PRACTICE EXAM 18: ENROLLED AGENT PART 3 SIMULATION (100 QUESTIONS)

This practice exam contains 100 questions covering Practices and Procedures, Representation before the IRS, Specific Areas of Representation, and Filing Process. The actual Special Enrollment Examination Part 3 allows 3.5 hours and requires a scaled score of 500 (on a 200-800 scale) to pass. Select the single best answer for each question.

1. A practitioner's initial enrollment application submitted through the experience path generally requires documentation of:

A. A minimum personal net worth exceeding a specific dollar threshold set by the IRS
B. Membership in a specific professional trade association recognized by the IRS
C. At least five years of qualifying technical IRS service within the preceding seven years
D. A minimum number of years of prior work experience in any unrelated field

2. A practitioner's continuing education records audit generally requires producing documentation showing:

A. Only the practitioner's own general assertion that the required hours were genuinely completed
B. The specific course title, provider, date, and hours actually completed for each claimed credit
C. Only a summary total of hours with no course-specific detail provided at all
D. Only the practitioner's own personal calendar showing when courses were generally scheduled

3. A practitioner's inactive enrollment status may generally be converted to active status by:

A. Completing any outstanding continuing education requirements and submitting a proper reactivation request
B. Simply waiting for the IRS to automatically reactivate the status with no action required
C. Filing an entirely new, separate enrollment application as though never previously enrolled

D. Paying a specific reactivation fee with no further educational requirement at all

4. OPR's authority to investigate potential practitioner misconduct generally does NOT require:

A. That the alleged conduct actually relate in some way to the practitioner's professional practice
B. That OPR have some genuine, reasonable basis for believing misconduct may have actually occurred
C. That the investigation ultimately be conducted consistent with applicable due process protections
D. That a formal written complaint first be submitted by an identified, named complainant

5. A practitioner's due diligence obligation regarding a client's claimed foreign tax credit generally requires:

A. Independent verification directly with the specific foreign government that imposed the tax
B. Automatic disallowance of any foreign tax credit claim exceeding a specific fixed dollar amount
C. A reasonable inquiry into whether the claimed foreign tax actually qualifies and was genuinely paid or accrued
D. No inquiry whatsoever, since foreign tax credit claims are presumed accurate automatically

6. A practitioner's advice regarding a position supported by substantial authority generally may be provided even where the practitioner personally disagrees with the position's ultimate wisdom because:

A. Practitioners are legally required to agree personally with every position they advise a client to take
B. Section 10.34 focuses on the position's actual legal support, not the practitioner's own subjective policy views
C. Personal disagreement automatically disqualifies a practitioner from advising on that specific position
D. Substantial authority is irrelevant where the practitioner personally disagrees with the underlying position

7. A contingent fee arrangement is generally permitted for representation before the IRS Independent Office of Appeals following an examination, but this exception generally does NOT extend to:

A. The original preparation of the return that gave rise to the examination in the first place
B. The Appeals conference itself, which remains squarely covered by the recognized exception
C. A settlement negotiated with Appeals regarding the specific examined matter
D. A closing agreement executed to formally resolve the Appeals-level dispute

8. A practitioner's fee arrangement charging separately for each specific task performed, rather than a single flat fee, generally should be:

A. Left deliberately vague regarding what each task-specific charge actually covers
B. Set at the highest amount the practitioner believes the client might conceivably tolerate paying
C. Clearly itemized in the engagement letter so the client understands what each specific charge covers
D. Structured with no written documentation at all, relying entirely on a verbal understanding

9. A practitioner's advertisement claiming to be "the trusted choice" for tax representation is generally:

A. Always permitted, since trust-based marketing language is categorically exempted from scrutiny
B. Permitted only if every single competing firm in the area formally agrees with the claim
C. Irrelevant to Circular 230, since it is treated as harmless marketing puffery
D. Potentially misleading unless the practitioner can substantiate the specific claim made with genuine evidence

10. A practitioner's conflict of interest analysis for representing a taxpayer in a matter where the practitioner has a close personal friendship with the assigned IRS examiner generally should evaluate:

A. Whether the friendship could reasonably be perceived as improperly influencing the matter's handling
B. Only the specific number of years the practitioner and the examiner have known each other socially
C. Only whether the practitioner and the examiner have ever worked together on an entirely unrelated matter
D. Only whether the friendship happens to be publicly known within the local professional community

11. A practitioner's written consent documentation for a conflict arising from a personal friendship with the assigned IRS examiner should generally address the specific:

A. Only the practitioner's own personal opinion of the examiner's overall professional competence
B. Only the specific total dollar amount the client's matter involves in dispute
C. Only whether the friendship began before or after the practitioner's own enrollment as an EA
D. Safeguards in place to prevent any appearance of improper influence on the matter's handling

12. A firm's Section 10.36 procedures should generally address how the firm handles a matter involving a personal relationship between staff and IRS personnel by:

A. Automatically declining every such matter regardless of the actual specific circumstances involved
B. Requiring disclosure of the relationship and evaluation of whether it presents a genuine conflict
C. Automatically accepting every such matter with no evaluation of any kind conducted
D. Delegating the entire matter automatically to a completely different, unrelated firm

13. A practitioner's Section 10.51(a)(4) violation for false statements generally may be established through direct evidence or:

A. No evidence whatsoever, since the violation is presumed automatically whenever any statement later proves incorrect
B. Only the client's own separate, independent testimony confirming the statement was false
C. Circumstantial evidence sufficient to support a reasonable inference of the practitioner's actual knowledge
D. Only a formal admission the practitioner personally made confessing to the underlying violation

14. A practitioner's obligation regarding accuracy of representations generally requires promptly correcting an inaccurate representation once discovered, rather than waiting until:

A. A more convenient future point in the representation, since delay itself can compound the inaccuracy's effect
B. The specific inaccuracy is somehow independently discovered by the IRS on its own initiative
C. The underlying matter has already reached a final, formal resolution of some kind
D. The client specifically and separately authorizes the practitioner to make the correction

15. A practitioner's written tax opinion prepared for a matter involving a debatable question of first impression should generally acknowledge:

A. Nothing regarding the absence of controlling authority, to project greater confidence to the client
B. The absence of directly controlling authority and the resulting genuine uncertainty this creates
C. That the matter is entirely settled, despite the actual absence of any directly controlling authority
D. A guarantee the taxpayer's position will ultimately prevail despite the genuine absence of controlling authority

16. A practitioner's competence obligation regarding a matter involving a novel factual scenario not directly addressed by existing guidance generally requires:

A. Selecting whichever existing guidance happens to be most favorable and presenting it as directly controlling
B. Declining to address the matter at all until directly applicable guidance is eventually issued
C. Guaranteeing the client a specific favorable outcome despite the genuine absence of directly applicable guidance
D. Careful analogical reasoning from analogous authority, combined with honest disclosure of the resulting uncertainty

17. A practitioner's advertising claim regarding the firm's specific case results should generally be presented with adequate context because:

A. IRS regulations specifically require every advertisement to include a minimum of three case examples
B. Case results are treated as inherently and automatically misleading regardless of any context provided
C. Results in one matter do not necessarily predict outcomes in a different client's own distinct matter
D. Clients specifically expect and demand detailed case results before ever engaging any practitioner

18. A practitioner's Section 10.20 obligation regarding record submission generally applies to records requested in connection with:

A. Only a formal examination specifically, and no other type of IRS matter or proceeding
B. Only a matter already pending in active U.S. Tax Court litigation specifically
C. Only a matter involving a dispute exceeding a specific minimum dollar threshold
D. Any matter properly before the IRS involving the practitioner's client, not only formal examinations

19. A practitioner's failure to identify a client's eligibility for the Premium Tax Credit, where the client clearly qualifies, may reflect:

A. A potential shortfall in the competence and diligence Circular 230 expects of practitioners
B. An entirely acceptable practice, since practitioners bear no obligation to identify every possible credit
C. A matter completely outside any Circular 230 concern whatsoever regarding the practitioner's conduct
D. Relevant only if the client can affirmatively prove the practitioner deliberately withheld this information

20. A practitioner's conflict of interest evaluation should generally be repeated where an existing client's matter reveals the client has become adverse to another existing client in an entirely unrelated matter because:

A. IRS regulations specifically mandate an entirely new engagement letter for every newly discovered adversity
B. The newly discovered adversity may genuinely affect whether continued representation of either client remains appropriate
C. Discovering adversity between two clients automatically and categorically terminates both pre-existing engagements
D. Clients specifically expect and demand a fresh conflict evaluation memo for every such discovery

21. A practitioner's disreputable conduct violation involving giving false testimony under oath in a proceeding related to a tax matter generally is evaluated with particular seriousness because it involves:

A. A direct assault on the integrity of the fact-finding process the tax administration system depends upon

B. A matter having no genuine connection whatsoever to the practitioner's actual tax practice

C. Conduct that, while concerning, carries no meaningful implication for any client's own interests

D. A category of conduct Circular 230 does not actually address or regulate in any way

22. A practitioner's obligation to maintain confidentiality of client information generally applies during a practitioner's own transition to retirement, requiring the practitioner to generally:

A. Simply destroy all client records immediately upon the practitioner's own retirement with no further consideration

B. Publish a general summary of all client matters as a farewell communication to the professional community

C. Make appropriate arrangements for the continued protection or proper transfer of client records

D. Transfer all client records automatically to whichever firm happens to be geographically nearest

23. A practitioner's decision to decline representing a client whose matter the practitioner reasonably believes would require the practitioner to violate Section 10.51 is generally:

A. A violation of an implied duty to pursue any matter a client explicitly requests regardless of the conduct required

B. Irrelevant to Circular 230, since declining representation carries no professional significance

C. Permitted only if the practitioner first obtains a formal OPR determination confirming the conduct would violate Section 10.51

D. An appropriate exercise of professional judgment consistent with Circular 230's overall standards

24. A practitioner's obligation regarding accuracy of representations extends to a formal request for a Taxpayer Assistance Order to the extent the request concerns:

A. Only the factual basis for the requested hardship relief, never any characterization offered

B. Both the factual basis for the requested hardship relief and any characterization of the underlying facts offered

C. Only any characterization offered, never the factual basis for the requested hardship relief

D. Neither category, since accuracy obligations apply only to numerical calculations specifically

25. A practitioner's suspension sanction generally applies specifically to the practitioner's ability to:

A. Prepare tax returns for compensation, but not the practitioner's separate ability to represent taxpayers
B. Both represent taxpayers before the IRS and prepare returns for compensation, treated identically
C. Neither represent taxpayers nor prepare returns, since suspension addresses an entirely unrelated activity
D. Represent taxpayers before the IRS, not to the practitioner's separate ability to prepare returns for compensation

26. A practitioner's monetary penalty under Section 10.50 is generally distinguishable from a state bar association's own separate disciplinary fine in that the Section 10.50 penalty:

A. Is imposed under federal authority specifically governing practice before the IRS, distinct from state licensing authority
B. Is always calculated using the exact same formula applicable to any state bar association fine
C. Automatically satisfies any separate fine a state bar association might also separately impose
D. Can never be imposed where a state bar association has already separately imposed its own fine

27. A practitioner's reinstatement following disbarment generally requires OPR to consider whether the practitioner has demonstrated genuine insight into:

A. Only the practitioner's own personal financial need to resume practicing before the IRS
B. Why the original conduct was wrong and how the practitioner's own understanding has genuinely changed
C. Only the specific number of years that have elapsed since the disbarment was originally imposed
D. Only the practitioner's own personal opinion regarding whether the original sanction was fair

28. A practitioner's obligation to disclose a conflict extends to a conflict arising from the practitioner's simultaneous service as an officer or director of a client's business entity, requiring the practitioner to generally:

A. Simply resign from the officer or director role entirely with no disclosure or evaluation ever required

B. Ignore the corporate role entirely, since it is treated as unrelated to the tax representation itself

C. Evaluate whether the fiduciary duties owed in that corporate role could create competing obligations with the tax representation

D. Disclose only to other officers or directors who specifically and independently ask about the arrangement

29. A practitioner's overall approach to identifying potential conflicts for a matter involving a client referred by the practitioner's own malpractice insurance carrier should generally include:

A. The same systematic conflict check applied to any other matter, regardless of the referral source's identity

B. An assumption that a carrier-referred client automatically presents no possible conflict of any kind

C. Skipping the conflict check entirely, since the insurance carrier has presumably already vetted the referral

D. Relying exclusively on the insurance carrier's own internal assurance that no conflict genuinely exists

30. A practitioner's overall professional obligations under Circular 230 reflect Congress's judgment that unregulated practice before the IRS could genuinely:

A. Have no meaningful effect whatsoever on public confidence in tax administration generally

B. Improve tax administration efficiency by eliminating any need for practitioner oversight of any kind

C. Undermine public confidence in the fairness and integrity of the overall tax administration system

D. Simplify tax administration by removing all practitioner involvement in the process entirely

31. A practitioner's overall commitment to Circular 230's standards ultimately reflects an understanding that the credential itself represents:

A. A permanent, unconditional entitlement that, once initially granted, can never be genuinely revoked

B. A purely private matter between the practitioner and OPR carrying no broader public significance

C. An entitlement requiring no ongoing attention whatsoever once initial enrollment has actually been achieved

D. A privilege carrying ongoing obligations, not a permanent, unconditional entitlement once initially granted

32. A taxpayer's power of attorney generally does not authorize the representative to:

A. Discuss the specifically covered matters with the assigned IRS employee
B. Consent to disclosure of return information to a third party absent specific separate authorization
C. Receive copies of notices regarding the specifically covered matters
D. Advocate the taxpayer's position at a scheduled examination interview

33. A taxpayer's power of attorney should generally specify a defined end date or trigger event where the taxpayer wishes to:

A. Ensure the authorization automatically extends to entirely unrelated future matters as well
B. Guarantee the representative will personally resolve the matter within that specific timeframe
C. Limit the authorization's duration rather than leave it open-ended for the covered matters
D. Avoid any requirement to specify which particular tax years the authorization actually covers

34. A taxpayer's power of attorney generally is unaffected by a representative's change of physical office address because:

A. IRS regulations specifically require every power of attorney to be refiled after any office relocation
B. The authorization identifies the specific individual representative, not a fixed physical location
C. A representative's office address is treated as a mandatory element of a validly executed authorization
D. Address changes automatically and categorically revoke any existing power of attorney on file

35. A taxpayer's assessment statute of limitations generally is NOT tolled by:

A. The taxpayer's routine, periodic communication with the practitioner regarding the status of an ongoing matter
B. A pending offer in compromise under active IRS review
C. A Tax Court proceeding actively contesting a notice of deficiency
D. The taxpayer being continuously outside the United States for at least six months

36. A taxpayer's Form 872 extension negotiated for a matter involving multiple, interrelated tax years generally should specify:

A. Only a single representative tax year, leaving the other interrelated years entirely unaddressed
B. A general reference to "all relevant years" with no specific years actually identified
C. No specific years at all, since the IRS is presumed to infer which years are genuinely covered
D. Each specific tax year covered by the extension, avoiding ambiguity about the actual scope

37. A taxpayer's position supported by a favorable outcome in the taxpayer's own prior, factually similar audit generally provides:

A. Some practical comfort but not binding legal precedent, since prior audit results do not bind future examinations
B. Fully binding legal precedent the IRS is legally obligated to follow in the current examination
C. No relevance whatsoever to the current matter, since prior audits are treated as entirely unrelated
D. Automatic immunity from any further examination of the identical issue in any future year

38. A taxpayer's reliance on informal guidance provided by a specific IRS employee that directly contradicts formal published guidance generally should be:

A. Treated as automatically controlling, since any direct communication from an IRS employee always overrides published guidance
B. Treated with caution, since formal published guidance generally carries greater authoritative weight
C. Entirely disregarded as having no relevance whatsoever to the taxpayer's position
D. Treated as equally authoritative to the formal published guidance it directly contradicts

39. A taxpayer's disclosure of a position via Form 8275 for a matter involving a novel factual scenario generally should include a description of:

A. Only the taxpayer's personal opinion regarding whether the IRS will ultimately accept the disclosed position

B. Only a general statement that some unspecified position is being disclosed with no further detail

C. How the taxpayer's specific facts relate to the applicable, though not directly controlling, existing authority

D. A guarantee the disclosed position will definitely withstand any subsequent IRS challenge raised

40. A taxpayer's genuinely transparent tax planning, structured to achieve a legitimately favorable result within the actual bounds of the law, generally is distinguished from evasion by the:

A. Ultimate dollar amount of tax the planning actually saved the taxpayer in the relevant year

B. Specific number of professionals the taxpayer consulted before implementing the planning

C. Taxpayer's own subjective belief the planning was completely certain to withstand any challenge

D. Absence of deception directed at the government, regardless of how aggressively the planning minimizes tax

41. The Taxpayer Advocate Service's involvement in a matter generally does NOT include:

A. Advocating for the taxpayer's interests within the broader IRS structure

B. Addressing genuine, documented hardship the taxpayer is currently experiencing

C. Operating with a degree of independence from other IRS functions

D. Determining the substantive correctness of the underlying tax liability itself, which remains outside TAS's core function

42. A Form 911 request supported by documentation of a genuine, imminent risk of asset seizure generally illustrates:

A. A category entirely outside the scope of what TAS assistance is actually intended to address

B. Grounds for automatic denial, since asset seizure risk is treated as routine and non-hardship

C. A recognized category of significant hardship the TAS process is specifically designed to address

D. A matter properly addressed only through a formal Tax Court petition instead

43. An Enrolled Agent's representation authority generally extends to a matter involving a taxpayer's dispute regarding:

A. An offer in compromise determination, in addition to income, employment, and other tax matters
B. Only individual income tax matters, never offer in compromise or employment tax matters
C. Only matters the EA personally prepared the underlying filing for
D. Only matters involving amounts below a specific dollar threshold

44. A practitioner's preliminary assessment of a new matter involving a taxpayer's participation in a cash-intensive business should generally include confirming:

A. Only the specific type of business the taxpayer's cash-intensive operation happens to be
B. The taxpayer's recordkeeping practices for reconciling cash receipts against reported gross income
C. Only the taxpayer's personal opinion regarding cash-intensive businesses generally
D. Only the specific bank the taxpayer uses for the business's operating account

45. A conflict check's scope for a matter involving multiple co-owners of a cash-intensive business should generally extend to:

A. Only the business's own formal legal name, with no inquiry into individual co-owners
B. Only the specific bank the business uses for its operating account
C. Only the total number of years the business has been in continuous operation
D. Each individual co-owner, given their potential personal stake in how cash receipts were actually reported

46. A taxpayer's account transcript entry reflecting a proposed adjustment based on an indirect method of income reconstruction generally indicates:

A. An automatic, complete forgiveness of the taxpayer's underlying tax liability regardless of the outcome
B. An entry unrelated to any actual IRS action, requiring no further explanation at all
C. The IRS used a method such as the bank deposits or net worth method to estimate unreported income

D. A penalty specifically assessed against the taxpayer for having operated a cash-intensive business

47. A practitioner's analysis challenging an IRS indirect method income reconstruction should generally focus on:

A. Only the taxpayer's personal opinion regarding whether indirect methods are generally fair
B. Identifying specific errors in the assumptions or data underlying the indirect method's calculation
C. Only the specific examiner's overall years of experience conducting examinations
D. Only the specific software the IRS used to perform the indirect method calculation

48. A requesting spouse's Innocent Spouse Relief claim involving unreported cash business income generally should address:

A. Whether the requesting spouse had actual knowledge of the specific unreported cash income
B. Only the requesting spouse's personal opinion regarding cash-intensive businesses generally
C. Only the couple's total combined years of marriage before the unreported income occurred
D. Only the requesting spouse's current occupation and specific employer

49. A practitioner's documentation for a matter involving a challenge to an indirect method calculation should generally address the multi-factor test's consideration of:

A. Only the couple's original choice of wedding venue and related details
B. Whether the IRS's assumed non-taxable sources of deposits were actually reasonable given the taxpayer's circumstances
C. Only the couple's shared taste in home decor and furnishings
D. Only the couple's preferred vacation destinations over the years

50. A practitioner's early assessment of potential criminal exposure in a matter involving unreported cash income should generally weigh:

A. Whether the pattern suggests deliberate concealment versus a genuine, good-faith recordkeeping failure

B. Only the specific total dollar amount of unreported income, regardless of the underlying circumstances

C. Only the client's overall general demeanor during a single initial consultation meeting

D. Only the specific industry in which the client's business happens to operate

51. A practitioner who identifies potential criminal exposure in an unreported cash income matter should generally avoid:

A. Advising the client to consult with counsel experienced in criminal tax matters

B. Documenting the specific reasoning behind any referral made to specialized counsel

C. Advising the client to simply amend returns without first considering a voluntary disclosure option

D. Continuing to handle unrelated civil matters for the client within the practitioner's actual competence

52. A Kovel arrangement's application to an unreported cash income matter generally requires the accountant's forensic analysis to be:

A. Conducted entirely independently of any attorney direction or involvement whatsoever

B. Shared freely and openly with the IRS as the analysis progresses

C. Focused exclusively on matters having no connection whatsoever to any legal advice

D. Directed by the attorney and genuinely connected to assisting the attorney's legal advice on the matter

53. A practitioner's case-building documentation for a matter involving a taxpayer's claimed non-taxable sources of unexplained deposits should generally include:

A. Credible evidence corroborating the specific source, such as loan documents or gift documentation

B. Only the taxpayer's own general assertion that the deposits are non-taxable with no supporting evidence

C. Only the specific bank's general marketing materials for its deposit account products

D. Only the taxpayer's personal opinion regarding the overall fairness of indirect reconstruction methods

54. A practitioner's overall case assessment for a matter involving an indirect method calculation should generally distinguish between:

A. Only deposits made before versus after a specific arbitrary calendar date unrelated to the analysis
B. Only deposits made at one specific bank branch versus deposits made at another branch
C. Deposits genuinely representing taxable income and deposits representing legitimate non-taxable transfers
D. Only deposits with a round dollar amount versus deposits with a specific odd amount

55. A practitioner's overall case-building strategy for a matter involving numerous bank deposits requiring individual analysis should generally include:

A. Only a narrative description with no systematic tracking of any kind provided at all
B. Only the examiner's own proposed characterization of each deposit, accepted without independent review
C. Avoiding any systematic tracking entirely to prevent inviting additional scrutiny
D. A systematic spreadsheet or similar tool tracking each deposit's source and supporting documentation

56. A practitioner's overall preliminary case assessment process for an indirect method matter should generally include documenting:

A. Only the practitioner's own personal fee arrangement for handling the specific matter
B. The specific indirect method the IRS actually used and its known limitations or assumptions
C. Only the specific software the practitioner intends to use going forward in the matter
D. Only the client's general overall satisfaction with the practitioner's services to date

57. A practitioner's case-building work for a matter involving a taxpayer's claimed cash hoard as a source of deposits should generally document:

A. Credible evidence supporting the hoard's actual existence, such as prior tax returns showing accumulated savings
B. Only the taxpayer's own personal, subjective belief that a cash hoard genuinely existed

C. Only the specific total dollar amount of the claimed hoard at issue in the matter
D. Only the specific location where the taxpayer claims to have physically stored the hoard

58. A practitioner's overall approach to preliminary case assessment for a genuinely complex indirect method matter should generally reflect:

A. Immediate commitment to a specific strategy before any meaningful fact development has occurred
B. Careful, thorough fact development before committing to a specific strategic approach
C. Complete avoidance of the complex matter in favor of addressing only more familiar, comfortable issues
D. Deference entirely to the taxpayer's own proposed strategy with no independent practitioner analysis

59. A practitioner's case-building process for an indirect method matter ultimately aims to ensure the challenge presented is:

A. Automatically successful regardless of what the actual facts developed ultimately show
B. Automatically unsuccessful whenever an indirect method is used, regardless of the actual facts
C. Based primarily on the practitioner's own initial gut impression formed before any fact development occurs
D. Genuinely supported by the actual facts developed, not assumed based on the mere use of an indirect method

60. A practitioner's overall case-building philosophy for an indirect method matter should generally reflect an understanding that these methods:

A. Are always presumed accurate and unchallengeable once the IRS has actually applied one
B. Never actually warrant any additional documentation beyond what a routine matter would require
C. Rest on assumptions genuinely subject to challenge, warranting careful individualized factual analysis
D. Are legally prohibited from ever being challenged by a taxpayer under any circumstances whatsoever

61. A taxpayer's short-term payment plan proposal for a taxpayer with an active cash-intensive business generally should account for:

A. Only the taxpayer's personal preference for the specific word "short-term" over other terminology
B. Only the taxpayer's total combined assets regardless of their actual liquidity or availability
C. The business's actual documented cash flow patterns, not merely reported net income figures alone
D. Only the taxpayer's overall credit score as reported by a private credit bureau

62. A taxpayer's non-streamlined installment agreement for a taxpayer with a cash-intensive business generally requires additional documentation regarding:

A. The business's actual cash flow, given the heightened scrutiny cash-intensive operations typically receive
B. Only the specific type of cash register or point-of-sale system the business currently uses
C. Only the business's specific choice of accounting software for recordkeeping purposes
D. Only the specific bank the business uses for its operating account

63. A taxpayer's offer in compromise for a cash-intensive business owner generally requires the RCP calculation to account for:

A. Only the taxpayer's personal preference for how future earning capacity should ultimately be projected
B. A reasonable estimate of the business's actual future earning capacity, not merely historical reported income
C. Only the business's total gross receipts from several years in the past
D. Only the specific industry's overall historical performance over recent decades

64. A taxpayer's offer in compromise involving a cash-intensive business's asset valuation should generally address:

A. Only the taxpayer's own personal preference for how the assets should ultimately be valued
B. Only the specific accounting method the business uses for its own internal recordkeeping

C. Only the specific date the business's equipment was originally purchased
D. The equipment and inventory's actual fair market value, distinct from the business's own book value figures

65. A lien filed against a cash-intensive business's assets generally attaches to:

A. Only the specific cash physically present in the business's register at the moment of filing
B. Only equipment purchased using traceable, non-cash payment methods specifically
C. Only inventory the business acquired within the calendar year immediately preceding the filing
D. All property and rights to property the business owns or later acquires, consistent with general lien principles

66. A levy on a cash-intensive business's bank accounts generally may reach:

A. The account balance as of the levy, including deposits genuinely reflecting the business's cash receipts
B. Only exactly half of the account balance, regardless of the actual ownership or contribution proportions
C. None of the account balance at all, since business accounts are treated as entirely exempt from any levy
D. Only funds the business can be shown to have received exclusively through non-cash payment methods

67. A Currently Not Collectible determination for a cash-intensive business owner generally requires evaluating:

A. Only the business's reported net income figure with no further inquiry into actual cash flow
B. The business's genuine actual cash flow available for the owner's personal living expenses
C. Only the business's total gross receipts from the immediately preceding calendar year
D. Only whichever figure the taxpayer happens to personally prefer be used for this determination

68. A taxpayer's CDP hearing for a cash-intensive business facing a proposed levy should generally raise the specific issue of:

A. Only the taxpayer's general personal opinion regarding the fairness of cash-intensive business taxation generally
B. Only the specific total number of years the business has operated as a cash-intensive enterprise
C. Whether the levy would create genuine hardship given the business's actual documented cash flow needs
D. Only the specific federal agency responsible for regulating cash-intensive businesses generally

69. A TFRP assessment against an owner of a cash-intensive business generally should be evaluated for whether the owner:

A. Had genuine control over which creditors, including the IRS, were actually paid from available funds
B. Simply owned the cash-intensive business, regardless of any actual role in financial decision-making
C. Personally handled the physical cash register during the business's normal daily operating hours
D. Had a relatively junior job title within the overall organizational structure of the business

70. A responsible person's TFRP defense involving a cash-intensive business generally may be strengthened by documentation showing:

A. Only that the individual personally disliked handling cash as part of the business's daily operations
B. The specific individual genuinely lacked knowledge of the trust fund taxes being unpaid at the relevant time
C. Only that the individual held a relatively junior job title within the overall organizational structure
D. Only that the individual was hired relatively recently compared to other longer-tenured employees

71. A practitioner's Section 7525 privilege claim regarding communications about a cash-intensive business's tax planning generally requires establishing the communication:

A. Occurred during the business's normal daily operating hours specifically
B. Was communicated in writing rather than verbally during a meeting

C. Genuinely concerned tax advice, not merely general business or operational guidance for the enterprise

D. Was copied to the business's outside legal counsel as a matter of course

72. A taxpayer's Cohan estimate for a cash-intensive business's claimed cash expenses generally is more likely to be accepted where the taxpayer offers:

A. Only the taxpayer's own general assertion that cash expenses are simply difficult to fully document

B. Only the taxpayer's overall general reputation for honesty within the local business community

C. Only the taxpayer's stated intention to be more diligent about recordkeeping going forward

D. Credible secondary evidence, such as vendor records or industry-standard cost data, supporting the claimed amount

73. A practitioner's review of an RAR's proposed adjustment for a cash-intensive business should generally verify the examiner's:

A. Presentation using a specific font size within the printed report document

B. Position within the overall report, whether appearing early or later in the document

C. Total physical page length compared to adjustments proposed for other types of businesses

D. Methodology for reconstructing income actually complies with recognized indirect method standards

74. A taxpayer's response to a 30-day letter proposing an indirect method adjustment for a cash-intensive business should generally address whether:

A. The taxpayer simply prefers a different, unspecified reconstruction method with no further explanation

B. The taxpayer's representative has personally ever encountered a similar cash-business issue before

C. The IRS's assumed starting cash on hand and non-taxable deposit sources were actually reasonable

D. The specific calendar month in which the examination began happens to be convenient for the taxpayer

75. A CP-2000 notice's proposed adjustment involving a discrepancy in reported cash business receipts should generally prompt verification against:

A. The taxpayer's actual bookkeeping records and how the receipts were genuinely reported on the return

B. Only the specific payment processor's overall general reputation in the industry

C. Only the specific font used to display the discrepancy amount on the notice itself

D. Only whether the notice includes the IRS's official seal prominently displayed

76. A taxpayer's Tax Court petition contesting an indirect method adjustment for a cash-intensive business should generally identify:

A. Only the taxpayer's own general, unsupported opinion regarding cash-intensive businesses generally

B. The specific basis for disputing the assumptions underlying the IRS's income reconstruction methodology

C. Only the total number of years the taxpayer has operated the cash-intensive business

D. Only the specific point-of-sale system the business currently uses for transactions

77. A taxpayer's Appeals conference preparation for an indirect method dispute should generally include:

A. A clear presentation of the specific errors identified in the IRS's underlying reconstruction assumptions

B. Simply asserting the reconstruction is unfair with no supporting analysis of the specific assumptions provided

C. Avoiding any discussion of the underlying reconstruction methodology to prevent inviting additional scrutiny

D. Deferring entirely to the Appeals Officer to independently identify errors in the reconstruction methodology

78. A taxpayer's decision to accept an Appeals settlement resolving an indirect method dispute should generally be documented to specify:

A. Only the Appeals Officer's own general personal preference regarding indirect methods generally
B. The specific reconstructed income figure ultimately agreed upon and the resulting tax effect
C. Only the specific conference room where the settlement was actually reached
D. Only the taxpayer's general overall satisfaction with how the dispute was ultimately resolved

79. A taxpayer's small tax case election is generally available for an indirect method dispute where the disputed amount:

A. Involves any indirect method whatsoever, since such methods are categorically excluded from this election
B. Requires the taxpayer to first obtain the IRS's own advance consent to elect this simplified procedure
C. Falls at or below the applicable dollar threshold, regardless of the underlying reconstruction complexity
D. Must involve a business entity specifically, since individual taxpayers cannot face indirect method reconstruction

80. A taxpayer's formal written protest for an indirect method dispute should generally cite specific evidence supporting:

A. Only the taxpayer's own general, unsupported opinion regarding which reconstruction method seems fairer
B. Only a demand that the examiner simply accept the taxpayer's proposed figure without question
C. Only a general assertion that the examiner's proposed adjustment is obviously too large with no further detail
D. The taxpayer's identified non-taxable sources of the deposits or funds the IRS treated as unreported income

81. A taxpayer's Appeals settlement for an indirect method dispute involving a partial reduction in reconstructed income should generally be documented to specify:

A. Only the Appeals Officer's own general personal philosophy regarding indirect methods generally
B. Which specific deposits or income items were ultimately excluded from the reconstruction and why
C. Only the specific date the original examination of the business first began

D. Only the taxpayer's general overall satisfaction with how the dispute was ultimately resolved

82. A taxpayer's decision to pursue Post-Appeals Mediation for an indirect method dispute should generally weigh whether:

A. The specific mediator happens to have personal experience operating a cash-intensive business

B. Mediation sessions are scheduled on a specific day of the week the taxpayer personally prefers

C. A neutral mediator could genuinely help resolve the specific remaining factual disagreement over deposit sources

D. The taxpayer's representative has previously used mediation in an entirely unrelated prior matter

83. A taxpayer's Appeals conference outcome for an indirect method dispute resulting in a partial concession by the IRS generally reflects:

A. A hazards-of-litigation compromise recognizing genuine factual uncertainty regarding certain deposit sources

B. A purely arbitrary split with no genuine underlying analytical basis whatsoever

C. An automatic default rule the IRS applies to every single indirect method dispute

D. A clerical error in properly calculating the correct final resolution amount for the matter

84. A practitioner's overall goal in preparing case-building materials for an indirect method Appeals conference should generally include:

A. Assuming the Appeals Officer will simply accept the taxpayer's claims without any independent scrutiny

B. Preparing responses only to challenges the taxpayer's representative personally finds interesting

C. Preparing exclusively for challenges about matters entirely unrelated to the actual reconstruction dispute

D. Anticipating challenges to the taxpayer's claimed non-taxable sources and preparing well-supported responses

85. A preparer's software calculation for a cash-intensive business's Schedule C should generally still involve manual review of:

A. Whether the reported gross receipts genuinely align with the business's actual documented cash flow
B. Only the federal portion, since state-level Schedule C calculations are treated as automatically reliable
C. No portion of the return at all, since Schedule C software is treated as inherently more accurate
D. Only the client's name and address fields, with no substantive calculation review needed

86. A preparer's discovery of a duplicate entry affecting a cash-intensive business's reported gross receipts illustrates the importance of reviewing:

A. Only the specific software version number used to prepare the particular return
B. Only the client's stated preference for which income sources should be prioritized in reporting
C. Each individual income source separately before combining them into the business's total reported receipts
D. Only the total number of income sources the business reports across the entire tax year

87. A preparer's Section 6107(b) obligation for a cash-intensive business's return generally applies with particular importance to:

A. Only the portion of the return unrelated to the business's cash receipts specifically
B. Only a separate, distinct recordkeeping category maintained apart from the general return records
C. Only if the IRS specifically requests the cash receipts documentation be separately retained
D. Documentation supporting the reported gross receipts figure, given the heightened scrutiny such businesses receive

88. A preparer's data security obligations for records supporting a cash-intensive business's reported receipts should generally reflect:

A. Only whatever security measures happen to be least expensive for the firm to implement generally
B. The genuine sensitivity of the underlying financial data, given the potential for later IRS scrutiny
C. Only whatever security measures a single, specific competitor firm happens to currently use
D. No specific evaluation criteria at all, since cash business records are treated as purely routine

89. An IRS e-file Application's approval process generally treats a preparer's client base including cash-intensive businesses as:

A. Automatically disqualifying, since preparers serving cash-intensive businesses are presumed unsuitable
B. Irrelevant to the underlying suitability determination itself, which focuses on the preparer's own conduct
C. Grounds for automatic heightened, additional background review specifically because of this client type
D. Relevant only if the cash-intensive business clients happen to exceed a specific revenue threshold

90. A firm's decision to accept clients operating cash-intensive businesses should generally include evaluating whether the firm has:

A. Simply changed its office coffee supplier with no other change involved
B. Updated its website's visual design with no other substantive change involved
C. Sufficient expertise in properly documenting and substantiating cash-based income for such clients
D. Renewed its general liability insurance policy at the exact same coverage terms as before

91. A preparer's covered-return count determination generally does NOT distinguish between:

A. Returns for cash-intensive businesses and returns for businesses primarily using traceable payment methods
B. Returns filed for individual taxpayers and returns filed for business entities
C. Returns filed within a specific calendar year and returns filed in an entirely different calendar year
D. Returns the preparer actually signed as the paid preparer and returns the preparer did not sign

92. A preparer's Form 8948 for a return involving a cash-intensive business client's specific paper-filing exception should generally reference:

A. Only the preparer's own general opinion regarding cash-intensive businesses and their tax compliance generally

B. Only the specific type of cash-intensive business the client actually operates

C. Only the preparer's own past filing history with that particular client over prior years

D. The specific recognized exception category actually applicable, not the underlying nature of the client's cash business

93. A preparer's Form 8944 hardship waiver request generally should NOT be based on:

A. A documented, significant technology failure genuinely preventing electronic filing

B. A documented lack of reliable internet access genuinely preventing electronic filing

C. The mere fact that a client operates a cash-intensive business, since this alone is not a recognized hardship category

D. A documented religious objection genuinely qualifying under the applicable recognized exception

94. A taxpayer's Form 8879 authorization for a cash-intensive business's return generally requires the taxpayer to:

A. Personally reconcile every individual cash transaction before signing the authorization

B. Obtain independent verification of the gross receipts figure from a completely separate practitioner

C. Sign a supplemental form specifically acknowledging the business's cash-intensive nature

D. Review the completed return, including the reported gross receipts figure, before signing the authorization

95. An ERO's Form 8879 retention obligation for a cash-intensive business's return generally is:

A. The same standard retention obligation applicable to any other return, regardless of the underlying business type

B. Extended to a longer period specifically because of the business's cash-intensive nature

C. Waived entirely for returns involving cash-intensive businesses given their genuinely specialized nature

D. Subject to a completely separate set of retention rules unique to cash-intensive business returns specifically

96. A preparer's confirmation of Form 8453 requirements for a cash-intensive business's return involving a specific attachment should generally include checking:

A. Only whether the attachment relates specifically to the business's cash register receipts
B. Whether the specific attachment relates to an item on the return requiring separate transmittal
C. Only whether the attachment relates specifically to the business's bank deposit slips
D. Only whether the attachment happens to be printed on a specific color or weight of paper

97. A rejected cash-intensive business return's correction should generally address whether the rejection originated from data relating to:

A. Only the business's specific cash receipts, since state systems presume cash figures control rejections
B. Only the business's specific bank deposits, since state systems presume deposit figures control rejections
C. A specific reported figure, since a data-entry error affecting any reported item could cause the rejection
D. Neither category specifically, since cash-business rejections are treated as always unrelated to reported data

98. A preparer's overall response protocol for rejections affecting cash-intensive business returns should generally include:

A. Automatic assignment to whichever staff member happens to be available first, regardless of relevant experience
B. Verification of the specific reported figures against the underlying bookkeeping records before resubmission
C. No differentiated protocol at all, since all rejections are treated identically regardless of underlying complexity
D. Automatic resubmission without any review, since cash-business rejections are presumed to be simple errors

99. A preparer's overall e-file compliance program should generally include staff training on recognizing when a cash-intensive business client's return warrants:

A. No additional review of any kind, since e-file compliance training is treated as unrelated to substantive accuracy

B. Automatic rejection of the engagement entirely, since cash-intensive businesses are presumed too risky to serve

C. Immediate escalation to the IRS itself, bypassing any internal firm review process entirely

D. Additional review before transmission, given the heightened risk of reporting errors for such businesses

100. An e-file Provider's overall commitment to compliance for cash-intensive business filings ultimately reflects a recognition that:

A. Genuine accuracy in these filings requires the same careful compliance attention as any other filing type

B. Cash-intensive business filings carry no meaningfully different compliance considerations from any other filing

C. Compliance attention should actually decrease specifically for cash-intensive business clients

D. Only traceable-payment business filings actually warrant the Provider's genuine compliance attention and focus

Practice Exam 18: Answer Key and Explanations

1. C — C—The experience path generally requires documenting at least five years of qualifying technical IRS service occurring within the preceding seven years before submitting an application. A minimum net worth threshold, mandatory trade association membership, and unrelated prior work experience are not themselves requirements this specific alternate enrollment path actually imposes.

2. B — B—A CE audit generally requires documentation showing the specific course title, provider, date, and hours actually completed for each individual claimed credit earned each cycle. A bare general assertion of completion, a summary total with no course-specific detail, and merely a personal calendar are not themselves sufficient documentation for this audit.

3. A — A—Reactivation generally requires fully completing any outstanding continuing education requirements and properly submitting a reactivation request through the applicable official IRS-designated channels. Reactivation is not automatic with no action required, does not require filing an entirely new application as a first-time applicant, and involves more than merely paying a fee.

4. D — D—OPR's investigative authority does not require a formal written complaint first be submitted by an identified named complainant, since OPR can initiate inquiries on its own. It does require some connection to professional practice, does require a reasonable basis for believing misconduct occurred, and does require consistency with due process protections.

5. C — C—Due diligence requires a reasonable inquiry into whether the claimed foreign tax genuinely qualifies and was actually paid or accrued by the taxpayer. Direct verification with the foreign government is not required, automatic disallowance above an arbitrary amount is inappropriate, and no inquiry at all under any circumstances misstates this reasonable-inquiry standard.

6. B — B—Section 10.34 focuses on the position's actual legal support under the applicable authority, not the practitioner's own subjective policy views or personal wisdom assessment. Practitioners are not required to personally agree with every position advised, personal disagreement does not disqualify advising on it, and substantial authority remains relevant despite disagreement.

7. A — A—This exception does not extend to the original preparation of the return that actually gave rise to the examination, which remains subject to the general contingent fee prohibition instead. The Appeals conference itself, a negotiated settlement, and a closing agreement resolving the dispute all remain squarely covered by the recognized exception.

8. C — C—A task-based fee arrangement should be clearly itemized in the engagement letter so the client genuinely understands what each specific charge actually covers. Leaving charges deliberately vague, setting fees at the highest conceivably tolerable amount, and relying entirely on a verbal understanding are all inappropriate approaches to this specific fee structure.

9. D — D—An unsubstantiated claim of being "the trusted choice" is potentially misleading unless the practitioner can actually substantiate that specific claim with genuine supporting evidence. Trust-based language is not categorically exempt from scrutiny, does not require every competitor's agreement, and is not automatically dismissed as harmless puffery under Circular 230's standards.

10. A — A—This analysis evaluates whether the friendship could reasonably be perceived as improperly influencing how the matter is actually handled by the assigned examiner. The years known socially, prior unrelated work together, and public awareness of the friendship within the community are not themselves the substantive factors this analysis turns on.

11. D — D—Proper documentation should always address the specific safeguards actually in place to prevent any genuine appearance of improper influence on the matter's handling by that examiner. The practitioner's own opinion of the examiner's competence, the disputed dollar amount, and the friendship's timing relative to enrollment are not this required content.

12. B — B—Sound procedures always require disclosure of the relationship and a genuine evaluation of whether it actually presents a conflict given the specific circumstances involved here. Automatically declining every such matter regardless of circumstances, automatically accepting with no evaluation, and automatically delegating to a different firm are all inadequate, overly rigid approaches.

13. C — C—This violation may be established through direct evidence or genuinely sufficient circumstantial evidence supporting a reasonable inference of the practitioner's actual knowledge of falsity. It is not presumed automatically whenever a statement later proves incorrect, does not require the client's own separate testimony, and does not require a formal confession.

14. A — A—This obligation requires prompt correction rather than waiting for a more convenient future point, since continued delay itself can genuinely compound the inaccuracy's practical effect over time. Waiting for independent IRS discovery, waiting until final resolution, and waiting for specific separate client authorization all improperly delay this necessary prompt correction.

15. B — B—A proper opinion should always genuinely and honestly acknowledge the absence of directly controlling authority and the resulting uncertainty this creates for a matter of first impression. Omitting this acknowledgment to project false confidence, claiming the matter is settled despite the absence of authority, and guaranteeing success are all inappropriate approaches.

16. D — D—Competence here always requires careful analogical reasoning from genuinely analogous authority, combined with honest disclosure of the resulting uncertainty this novel scenario actually presents to the client. Presenting favorable but inapplicable guidance as directly controlling, declining to address the matter entirely, and guaranteeing a favorable outcome all misstate the appropriately cautious approach.

17. C — A—Adequate context is needed because results achieved in one matter do not necessarily predict the outcome in a different client's own distinct factual situation. There is no regulation requiring a minimum of three case examples, case results are not inherently misleading with proper context, and clients do not automatically demand this before engaging.

18. D — D—This obligation applies to records requested in connection with any matter properly before the IRS involving the practitioner's client, not narrowly limited to formal examinations alone. It is not limited to only formal examinations, is not limited to matters already in Tax Court, and carries no minimum dollar threshold requirement.

19. A — A—Failing to identify clearly applicable Premium Tax Credit eligibility may reflect a genuine shortfall in the competence and diligence standards Circular 230 expects of practicing professionals. This is not automatically acceptable simply because not every credit must be identified, is not outside Circular 230's concern, and does not require proving deliberate withholding by the client.

20. B — B—Reevaluation is warranted because the newly discovered adversity between two clients may genuinely affect whether continued representation of either client remains appropriate. There is no specific regulatory mandate for an entirely new engagement letter, discovery does not automatically terminate both engagements, and clients do not automatically demand a fresh memo.

21. A — A—This violation is treated with particular seriousness because it involves a direct assault on the integrity of the fact-finding process the tax administration system genuinely depends upon. This is not unconnected to the practitioner's tax practice, does carry serious implications for client and system interests, and is genuinely addressed under Circular 230.

22. C — C—A retiring practitioner must always generally make appropriate arrangements for the continued protection or proper transfer of client records consistent with confidentiality obligations owed. Simply destroying records immediately with no consideration, publishing a general summary of client matters, and automatic transfer to the geographically nearest firm are all inappropriate approaches.

23. D — D—Declining representation reasonably believed to require violating Section 10.51 is an appropriate exercise of professional judgment consistent with Circular 230's overall standards. There is no implied duty to pursue any matter regardless of required conduct, this decision carries genuine professional significance, and no prior OPR determination is required to properly decline.

24. B — B—This accuracy obligation extends to both the factual basis for the requested hardship relief and any characterization of the underlying facts the practitioner actually offers. It is not limited only to factual representations, is not limited only to legal or factual characterization, and is not limited only to purely numerical calculations.

25. D — D—A suspension generally applies specifically to representing taxpayers before the IRS, not to the practitioner's separate ability to prepare returns for compensation, which is a distinct activity. It is not limited to only return preparation, does not treat both activities identically since only representation is barred, and does genuinely address representation specifically.

26. A — A—A Section 10.50 penalty is imposed under distinct federal authority specifically governing practice before the IRS, separate from any state licensing authority's own disciplinary power. It is not calculated using an identical formula to a state fine, does not automatically satisfy a separate state fine, and can still be imposed alongside a state sanction.

27. B — B—OPR considers whether the practitioner has demonstrated genuine insight into why the original conduct was wrong and how the practitioner's own understanding has genuinely changed. The practitioner's own financial need, mere elapsed years alone, and the practitioner's own opinion about the original sanction's fairness are not themselves this required consideration.

28. C — C—This scenario requires evaluating whether the fiduciary duties owed in the corporate role could genuinely create competing obligations with the separate tax representation provided. Simply resigning with no disclosure at all, ignoring the corporate role as unrelated, and disclosing only upon a specific inquiry all fail to satisfy this proactive disclosure obligation.

29. A — A—A carrier-referred prospective client should always undergo the same systematic conflict check applied to any other prospective client, regardless of the referral source's particular identity. Assuming automatic absence of conflict, skipping the check entirely, and relying exclusively on the carrier's own assurance are all inadequate approaches to this necessary check.

30. C — C—This regulation reflects Congress's judgment that unregulated practice could genuinely undermine public confidence in the fairness and integrity of the overall tax administration system. Unregulated practice was not judged to have no meaningful effect, was not judged to improve efficiency by eliminating oversight, and was not intended to eliminate practitioner involvement.

31. D — B—This commitment reflects the genuine understanding that the credential represents a privilege carrying genuinely ongoing obligations, not a permanent unconditional entitlement once initially granted. It is not a permanent entitlement immune from revocation, is not a purely private matter lacking broader significance, and does require ongoing attention beyond initial enrollment.

32. B — B—A standard power of attorney does not authorize consenting to disclosure of return information to a third party absent specific separate authorization for that particular heightened activity granted. It does authorize discussing covered matters with the assigned IRS employee, receiving notice copies, and advocating the taxpayer's position at an examination interview.

33. C — C—Specifying a defined end date or trigger event allows the taxpayer to genuinely limit the authorization's duration rather than leaving it open-ended for the covered matters. This is not about extending authorization to unrelated future matters, does not guarantee resolution within that timeframe, and does not eliminate the separate requirement to specify covered tax years.

34. B — B—The authorization remains unaffected because it identifies the specific individual representative personally, not a fixed physical office location that might later change over time. There is no regulation requiring refiling after relocation, the office address is not itself a mandatory element, and address changes do not automatically revoke the existing authorization.

35. A — A—The taxpayer's routine periodic communication with the practitioner about an ongoing matter's status is not itself a recognized tolling event affecting the assessment statute. A pending offer in compromise, active Tax Court litigation, and a continuous six-month-plus absence from the United States are all genuinely recognized tolling events under the applicable framework.

36. D — D—The extension should specify each specific tax year actually covered, avoiding genuine ambiguity about the actual scope of the agreed extension for this multi-year matter. Covering only a single representative year while leaving others unaddressed, a vague general reference, and specifying no years at all are all insufficiently specific approaches.

37. A — A—A favorable prior audit result provides some genuine practical comfort but does not constitute binding legal precedent, since prior audit outcomes do not legally bind future examinations of the IRS. This is not fully binding precedent the IRS must follow, is not entirely irrelevant to the current matter, and does not confer automatic future immunity.

38. B — B—Such informal guidance should be treated with genuine caution, since formal published guidance generally carries greater authoritative weight than an individual employee's informal statement made. This informal guidance is not automatically controlling over published guidance, is not entirely without relevance, and is not equally authoritative to the guidance it contradicts.

39. C — C—A proper disclosure for this novel scenario should describe how the taxpayer's specific facts genuinely relate to applicable, though not directly controlling, existing authority available. The taxpayer's own opinion about eventual IRS acceptance, a vague unspecified general statement, and a guarantee of withstanding challenge are not themselves the required content.

40. D — D—The key distinguishing feature is the genuine absence of deception directed at the government, regardless of how aggressively the transparent planning actually minimizes the resulting tax. The dollar amount saved, the number of professionals consulted, and the taxpayer's own subjective certainty are not themselves the factors that distinguish avoidance from evasion.

41. D — D—TAS involvement generally does not include determining the genuine substantive correctness of the underlying tax liability itself, which remains entirely and always outside TAS's own core hardship-focused function. TAS does genuinely advocate for taxpayer interests, does address genuine documented hardship, and does operate with real independence from other IRS functions.

42. C — C—Documentation of a genuine, imminent risk of asset seizure illustrates a recognized category of significant hardship the TAS process is specifically designed to address. This is not outside the scope of TAS's actual intended purpose, does not result in automatic denial as merely routine, and is not properly addressed only through a Tax Court petition instead.

43. A — A—An EA's unlimited practice rights extend to an offer in compromise determination, in addition to income, employment, and other tax matters, reflecting the genuinely broad scope of authority. This is not limited to only individual income tax matters, is not limited to filings the EA personally prepared, and carries no dollar threshold limiting the matter's scope.

44. B — B—A proper preliminary assessment carefully confirms the taxpayer's actual recordkeeping practices for reconciling cash receipts against the reported gross income figures shown. The specific business type alone, the taxpayer's opinion of cash-intensive businesses generally, and the specific operating bank are not themselves the substantive factors this assessment should focus on.

45. D — D—A thorough conflict check for this matter should extend to each individual co-owner, given their genuine potential personal stake in how cash receipts were actually reported to the IRS. The business's formal legal name alone, its operating bank, and its years in operation are not themselves sufficient without this broader co-owner-level inquiry.

46. C — A—This entry generally indicates the IRS used an indirect method, such as the bank deposits or net worth method, to genuinely estimate unreported income. It does not indicate automatic complete forgiveness of the liability, is not unrelated to any actual IRS action, and is not itself a penalty for operating a cash-intensive business.

47. B — B—A proper challenge focuses on identifying specific errors in the assumptions or underlying data actually used in the indirect method's calculation methodology. The taxpayer's general opinion of fairness, the examiner's years of experience, and the specific software used are not themselves the substantive basis this specific challenge should focus on.

48. A — A—This claim should carefully address whether the requesting spouse genuinely had actual knowledge of the specific unreported cash income at issue in the joint matter. The requesting spouse's general opinion of cash businesses, total years married, and current occupation are not themselves the primary consideration this specific knowledge-focused claim requires.

49. B — B—Proper documentation should always carefully and genuinely address whether the IRS's assumed non-taxable sources of deposits were actually and genuinely reasonable given the taxpayer's own circumstances presented. Wedding venue choice, shared home decor taste, and vacation preferences are not themselves the substantive factors this specific indirect-method challenge should actually address.

50. A — A—A sound assessment weighs whether the underlying pattern suggests deliberate concealment, as opposed to a genuine, good-faith recordkeeping failure or oversight. The total dollar amount alone regardless of circumstances, the client's general demeanor at one meeting, and the specific industry alone are not themselves the substantive factors this assessment should focus on.

51. C — C—A practitioner should always very carefully avoid advising the client to simply amend returns without first considering whether a voluntary disclosure option might be more genuinely appropriate. Advising consultation with experienced criminal tax counsel, documenting referral reasoning, and continuing unrelated civil matters within competence are all appropriate, recommended responses instead.

52. D — D—A proper Kovel arrangement requires the accountant's forensic analysis be directed by the attorney and genuinely connected to assisting the attorney's actual legal advice on the matter. Work conducted entirely independently of attorney direction, freely shared with the IRS, and disconnected from legal advice would all undermine the arrangement's protective validity.

53. A — A—Proper documentation should always include genuine credible evidence corroborating the specific claimed source, such as loan documents or gift documentation actually supporting the claim made. A bare general assertion with no supporting evidence, the bank's marketing materials, and the taxpayer's opinion of fairness are not themselves this required substantive documentation.

54. C — C—A proper case assessment should always very carefully and quite thoroughly distinguish between deposits genuinely representing taxable income and other deposits representing legitimate non-taxable transfers made. An arbitrary unrelated date, the specific bank branch, and round versus odd dollar amounts are not themselves meaningful analytical distinctions this assessment should draw.

55. D — A—Case-building for numerous deposits requiring individual analysis should always carefully include a systematic spreadsheet or similar tool tracking each deposit's source and supporting documentation available. Relying only on narrative with no tracking, simply accepting the examiner's characterization without review, and avoiding tracking entirely all fail to properly manage this complexity.

56. B — A—A thorough preliminary assessment should always very carefully include documenting the specific indirect method the IRS actually used and its known limitations or underlying assumptions relied upon. A fee-only documentation, a software-only documentation, and a general satisfaction-only documentation all fail to capture this substantive, expected content the assessment should include.

57. A — A—Case-building for a claimed cash hoard should document credible evidence genuinely supporting the hoard's actual existence, such as prior returns showing accumulated savings over time. The taxpayer's own subjective belief alone, merely the hoard's claimed dollar amount, and merely the claimed storage location are not themselves this required substantive documentation.

58. B — B—A sound approach reflects careful, thorough fact development before committing to a specific strategic approach for this genuinely complex indirect method matter. Immediately committing to a strategy before fact development, avoiding the complex matter entirely, and deferring entirely to the taxpayer's own proposed strategy all fail to reflect this necessary careful approach.

59. D — D—The genuine aim is ensuring the challenge presented is actually supported by the facts genuinely developed, not simply assumed successful or unsuccessful based on the mere use of an indirect method. It does not aim for automatic success or failure regardless of facts, and does not rely on an initial unexamined gut impression.

60. C — C—This philosophy should always carefully reflect the understanding that indirect methods rest on assumptions genuinely subject to challenge, warranting careful individualized factual analysis of each specific case. These methods are not presumed accurate and unchallengeable, do warrant additional documentation, and are not legally immune from taxpayer challenge under any circumstances.

61. C — C—This proposal should account for the business's actual documented cash flow patterns, not merely relying on reported net income figures that may not reflect genuine liquidity. Mere terminology preference, total assets regardless of liquidity, and a private credit score are not themselves the proper substantive basis for this specific payment plan evaluation.

62. A — A—This agreement generally always requires additional and quite careful documentation regarding the business's own actual cash flow, given the genuinely heightened scrutiny cash-intensive operations receive in these matters. The specific cash register type, the accounting software choice, and the specific operating bank alone are not themselves this required additional documentation.

63. B — B—This RCP calculation requires accounting for a reasonable estimate of the business's actual future earning capacity, not simply relying on historical reported income figures alone. The taxpayer's mere personal preference, past gross receipts alone, and the industry's broad historical performance are not themselves this specific relevant content the calculation requires.

64. D — D—This valuation should always address the equipment and inventory's actual fair market value, genuinely distinct from the business's own potentially outdated book value figures kept. The taxpayer's mere personal valuation preference, the internal accounting method used, and the original equipment purchase date are not themselves this specific relevant valuation content.

65. D — D—This lien attaches to all property and rights to property the business owns or later acquires, consistent with general federal tax lien principles applicable broadly. It is not limited to only cash physically present at filing, is not limited to equipment purchased via traceable methods, and is not limited to inventory from only the immediately preceding year.

66. A — A—A levy on this account may generally reach the account balance as of the levy, including deposits genuinely reflecting the business's actual cash receipts made. It is not automatically limited to exactly half, is not entirely exempt, and is not limited only to funds received exclusively through non-cash payment methods specifically.

67. B — B—A CNC determination for this taxpayer generally requires evaluating the business's genuine actual cash flow available for the owner's personal living expenses beyond reported figures. Relying only on reported net income with no further inquiry, only past gross receipts, and only the taxpayer's own preferred figure are all inadequate approaches to this evaluation.

68. C — C—This hearing should raise the specific issue of whether the levy would create genuine hardship given the business's actual documented cash flow needs presented. A general opinion about cash-business taxation fairness, the total years operating, and the regulating agency's identity are not themselves the substantive issue this hearing should focus on.

69. A — A—This assessment should be evaluated for whether the owner genuinely had control over which creditors, including the IRS, were actually paid from the funds genuinely available. Mere ownership regardless of financial role, personally handling the register during operating hours, and a junior title alone do not themselves establish the responsibility element.

70. B — B—This defense may be strengthened by documentation showing the individual genuinely lacked knowledge that trust fund taxes were unpaid at the relevant time period. Merely disliking handling cash, holding a junior title, and recent hire status do not themselves establish this genuine lack of actual knowledge regarding the unpaid taxes.

71. C — C—Asserting this privilege always requires clearly and specifically establishing the communication genuinely concerned actual tax advice, not merely general business or operational guidance unrelated to tax matters. Communication timing during business hours, written versus verbal communication, and copying outside counsel are not themselves the required elements this privilege claim demands.

72. D — D—Such an estimate is more likely accepted where the taxpayer offers credible secondary evidence, such as vendor records or industry-standard cost data, genuinely supporting the claimed amount presented. A bare general assertion about documentation difficulty, general community reputation, and a future recordkeeping intention do not themselves provide this needed corroboration.

73. D — D—A proper review always genuinely verifies the examiner's methodology for reconstructing income actually complies with recognized indirect method standards applicable to this specific reconstruction. The specific font size, the adjustment's position within the report, and comparative page length to other business types are all irrelevant to this genuine substantive verification.

74. C — C—The response should address whether the IRS's assumed starting cash on hand and non-taxable deposit sources were actually genuinely reasonable given the facts. A mere unspecified alternative method preference, the representative's prior general experience, and the examination's start month are not themselves the substantive issue this response should focus on.

75. A — A—This should prompt verification against the taxpayer's actual bookkeeping records and how the cash receipts were genuinely reported on the originally filed return. The processor's general industry reputation, the specific display font, and the presence of an official seal are all irrelevant to this genuine substantive verification actually needed here.

76. B — A—A proper petition should always clearly identify the specific basis for disputing the assumptions genuinely underlying the IRS's income reconstruction methodology actually applied here. A general unsupported opinion about cash businesses, mere years operating, and the specific point-of-sale system used are not themselves the required substantive content this petition needs.

77. A — A—Preparation for this dispute should include a clear presentation of the specific errors identified in the IRS's underlying reconstruction assumptions actually used. Simply asserting unfairness with no supporting analysis, avoiding discussion of the methodology entirely, and deferring entirely to the Officer's own review all fail to properly advocate for the taxpayer.

78. B — B—Proper settlement documentation should always clearly specify the specific reconstructed income figure ultimately agreed upon and the resulting genuine tax effect of that settlement reached. The Officer's general personal preference regarding indirect methods, the specific conference room location, and the taxpayer's general satisfaction are not themselves this required documentation content.

79. C — C—The small tax case election is generally available where the disputed amount falls at or below the applicable dollar threshold, regardless of the underlying reconstruction complexity. Indirect methods are not categorically excluded from this election, no advance IRS consent is required to elect it, and individual taxpayers can also face indirect method reconstruction.

80. D — D—A proper protest should cite specific evidence supporting the taxpayer's identified non-taxable sources of the deposits or funds the IRS treated as unreported income. A bare unsupported opinion about method fairness, a demand for unquestioning acceptance, and an unsupported general size assertion are all inadequate substitutes for this required evidence.

81. B — B—Proper documentation should always clearly and quite specifically specify which specific deposits or income items were ultimately excluded from the reconstruction and the genuine reason why. The Officer's general philosophy regarding indirect methods, the original examination's start date, and the taxpayer's general satisfaction are not themselves this required documentation content.

82. C — C—This decision should always carefully and genuinely weigh whether a neutral mediator could genuinely help resolve the specific remaining factual disagreement over the deposit sources actually disputed. The mediator's unrelated personal business experience, a preferred scheduling day, and the representative's unrelated prior mediation experience are not themselves the substantive factors here.

83. A — A—A partial IRS concession generally reflects a genuine hazards-of-litigation compromise, recognizing real factual uncertainty regarding certain of the disputed deposit sources at issue. It is not a purely arbitrary split lacking analytical basis, is not an automatic default rule applied to every case, and is not itself a clerical calculation error.

84. D — D—Effective preparation should always genuinely and quite carefully include anticipating challenges to the taxpayer's claimed non-taxable sources and preparing well-supported responses to those challenges raised. Assuming the Officer will accept the claims without scrutiny, preparing only for personally interesting challenges, and preparing only for unrelated matters all reflect inadequate preparation.

85. A — A—Manual review should always genuinely focus on whether the reported gross receipts genuinely align with the business's actual documented cash flow patterns available currently. Reviewing only the federal portion as automatically reliable, reviewing no portion at all, and reviewing only identifying fields all fail to address this genuine reporting-consistency risk.

86. C — C—This discovery always clearly and genuinely illustrates the real importance of very carefully reviewing each individual income source separately before combining them into the total reported. The specific software version, the client's prioritization preference, and the total number of sources are all irrelevant to this genuine substantive individual-source review needed.

87. D — D—This obligation applies with particular importance to documentation supporting the reported gross receipts figure, given the genuinely heightened scrutiny cash-intensive businesses typically receive from examiners. It is not limited to only the unrelated portion, is not maintained as a separate distinct category, and applies regardless of a specific separate IRS request.

88. B — B—Reasonable security should reflect the genuine sensitivity of the underlying financial data, given the genuine potential for later IRS scrutiny of cash-intensive business records. Choosing the least expensive option regardless of adequacy, simply matching a specific competitor, and having no evaluation criteria at all all fail to reflect genuinely reasonable security.

89. B — B—A client base including cash-intensive businesses is irrelevant to the underlying suitability determination itself, which properly focuses on the preparer's own conduct and history. This client type does not automatically disqualify the preparer, does not itself trigger automatic heightened review, and is not relevant only above a specific revenue threshold.

90. C — C—This decision should always include very carefully evaluating whether the firm genuinely has sufficient expertise in properly documenting and substantiating cash-based income for these specific clients. Changing a coffee supplier, updating website design, and renewing insurance at the same terms are all unrelated changes not themselves addressing this competence-related evaluation.

91. A — A—This determination generally does not distinguish between returns for cash-intensive businesses and returns for businesses primarily using traceable payment methods, treating both as covered returns equally. It does distinguish based on individual versus business entity type in certain contexts, calendar year, and whether the preparer actually signed as the paid preparer.

92. D — D—Form 8948 should always very clearly reference the specific recognized exception category actually applicable, not the underlying nature of the client's cash-intensive business itself at all.

It should not merely reference the preparer's general opinion of cash business compliance, the specific business type, or the preparer's unrelated past filing history.

93. C — C—A waiver request should not be based on the mere fact that a client operates a cash-intensive business, since this alone is not itself a recognized hardship category. Genuinely documented technology failure, lack of reliable internet access, and a qualifying religious objection are all recognized bases for this specific request instead.

94. D — D—The taxpayer generally must always review the completed return, including the reported gross receipts figure, before signing the Form 8879 authorization for electronic filing purposes. The taxpayer need not personally reconcile every individual transaction, need not obtain a separate independent verification, and need not sign a specific supplemental cash-business acknowledgment form.

95. A — A—This retention obligation is the same standard obligation applicable to any other return, regardless of the underlying business type actually involved in that specific return. It is not extended for this specific business type, is not waived entirely for such returns, and is not subject to a completely separate unique rule set.

96. B — B—This confirmation should always include carefully checking whether the specific attachment genuinely relates to an item on the return actually requiring separate Form 8453 transmittal. It is not limited to checking only cash register receipts specifically, only bank deposit slips specifically, and does not depend on the paper's color or weight.

97. C — C—The correction should always address whether the rejection originated from a specific reported figure, since a data-entry error affecting any reported item could genuinely cause the rejection here. It is not limited to only cash receipts specifically, only bank deposits specifically, and rejections genuinely do relate to the actual reported data.

98. B — B—A sound protocol should always include quite careful and very thorough verification of the specific reported figures against the underlying bookkeeping records before resubmitting the return again. Automatic assignment regardless of experience, no differentiated protocol at all, and automatic resubmission without review all fail to appropriately address this specific complexity.

99. D — A—Training should always clearly and quite genuinely address recognizing when a cash-intensive business client's return genuinely warrants additional internal review, given the heightened risk of errors involved. No additional review at all, automatic rejection of the engagement, and immediate escalation to the IRS bypassing internal review are all inappropriate responses.

100. A — A—This overall commitment reflects the recognition that genuine accuracy in these filings requires the same careful compliance attention as any other type of filing the Provider handles. Cash-intensive filings do carry genuinely distinct compliance considerations, attention should not decrease for this client type, and these filings do warrant genuine compliance attention.