B** — A standard homeowner property insurance policy covers sudden and accidental damage to the dwelling from a list of covered perils such as fire, windstorm, and certain water events. It generally does not cover faulty workmanship, wear and tear, or pre-existing defects.
- 24. B** — A worker permanently totally disabled by a work-related injury is entitled to permanent total disability benefits calculated under the schedule in the Maryland Workers' Compensation Act. The benefit is designed to replace a substantial portion of lost wages for as long as the disability continues.
- 25. C** — Subrogation is the insurer's right, after paying a covered loss, to step into the insured's shoes and pursue the third party who caused the loss. Subrogation prevents double recovery by the insured and shifts the ultimate cost to the party responsible.
- 26. A** — A builder's risk policy provides first-party property coverage for physical damage to the building under construction from listed covered perils such as fire, theft, vandalism, and certain weather events. The policy fills the gap between owner property insurance and contractor liability insurance during the build.
- 27. D** — An umbrella liability policy provides additional limits of liability above the underlying primary policies (CGL, auto, employer's liability) once those underlying limits are exhausted. The umbrella is a cost-effective way to add high-limit protection for catastrophic exposures.
- 28. C** — Maryland workers' compensation provides medical benefits and a portion of lost wages for injuries that arise out of and in the course of employment. The coverage is the exclusive remedy against the employer for most work-related injuries, replacing common-law tort suits.
- 29. B** — A Maryland sole-proprietor contractor with no employees is generally not required to carry workers' compensation on himself or herself, but may elect coverage. Without that election, the proprietor's own injuries are not covered under the WC system.
- 30. A** — Before paying a new independent contractor, the payer should obtain a completed IRS Form W-9 capturing the payee's legal name, address, and taxpayer identification number. Collecting the W-9 up front avoids backup withholding and supports accurate Form 1099-NEC reporting at year-end.

- 31. C** — Under the IRS common-law right-of-control test, a true independent contractor generally controls the means and methods of how the work is performed, while the payer controls only the result. Behavioral, financial, and relationship factors are weighed together to classify the worker.
- 32. D** — Federal unemployment tax (FUTA) is paid by the employer based on a federally set tax rate applied to a federally defined taxable wage base per employee. State unemployment tax (SUTA) is separate and paid concurrently, with a credit against FUTA for SUTA paid.
- 33. B** — Maryland's state income tax uses a graduated rate structure with multiple brackets that rise with taxable income. Local "piggyback" income taxes are levied by counties and Baltimore City on top of the state rate.
- 34. A** — The Maryland sales and use tax is generally six percent of the taxable sales price of goods and certain services. Contractors are typically treated as the final consumers of materials they install and pay sales or use tax on those purchases.
- 35. D** — Maryland's motor fuel tax is built into the pump price of gasoline and diesel and is dedicated largely to the Transportation Trust Fund for state roads and transit. Off-road business users may sometimes claim a refund for qualifying nonhighway use of fuel.
- 36. B** — Tools, equipment, vehicles, and inventory owned by a Maryland business are generally subject to the state's personal property tax, administered by the State Department of Assessments and Taxation. The annual report and personal property return drive the assessment.
- 37. A** — When a business fails to remit federal payroll taxes (trust fund taxes), the IRS may assess a Trust Fund Recovery Penalty personally against the responsible individuals — typically owners, officers, and check-signers. The penalty pierces the corporate veil for unpaid payroll trust funds.
- 38. C** — A federal tax lien arising under Internal Revenue Code §6321 generally attaches to all property and rights to property of the taxpayer, whether real or personal, present or after-acquired. The lien is broad by design to maximize the government's collection reach.
- 39. D** — Maryland's Buy American preference on state contracts generally requires that certain iron, steel, or manufactured goods incorporated into the work be domestically produced. The rule supports domestic manufacturing within the bounds permitted by federal trade law.
- 40. B** — Maryland's Minority Business Enterprise program sets percentage participation goals for certified MBEs on state-funded contracts, primarily as subcontractors. Prime contractors must make documented good-faith efforts to meet the applicable subcontracting goals on each project.
- 41. C** — Maryland's Prompt Payment Act applies to payments by state agencies on state contracts and to certain prime-to-subcontractor payment flows on those contracts. Late payment interest accrues automatically once the statutory due dates pass.

- 42. A** — Retainage is a percentage of each progress payment that the owner withholds from the contractor pending satisfactory final completion of the work. The withheld amount gives the owner leverage to ensure punch-list and closeout obligations are completed.
- 43. D** — Final acceptance generally requires that the work reach substantial completion, the punch list be completed, and all required final inspections be passed. Acceptance triggers release of retainage and starts the warranty clock running on workmanship.
- 44. B** — The owner's duty to pay under most construction contracts is conditioned on the contractor's performance reaching the payment milestone identified in the contract — for example, a percentage-complete benchmark or a defined deliverable. The condition makes payment a function of performance, not goodwill.
- 45. A** — Termination for cause by the owner requires a material breach by the contractor, written notice describing the breach, and (where the contract so provides) an opportunity for the contractor to cure within a stated period. Skipping the notice or cure step can convert a justified termination into a wrongful one.
- 46. C** — A termination for convenience clause allows the owner to end the contract without cause, with the contractor compensated for work performed and certain demobilization costs per the clause. The clause shifts risk to the contractor but is enforceable when clearly drafted.
- 47. D** — Mutual rescission is a voluntary agreement between owner and contractor to terminate the contract and unwind their respective obligations. It is typically reduced to writing so the scope of the unwinding and any settlement payments are clear to both sides.
- 48. B** — Under the doctrine of substantial performance, a contractor who performs the contract in good faith with only minor defects may recover the contract price less the cost to complete or correct those defects. The doctrine prevents owners from withholding the full price over trivial deviations.
- 49. A** — A "time is of the essence" clause elevates timely performance to a material term of the contract, so that delay can constitute a material breach justifying termination. Without the clause, a reasonable delay typically supports only a damages claim and not termination.
- 50. D** — A force majeure clause excuses or extends a party's performance when extraordinary events beyond its reasonable control — such as natural disasters, war, or pandemic — make performance impossible or impracticable. The clause's specific list of triggers and the notice requirements control its operation.
- 51. C** — A notice of completion or similar local instrument may start or shorten the time within which mechanics' lien claims can be filed and notifies interested parties that the work is complete. Knowing the deadline impact is important for both prime contractors and unpaid subcontractors.
- 52. A** — A punch list is the list of remaining minor items — touch-ups, adjustments, missing trim — that the contractor must complete before the owner will give final acceptance. The punch list is normally generated at the substantial completion walk-through.

53. B — A typical residential contractor's express written warranty covers general workmanship for a defined period, often one year, with longer coverage on structural items and certain systems. Differentiated durations match the risk profile of the components being warranted.

54. D — A latent defect is a hidden defect not reasonably discoverable through ordinary inspection at the time of completion or acceptance. Latent defects often surface months or years later and are the focus of statute of repose limits on construction claims.

55. C — A manufacturer's warranty on installed products typically passes through to the end-user homeowner subject to the manufacturer's stated terms, registration requirements, and limitations. The contractor's installation warranty is separate from, and does not replace, the manufacturer's product warranty.