PRACTICE EXAM 22: 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 enrollment renewal cycle assignment generally remains fixed for the duration of the practitioner's enrollment unless:

A. The practitioner simply relocates to a different state within the United States generally
B. The practitioner's income changes significantly from one year to the next generally
C. A new presidential administration takes office during the practitioner's enrollment period
D. The practitioner formally requests and receives approval to change the assigned renewal cycle

2. A practitioner's continuing education hours earned through a course later determined by the IRS to have been improperly approved generally means the practitioner:

A. Is automatically and immediately disbarred regardless of the practitioner's own good-faith reliance
B. May be given an opportunity to obtain qualifying makeup hours rather than facing automatic discipline
C. Faces no consequence whatsoever, since the approval error is treated as entirely the provider's fault
D. Must retake the full Special Enrollment Examination as the sole available remedy

3. A practitioner's obligation to notify the IRS of the practitioner's own disbarment or suspension by a state licensing authority generally exists because:

A. Such action may independently trigger expedited proceedings affecting the practitioner's federal enrollment status

B. State licensing authorities are treated as having no genuine relevance to federal enrollment status whatsoever

C. The notification requirement exists purely as a formality carrying no genuine practical consequence

D. Federal enrollment automatically and immediately terminates the moment any state action occurs

4. OPR's authority to accept a proposed settlement resolving a pending disciplinary matter generally requires the settlement to:

A. Be entirely dictated by the practitioner with no genuine OPR input into the actual settlement terms

B. Include an automatic finding that no misconduct of any kind whatsoever actually occurred

C. Reflect terms OPR genuinely determines are appropriate given the specific nature of the underlying conduct

D. Be approved by a simple majority vote of all currently enrolled practitioners nationwide

5. A practitioner's due diligence obligation regarding a client's claimed alimony deduction generally requires:

A. A reasonable inquiry into whether the underlying divorce or separation agreement genuinely satisfies applicable requirements

B. Independent verification directly with the taxpayer's former spouse regarding the payments made

C. Automatic disallowance of any alimony claim exceeding a specific fixed dollar amount

D. No inquiry whatsoever, since alimony claims are presumed accurate automatically

6. A practitioner's advice regarding a position with substantial authority generally may be provided notwithstanding a recent, not-yet-finalized proposed regulation addressing the same issue because:

A. Proposed regulations are treated as legally irrelevant to any substantial authority determination whatsoever

B. A proposed regulation does not carry the same binding weight as final regulations or other established authority

C. Any proposed regulation automatically and immediately supersedes all prior existing authority on the issue

D. The signing obligation is waived entirely wherever any proposed regulation addresses the same issue

7. A contingent fee arrangement is generally permitted for representation regarding a claim under a federal statute providing for fee awards to prevailing parties because such claims are:

A. Treated identically to an original return position under Circular 230's federal contingent fee rules

B. Prohibited entirely regardless of the specific statutory fee-award provision actually involved

C. Permitted only where the IRS itself specifically consents to the contingent fee arrangement in advance

D. Treated as sufficiently distinct from ordinary return preparation to fall within a recognized exception

8. A practitioner's fee arrangement involving a periodic billing statement generally should include sufficient detail to allow the client to:

A. Simply trust the total amount billed with no further itemized detail of any kind provided

B. Verify the fee independently only by separately consulting a different, unrelated practitioner

C. Genuinely understand what services were actually performed and how the resulting charges were calculated

D. Calculate the practitioner's own personal profit margin on the specific engagement

9. A practitioner's advertisement claiming the firm offers "the best value" in the market is generally:

A. Always permitted, since value-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 comparative claim made

10. A practitioner's conflict of interest analysis for representing a taxpayer in a matter where the practitioner's spouse works at the taxpayer's own place of employment generally should evaluate:

A. Whether the spousal employment relationship could reasonably be perceived as affecting the practitioner's independent judgment

B. Only the specific total salary the practitioner's spouse earns at that place of employment
C. Only whether the practitioner and spouse discuss work matters at home in general terms
D. Only the specific number of years the spouse has worked at that place of employment

11. A practitioner's written consent documentation for a conflict arising from a spouse's employment at the client's workplace should generally address the specific:

A. Only the practitioner's own personal opinion of how successful the spouse's career has been
B. Only the specific total dollar amount the client's matter involves in dispute
C. Safeguards in place to prevent any appearance of improper influence on the matter's handling
D. Only whether the spousal employment began before or after the practitioner's own enrollment as an EA

12. A firm's Section 10.36 procedures should generally address how the firm handles a matter involving a staff member's family relationship with a client's employer 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 the practitioner's failure to correct a known false statement once discovered, because:

A. Failing to correct a known false statement carries no genuine relevance to this specific violation whatsoever
B. Only the practitioner's original statement, never a subsequent failure to correct it, can establish this violation
C. The obligation to accuracy is ongoing, extending to correcting a known falsity rather than merely avoiding new ones
D. Correcting a known false statement is treated as entirely optional under the applicable Circular 230 standard

14. A practitioner's obligation regarding accuracy of representations generally requires distinguishing between a statement the practitioner:

A. Made verbally and a statement the practitioner made in a formal written document
B. Made to a supervisory IRS employee and a statement made to a non-supervisory IRS employee
C. Made during business hours and a statement made outside of normal business hours
D. Knows to be true and a statement the practitioner merely believes, without genuine knowledge, to be true

15. A practitioner's written tax opinion should generally avoid overstating the strength of a position because doing so could:

A. Mislead the client into underestimating the genuine risk associated with taking the position
B. Satisfy a purely cosmetic formatting requirement with no genuine substantive purpose
C. Guarantee the client a specific favorable outcome regardless of the position's actual underlying strength
D. Eliminate the practitioner's own underlying obligation to conduct genuine, substantive analysis

16. A practitioner's competence obligation regarding a matter involving a client's proposed transaction with genuinely novel valuation challenges generally requires:

A. Automatic acceptance of the matter regardless of the practitioner's actual familiarity with valuation principles
B. Sufficient understanding of valuation principles, or appropriate referral to a qualified valuation specialist
C. Automatic decline of the matter with no possibility of developing the needed understanding
D. Reliance exclusively on the client's own understanding of the applicable valuation challenges

17. A practitioner's advertising claim regarding the firm's specific client retention rate should generally be:

A. Based on genuine, verifiable data reflecting the firm's actual client relationships over time

B. Rounded up substantially to present a more impressive-sounding figure to prospective clients
C. Omitted entirely from all advertising, since retention rate claims are categorically prohibited
D. Based on a single, particularly favorable period rather than the firm's overall genuine track record

18. A practitioner's Section 10.20 obligation regarding record submission generally applies regardless of whether producing the records would be:

A. Requested by an IRS employee holding a specific supervisory job title within the organization
B. Inconvenient or burdensome for the practitioner, so long as the request is otherwise lawful and proper
C. Requested through the applicable official channel and administrative process
D. Made by an IRS employee who is actually authorized to make the specific request

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

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

20. A practitioner's conflict of interest evaluation should generally be repeated where an existing client's matter reveals the client is contemplating a merger with a party the practitioner also represents in an unrelated matter because:

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

21. A practitioner's disreputable conduct violation involving knowingly submitting a fraudulent power of attorney generally is evaluated with particular seriousness because it involves:

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

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

C. A direct assault on the integrity of the authorization process the IRS relies upon to verify representative authority

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 to information a client shares during a preliminary consultation, even where:

A. The prospective client ultimately decides not to formally engage the practitioner's services

B. The prospective client specifically requests the information be immediately destroyed following the consultation

C. The consultation occurred over the telephone rather than during an in-person meeting

D. The consultation lasted less than a specific minimum number of minutes

23. A practitioner's decision to decline representing a client whose position the practitioner reasonably believes would require making a knowingly false statement to the IRS is generally:

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

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

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

D. Permitted only if the practitioner first obtains a formal OPR determination confirming the statement would be false

24. A practitioner's obligation regarding accuracy of representations extends to a formal request for a partial payment installment agreement to the extent the request concerns:

A. Only the factual basis for the requested payment terms, never any characterization offered

B. Only any characterization offered, never the factual basis for the requested payment terms

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

D. Both the factual basis for the requested payment terms and any characterization of the underlying facts offered

25. A practitioner's suspension sanction generally is distinguished from a monetary penalty in that the suspension:

A. Always carries a lower total financial cost to the practitioner than any monetary penalty imposed

B. Restricts the practitioner's actual ability to practice, while a monetary penalty does not itself restrict practice ability

C. Carries no genuine disciplinary significance, unlike a monetary penalty which is treated as more serious

D. Applies only to attorneys, while a monetary penalty applies exclusively to Enrolled Agents specifically

26. A practitioner's monetary penalty under Section 10.50 generally may be assessed jointly against a firm and an individual practitioner where:

A. The individual practitioner happens to be the firm's most senior employee regardless of actual participation

B. The firm's total annual revenue exceeds a specific dollar threshold set for joint assessment purposes

C. The individual practitioner has previously been the subject of any prior unrelated disciplinary matter

D. Both the firm and the individual are found to have genuinely participated in or authorized the underlying violation

27. A practitioner's reinstatement following disbarment generally requires OPR to consider the practitioner's conduct in light of the specific:

A. Nature of the original violation, since different types of misconduct may warrant different reinstatement scrutiny

B. Only the practitioner's own personal financial need to resume practicing before the IRS

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 ownership interest in real property that is the subject of the tax matter, requiring the practitioner to generally:

A. Simply divest the ownership interest entirely with no disclosure or evaluation ever required
B. Ignore the ownership interest entirely, since it is treated as unrelated to the tax representation itself
C. Disclose the ownership interest and evaluate whether it could improperly influence the advice given
D. Disclose only to clients who specifically and independently ask about the practitioner's other property interests

29. A practitioner's overall approach to identifying potential conflicts for a matter involving a client obtained through a referral fee arrangement should generally include:

A. An assumption that a referral-fee-generated client automatically presents no possible conflict of any kind
B. The same systematic conflict check applied to any other matter, regardless of the referral fee arrangement
C. Skipping the conflict check entirely, since referral-fee-generated clients are presumed to be pre-vetted
D. Relying exclusively on the referring party's own internal assurance that no conflict genuinely exists

30. A practitioner's overall professional obligations under Circular 230 reflect a recognition that the practitioner's role includes serving as a genuine bridge between:

A. The IRS's own internal enforcement priorities and the practitioner's own personal business interests
B. Two entirely unrelated areas of law having no genuine connection to tax administration whatsoever
C. The practitioner's own personal preferences and the client's own separate personal preferences
D. Complex tax law and a taxpayer's own practical understanding and compliance with that law

31. A practitioner's overall commitment to Circular 230's standards is best understood as reflecting a broader recognition that professional credentials carry:

A. Only genuine benefits, with no meaningful corresponding responsibilities attached whatsoever

B. Only genuine responsibilities, with no meaningful corresponding benefits attached whatsoever

C. Both genuine benefits and genuine responsibilities, neither of which can be meaningfully separated from the other

D. Neither genuine benefits nor genuine responsibilities, since the credential is treated as purely symbolic

32. A taxpayer's power of attorney should generally identify the specific tax matter with sufficient precision to allow the IRS to:

A. Confirm the authorization actually covers the specific matter the representative is attempting to address

B. Calculate the practitioner's applicable continuing education fee for the current renewal cycle

C. Determine which specific IRS office will ultimately be assigned to process the authorization

D. Verify the taxpayer's own personal creditworthiness before accepting the authorization

33. 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 extend the assessment statute of limitations absent specific separate authorization for that activity

C. Receive copies of notices regarding the specifically covered matters

D. Advocate the taxpayer's position at a scheduled examination interview

34. A taxpayer's power of attorney generally is treated as effective for a subsequent, related examination of the same tax year because:

A. The authorization's scope generally extends to matters genuinely arising from the same covered tax period

B. IRS regulations specifically require every subsequent examination to be treated as an entirely new, unrelated matter

C. A subsequent examination is treated as automatically and categorically outside the original authorization's scope

D. The taxpayer must affirmatively resubmit an identical authorization for each new examination phase

35. A taxpayer's assessment statute of limitations generally is tolled during the pendency of a request for innocent spouse relief because:

A. Innocent spouse relief requests are always automatically granted, eliminating any need for tolling consideration

B. The assessment statute never applies to any matter involving a joint return of any kind

C. The IRS lacks any authority whatsoever to address matters involving innocent spouse relief claims

D. This specific circumstance is among the statutorily recognized tolling events under Section 6015

36. A taxpayer's Form 872 extension request should generally be evaluated by the practitioner against whether the extension would allow sufficient time to:

A. Simply delay the matter as long as possible with no genuine underlying resolution purpose

B. Allow the taxpayer to change tax return preparers before the matter is ultimately resolved

C. Pursue an administrative resolution before the matter would otherwise be forced into litigation by the deadline

D. Allow the IRS to reassign the matter to a different, entirely unrelated examining agent

37. A taxpayer's position supported by a formal Field Service Advice issued in an unrelated matter generally reflects:

A. A guarantee the taxpayer's identical position will ultimately succeed if formally challenged

B. No relevance whatsoever to the taxpayer's own current matter or risk assessment

C. Binding law the IRS is legally required to follow in every subsequent, unrelated case

D. Internal IRS legal analysis, a genuinely relevant though not binding factor in the overall risk assessment

38. A taxpayer's reliance on a position supported by a state court's interpretation of a related state law issue generally provides:

A. Fully binding federal tax authority the IRS is legally obligated to follow in the current matter
B. Some persuasive context but not binding federal tax authority, since state court rulings do not bind federal tax determinations
C. No relevance whatsoever to the current federal matter, since state and federal law are treated as entirely unrelated
D. Automatic immunity from any further examination of the identical issue in any future year

39. A taxpayer's disclosure of a position through Form 8275 involving a state law interpretation issue generally should include:

A. A description of the relevant state law interpretation and how it bears on the federal tax position taken
B. Only the taxpayer's personal opinion regarding whether the IRS will ultimately accept the disclosed position
C. Only a general statement that some unspecified position is being disclosed with no further detail
D. A guarantee the disclosed position will definitely withstand any subsequent IRS challenge raised

40. A taxpayer's genuinely good-faith reliance on a state court ruling later determined not to control the federal tax issue generally distinguishes the taxpayer from evasion because:

A. A position based on incorrect legal analysis is automatically treated as legally equivalent to evasion regardless of good faith
B. Legal error alone, regardless of good faith, is always sufficient to establish evasion under the applicable standard
C. The reliance itself demonstrates an absence of intent to conceal facts, even where the legal analysis proved incorrect
D. Courts are legally required to excuse any incorrect position provided the taxpayer relied on some legal authority

41. The Taxpayer Advocate Service's role in addressing a taxpayer's identity theft-related processing delay generally includes assisting with:

A. Coordination between the taxpayer and the relevant IRS functions handling the identity theft resolution process

B. Determining the substantive criminal culpability of the individual who committed the identity theft

C. Prosecuting the individual responsible for the identity theft in a federal criminal proceeding

D. Guaranteeing the taxpayer will receive a specific refund amount regardless of the underlying tax liability

42. A Taxpayer Assistance Order addressing an identity theft-related delay generally may direct the IRS to:

A. Automatically grant the taxpayer's underlying substantive refund claim regardless of its actual legal merits

B. Waive the taxpayer's underlying tax liability entirely regardless of its actual legal correctness

C. Terminate the employment of the specific IRS employee responsible for the processing delay

D. Expedite the specific case's resolution consistent with the applicable identity theft procedures

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

A. Only individual income tax matters, never refund claim matters of any kind

B. Only matters the EA personally prepared the underlying filing for

C. A denied claim for refund based on an overpayment, in addition to other tax matters

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 captive insurance arrangement should generally include confirming:

A. Only the specific insurance company's overall general reputation in the industry

B. Whether the arrangement satisfies the applicable requirements distinguishing genuine insurance from a disguised investment

C. Only the taxpayer's personal opinion regarding captive insurance arrangements generally

D. Only the specific number of years the captive insurance arrangement has been in existence

45. A conflict check's scope for a matter involving multiple participants in the same captive insurance arrangement should generally extend to:

A. Only the captive insurance company's own formal legal name, with no inquiry into individual participants

B. Each individual participant, given their potential differing interests in the arrangement's ultimate tax treatment

C. Only the specific state in which the captive insurance company is domiciled

D. Only the total dollar value of the overall captive insurance arrangement

46. A taxpayer's account transcript entry reflecting a disallowed captive insurance premium deduction generally indicates:

A. An automatic, complete forgiveness of any resulting tax liability regardless of the disallowance

B. An entry unrelated to any actual IRS action, requiring no further explanation at all

C. A penalty specifically assessed against the taxpayer for having participated in the arrangement

D. The IRS determined the arrangement failed to satisfy the applicable requirements for genuine insurance treatment

47. A practitioner's analysis challenging a disallowed captive insurance deduction should generally focus on:

A. Only the taxpayer's personal opinion regarding whether the disallowance is generally fair

B. Only the specific examiner's overall years of experience conducting examinations

C. Identifying specific facts demonstrating the arrangement actually satisfied genuine insurance requirements

D. Only the specific insurance company's overall years of operating history

48. A requesting spouse's Innocent Spouse Relief claim involving a disallowed captive insurance deduction generally should address:

A. Whether the requesting spouse had actual knowledge of the facts underlying the arrangement's ultimate disallowance

B. Only the requesting spouse's personal opinion regarding captive insurance arrangements generally

C. Only the couple's total combined years of marriage before the arrangement was entered into

D. Only the requesting spouse's current occupation and specific employer

49. A practitioner's documentation for a matter involving a challenge to a captive insurance arrangement's risk distribution generally should address the specific:

A. Only the couple's original choice of wedding venue and related details

B. Number of unrelated insureds and the actual spreading of genuine insurance risk across the arrangement

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 a captive insurance arrangement should generally weigh:

A. Only the specific insurance company involved in facilitating the underlying arrangement

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

C. Whether the arrangement's structure reflects a genuine insurance purpose or a scheme designed to shift income improperly

D. Only the specific total dollar value of premiums claimed for the overall arrangement

51. A practitioner who identifies potential criminal exposure in a captive insurance matter should generally avoid:

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

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

C. Continuing to handle unrelated civil matters for the client within the practitioner's actual competence
D. Advising the client to simply amend returns without first considering the full scope of the potential exposure

52. A Kovel arrangement's application to a captive insurance matter generally requires the accountant's analysis to be:

A. Directed by the attorney and genuinely connected to assisting the attorney's legal advice on the matter
B. Conducted entirely independently of any attorney direction or involvement whatsoever
C. Shared freely and openly with the IRS as the analysis progresses
D. Focused exclusively on matters having no connection whatsoever to any legal advice

53. A practitioner's case-building documentation for a captive insurance matter should generally include:

A. Only the taxpayer's own general assertion the arrangement was properly structured with no supporting documentation
B. Only the insurance company's general marketing materials describing its overall business
C. Only the taxpayer's personal opinion regarding the overall fairness of captive insurance rules
D. Policy documents, actuarial analyses, and records supporting the arrangement's genuine risk distribution

54. A practitioner's overall case assessment for a captive insurance matter should generally distinguish between:

A. Only arrangements formed before versus after a specific arbitrary calendar date unrelated to the requirements
B. Only arrangements domiciled in one specific state versus arrangements domiciled in another specific state
C. The arrangement's compliance with genuine insurance requirements and the separate issue of its claimed premium pricing
D. Only arrangements with a name containing the word "captive" versus arrangements without that word

55. A practitioner's overall case-building strategy for a matter involving a genuinely complex captive insurance premium pricing dispute should generally include:

A. Obtaining or reviewing a credible, independent actuarial analysis supporting the claimed premium amounts
B. Only a narrative description with no supporting actuarial analysis of any kind provided at all
C. Only the captive's own actuary's conclusions, accepted without any independent review whatsoever
D. Avoiding any independent actuarial review entirely to prevent inviting additional scrutiny

56. A practitioner's overall preliminary case assessment process for a captive insurance matter should generally include documenting:

A. Only the practitioner's own personal fee arrangement for handling the specific matter
B. The specific date the captive arrangement was formed and its implications for the applicable qualification requirements
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 reasonable cause for a captive insurance compliance error should generally document:

A. The specific reliance on qualified advisors and the reasonableness of that reliance given the circumstances
B. Only the taxpayer's own personal, subjective belief that reasonable cause genuinely exists
C. Only the specific total dollar amount of the premium deduction at issue in the matter
D. Only the specific insurance company the taxpayer originally worked with for the arrangement

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

A. Immediate commitment to a specific strategy before any meaningful fact development has occurred

B. Complete avoidance of the complex matter in favor of addressing only more familiar, comfortable issues

C. Careful, thorough fact development before committing to a specific strategic approach

D. Deference entirely to the taxpayer's own proposed strategy with no independent practitioner analysis

59. A practitioner's case-building process for a captive insurance matter ultimately aims to ensure the taxpayer's qualification position is:

A. Automatically favorable to the taxpayer regardless of what the actual facts developed ultimately show

B. Automatically unfavorable to the taxpayer whenever an arrangement is created, 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 fact an arrangement was created

60. A practitioner's overall case-building philosophy for a captive insurance matter should generally reflect an understanding that the applicable requirements:

A. Apply flexibly on a case-by-case basis with no genuine detailed standards actually involved

B. Involve detailed risk-shifting and risk-distribution standards warranting careful, precise documentation

C. Never actually warrant any additional documentation beyond what a routine matter would require

D. Are legally prohibited from ever being examined by the IRS under any circumstances whatsoever

61. A taxpayer's short-term payment plan proposal for a taxpayer with a disallowed captive insurance deduction generally should address:

A. Only the taxpayer's personal preference for the specific word "short-term" over other terminology

B. Whether the resulting additional tax liability affects the taxpayer's current available cash for payment

C. Only the taxpayer's total combined assets regardless of their actual liquidity or availability

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 disallowed captive insurance deduction generally requires the Collection Information Statement to reflect:

A. The current financial picture, including the additional tax liability resulting from the disallowance
B. Only the taxpayer's financial position exactly as it existed before the disallowance ever occurred
C. Only the specific insurance company's own general financial standing and reputation
D. Only the specific actuary through which the arrangement's original pricing was performed

63. A taxpayer's offer in compromise for a taxpayer with a disallowed captive insurance deduction generally requires the RCP calculation to reflect:

A. Only the taxpayer's personal preference for how the RCP calculation should ultimately be structured
B. Only the arrangement's originally claimed premium amounts from the disallowed deduction itself
C. The taxpayer's current actual assets and income, including any effect from the additional tax liability owed
D. Only the specific insurance company's own general fee schedule for facilitating the arrangement

64. A lien filed against a taxpayer's assets following a disallowed captive insurance deduction generally attaches:

A. Only to the specific captive insurance interest itself, not to the taxpayer's other separate assets
B. To neither the taxpayer's own assets nor the captive interest, since disallowed deductions are treated as exempt
C. Only to the insurance company's own separate corporate assets used to facilitate the transaction
D. To the taxpayer's own property and rights to property, consistent with general federal tax lien principles

65. A levy on a taxpayer's assets following a disallowed captive insurance deduction generally is subject to:

A. An automatic exemption from levy specifically because the underlying liability arose from a disallowed deduction

B. The same general levy procedures and exemptions applicable to any other tax liability the taxpayer owes

C. A mandatory waiting period of exactly one full year following the disallowance before any levy may occur

D. Approval requirements from the insurance company before any levy may actually proceed

66. A Currently Not Collectible determination for a taxpayer with a significant liability from a disallowed captive insurance deduction generally requires evaluating:

A. The taxpayer's current genuine ability to pay, not the original amount of the claimed deduction

B. Only the original claimed deduction amount from the now-disallowed arrangement

C. Only the specific insurance company's own general reputation in the industry

D. Only whichever figure the taxpayer happens to personally prefer be used for this determination

67. A taxpayer's CDP hearing addressing a proposed levy following a disallowed captive insurance deduction should generally raise the specific issue of:

A. Only the taxpayer's general personal opinion regarding the fairness of captive insurance rules generally

B. Only the specific total number of years the taxpayer has owned an insurance business generally

C. Only the specific federal agency responsible for regulating captive insurance arrangements generally

D. Whether the levy would create genuine hardship given the taxpayer's actual current financial circumstances

68. A TFRP assessment is generally unrelated to a disallowed captive insurance deduction matter because TFRP addresses:

A. The exact same underlying tax issue a disallowed deduction itself addresses, applied to a different taxpayer type

B. A penalty specifically triggered whenever a captive insurance deduction is disallowed

C. Unpaid employment trust fund taxes, a distinct issue from the individual income tax consequences of a disallowed deduction

D. An issue that only arises for taxpayers who have previously claimed a captive insurance deduction

69. A responsible person's TFRP liability generally is unrelated to whether the person separately participated in a captive insurance arrangement because:

A. TFRP liability turns on control over trust fund payments, not on the person's own separate insurance arrangement

B. Captive insurance participation automatically increases the responsible person's TFRP exposure regardless of any other factor

C. Participants in captive insurance arrangements are categorically exempt from any TFRP assessment whatsoever

D. TFRP liability is calculated using the same formula applied to calculate captive insurance premium amounts

70. A practitioner's Section 7525 privilege claim regarding communications about the tax treatment of a captive insurance arrangement generally requires establishing the communication:

A. Occurred during the insurance company's normal business hours specifically

B. Was communicated in writing rather than verbally during a meeting

C. Genuinely concerned tax advice regarding the arrangement, not merely general insurance or actuarial guidance

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

71. A taxpayer's Cohan estimate is generally inapplicable to establishing a captive insurance arrangement's genuine risk distribution because:

A. Cohan estimates apply exclusively to matters involving personal property rather than insurance arrangements

B. Risk distribution must be established through actual actuarial and structural facts, not through estimation

C. Risk distribution is treated as flexible and subject to reasonable estimation under applicable case law

D. Captive insurance matters are categorically excluded from any application of the Cohan doctrine whatsoever

72. A practitioner's review of an RAR's proposed adjustment disallowing a captive insurance deduction 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 transactions

D. Specific factual findings regarding the risk-shifting or risk-distribution issue actually cited as the basis

73. A taxpayer's response to a 30-day letter proposing a captive insurance deduction disallowance should generally address whether:

A. The taxpayer simply prefers a different, unspecified tax treatment with no further explanation provided

B. The taxpayer's representative has personally ever encountered a similar captive insurance issue before

C. The specific facts genuinely satisfy each applicable risk-shifting and risk-distribution requirement disputed

D. The specific calendar month in which the arrangement was formed happens to be convenient for the taxpayer

74. A CP-2000 notice's proposed adjustment involving a discrepancy related to a captive insurance deduction should generally prompt verification against:

A. Only the specific insurance company's overall general reputation in the industry

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

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

D. The taxpayer's actual policy documentation and how the premium deduction was genuinely reported

75. A taxpayer's Tax Court petition contesting a captive insurance deduction disallowance should generally identify:

A. The specific basis for disputing the examiner's factual findings regarding risk-shifting or risk-distribution

B. Only the taxpayer's own general, unsupported opinion regarding captive insurance arrangements generally

C. Only the total number of captive insurance arrangements the taxpayer has participated in over a lifetime

D. Only the specific insurance company the taxpayer originally worked with for the arrangement

76. A taxpayer's Appeals conference preparation for a captive insurance deduction dispute should generally include:

A. Simply asserting the deduction was proper with no supporting evidence or documentation provided

B. A clear presentation of the specific evidence supporting the arrangement's genuine risk-shifting and distribution

C. Avoiding any discussion of the applicable risk-shifting and distribution rules to prevent inviting additional scrutiny

D. Deferring entirely to the Appeals Officer to independently reconstruct the supporting evidence

77. A taxpayer's decision to accept an Appeals settlement resolving a captive insurance deduction dispute should generally be documented to specify:

A. The specific deduction amount ultimately allowed and the resulting tax effect for the applicable year

B. Only the Appeals Officer's own general personal preference regarding captive insurance arrangements generally

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

78. A taxpayer's small tax case election is generally available for a captive insurance deduction dispute where the disputed amount:

A. Involves any captive insurance arrangement whatsoever, since such arrangements 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. Must involve a business entity specifically, since individual taxpayers cannot participate in captive insurance arrangements

D. Falls at or below the applicable dollar threshold, regardless of the underlying arrangement's complexity

79. A taxpayer's formal written protest for a captive insurance deduction dispute should generally cite specific evidence supporting:

A. Only the taxpayer's own general, unsupported opinion regarding which treatment seems fairer

B. The arrangement's compliance with the applicable risk-shifting and risk-distribution requirements under governing rules

C. Only a demand that the examiner simply accept the taxpayer's proposed treatment without question

D. Only a general assertion that the examiner's proposed adjustment is obviously too large with no further detail

80. A taxpayer's Appeals settlement for a captive insurance deduction dispute involving a partial reduction in the allowed deduction generally should be documented to specify:

A. Only the Appeals Officer's own general personal philosophy regarding captive insurance arrangements generally

B. Only the specific date the original arrangement first was formed

C. How the reduced allowed deduction was ultimately determined and the resulting recalculated tax effect

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

81. A taxpayer's decision to pursue Post-Appeals Mediation for a captive insurance deduction dispute should generally weigh whether:

A. A neutral mediator could genuinely help resolve the specific remaining factual disagreement over risk distribution

B. The specific mediator happens to have personal experience with insurance industry organizations

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

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

82. A taxpayer's Appeals conference outcome for a captive insurance deduction dispute resulting in a partial concession by the IRS generally reflects:

A. A purely arbitrary split with no genuine underlying analytical basis whatsoever
B. An automatic default rule the IRS applies to every single captive insurance deduction dispute
C. A clerical error in properly calculating the correct final resolution amount for the matter
D. A hazards-of-litigation compromise recognizing genuine factual uncertainty regarding the risk distribution disputed

83. A practitioner's overall goal in preparing case-building materials for a captive insurance deduction Appeals conference should generally include:

A. Assuming the Appeals Officer will simply accept the deduction without any independent scrutiny
B. Anticipating challenges to the arrangement's risk-shifting and distribution and preparing well-supported responses
C. Preparing responses only to challenges the taxpayer's representative personally finds interesting
D. Preparing exclusively for challenges about matters entirely unrelated to the actual captive insurance dispute

84. A practitioner's overall approach to representing a taxpayer in a captive insurance deduction dispute should generally reflect an understanding that:

A. Strict compliance with genuine risk-shifting and distribution requirements is generally required, leaving little room for exceptions
B. The IRS generally grants broad equitable exceptions to the risk-shifting and distribution requirements upon request
C. The risk-shifting requirements are treated as merely advisory guidelines with no genuine enforcement consequence
D. Courts routinely excuse noncompliant arrangements regardless of the taxpayer's specific circumstances

85. A preparer's software calculation for a return involving a captive insurance deduction should generally still involve manual review of:

A. Only the federal portion, since state-level captive insurance calculations are treated as automatically reliable

B. No portion of the return at all, since captive insurance software is treated as inherently more accurate

C. Whether the claimed premium amount is properly supported and consistent with the arrangement's underlying policy terms

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 captive insurance premium deduction 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 how the arrangement should ultimately be characterized

C. Only the total number of years the taxpayer has participated in captive insurance arrangements

D. How the deduction amount was actually calculated and whether figures were entered only once

87. A preparer's Section 6107(b) obligation for a return involving a captive insurance deduction generally applies to:

A. Only the portion of the return unrelated to the captive insurance arrangement specifically

B. The return as a whole, including the specific policy and premium documentation supporting the deduction

C. Only a separate, distinct recordkeeping category maintained apart from the general return records

D. Only if the IRS specifically requests the captive insurance documentation be separately retained

88. A preparer's data security obligations for records supporting a complex captive insurance matter should generally reflect:

A. Only whatever security measures happen to be least expensive for the firm to implement generally

B. Only whatever security measures a single, specific competitor firm happens to currently use

C. The genuine sensitivity and complexity of the underlying policy and financial data involved
D. No specific evaluation criteria at all, since captive insurance records are treated as purely routine

89. An IRS e-file Application's approval generally reflects the IRS's determination that the applicant meets suitability standards regardless of whether the applicant's:

A. Own tax compliance history has actually been reviewed as part of the application process
B. Background has actually been reviewed as part of the applicable application process
C. Client base includes taxpayers with genuinely complex returns, such as those involving captive insurance arrangements
D. Information provided in the application has actually been verified for accuracy

90. A firm's decision to accept clients requiring captive insurance deduction reporting 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. Renewed its general liability insurance policy at the exact same coverage terms as before
D. Sufficient internal expertise or access to appropriate resources to competently handle such matters

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

A. Returns involving routine matters and returns involving genuinely complex issues like captive insurance deductions
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 client's specific objection related to a complex captive insurance issue should generally reference:

A. Only the preparer's own general opinion regarding the complexity of captive insurance rules generally

B. The specific recognized exception category actually applicable, not the underlying complexity of the captive insurance issue itself

C. Only the specific insurance company the taxpayer actually used to facilitate the arrangement

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

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

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

B. The mere complexity of a client's captive insurance deduction, since complexity alone is not a recognized hardship category

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

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

94. A taxpayer's Form 8879 authorization for a return involving a captive insurance deduction generally requires the taxpayer to:

A. Review the completed return, including the claimed premium deduction, before signing the authorization

B. Personally understand every technical detail of the actuarial calculation before signing the authorization

C. Obtain independent verification of the actuarial analysis from a completely separate practitioner

D. Sign a supplemental form specifically acknowledging the arrangement's inherent complexity

95. An ERO's Form 8879 retention obligation for a return involving a captive insurance deduction generally is:

A. Extended to a longer period specifically because of the arrangement's underlying complexity

B. Waived entirely for returns involving captive insurance given their genuinely specialized nature

C. Subject to a completely separate set of retention rules unique to captive insurance returns specifically

D. The same standard retention obligation applicable to any other return, regardless of the underlying complexity

96. A preparer's confirmation of Form 8453 requirements for a return involving a captive insurance attachment should generally include checking:

A. Only whether the captive insurance deduction happens to be favorable or unfavorable to the taxpayer
B. Only the specific total dollar amount of the resulting deduction claimed
C. Whether the specific attachment requires separate transmittal under current applicable instructions
D. Only whether the taxpayer has previously participated in a captive insurance arrangement in any prior tax year

97. A rejected return involving a captive insurance deduction should generally have its correction verified to confirm:

A. The overall total page count of the return remains identical to the original submission
B. The specific font used throughout the return remains unchanged from the original submission
C. The specific error identified in the rejection has been resolved without altering the substantive deduction position taken
D. The taxpayer's stated preference for a specific refund method remains unchanged

98. A preparer's overall response protocol for rejections affecting returns with captive insurance deduction issues should generally include:

A. Automatic assignment to whichever staff member happens to be available first, regardless of relevant experience
B. No differentiated protocol at all, since all rejections are treated identically regardless of underlying complexity
C. Automatic resubmission without any review, since captive insurance rejections are presumed to be simple errors
D. Escalation to a more experienced staff member familiar with the specific captive insurance rules involved

99. A preparer's overall e-file compliance program should generally include staff training on recognizing when a return's complexity, such as a captive insurance deduction, warrants:

A. Additional review before transmission, given the heightened risk of errors in such complex calculations

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

C. Automatic rejection of the engagement entirely, since complex returns are presumed too risky to prepare

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

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

A. Complex returns carry no meaningfully different compliance considerations from a routine, simple filing

B. Genuine accuracy in complex matters requires the same careful compliance attention as any other filing

C. Compliance attention should actually decrease as a return's underlying complexity genuinely increases

D. Only routine, simple filings actually warrant the Provider's genuine compliance attention and focus

Practice Exam 22: Answer Key and Explanations

1. D — A—A practitioner's assigned renewal cycle generally remains fixed unless the practitioner formally requests and actually receives approval to change it through the proper channels. A simple state relocation, a significant income change, and a change in presidential administration do not themselves alter the practitioner's assigned renewal cycle under the applicable rules.

2. B — A—A practitioner in this situation may generally be given an opportunity to obtain qualifying makeup hours, rather than facing automatic discipline for the provider's error. This does not result in automatic immediate disbarment, is not entirely consequence-free requiring no makeup hours, and does not require retaking the full SEE as the sole remedy.

3. A — A—This notification obligation exists because such state action may independently trigger expedited federal proceedings genuinely affecting the practitioner's enrollment status under Circular 230. State licensing action is not irrelevant to federal status, the requirement is not a mere formality, and federal enrollment does not automatically terminate immediately upon any state action.

4. C — C—A proposed settlement generally must reflect terms OPR genuinely determines are appropriate given the specific nature of the underlying conduct at issue. It is not entirely dictated by the practitioner with no OPR input, does not require an automatic no-misconduct finding, and is not subject to a nationwide practitioner vote.

5. A — A—Due diligence always requires a genuinely reasonable inquiry into whether the underlying divorce or separation agreement genuinely satisfies applicable statutory requirements for deductibility now. Direct verification with the former spouse is not required, automatic disallowance above an arbitrary amount is inappropriate, and no inquiry at all misstates this reasonable-inquiry standard.

6. B — B—A proposed, not-yet-finalized regulation never genuinely carries the same binding weight as final regulations or other established authority already existing on this particular issue at hand. Proposed regulations are not entirely legally irrelevant to this determination, do not automatically supersede prior authority, and do not entirely waive the signing obligation.

7. D — D—Such claims are treated as sufficiently distinct from ordinary return preparation to fall within a recognized permitted contingent fee exception category available. They are not treated identically to an original return position, are not prohibited entirely regardless of the specific provision, and do not require the IRS's specific advance consent.

8. C — C—A proper billing statement should include sufficient detail to allow the client to genuinely understand what services were actually performed and how charges were calculated. Simply trusting the total with no itemization, requiring an unrelated practitioner's separate verification, and revealing the practitioner's own profit margin are all inappropriate or unnecessary.

9. D — D—An unsubstantiated claim of offering "the best value" is potentially misleading unless the practitioner can actually substantiate that specific comparative claim with genuine evidence. Value-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 particular analysis always genuinely evaluates whether the spousal employment relationship could reasonably be perceived as affecting the practitioner's own independent professional judgment in this specific matter. The spouse's salary amount, general unrelated home discussions, and years worked there are not themselves the substantive factors this analysis turns on here.

11. C — C—Proper documentation should always carefully and clearly address the specific safeguards actually in place to prevent any genuine appearance of improper influence on the handling. The practitioner's own opinion of the spouse's career success, the disputed dollar amount, and the employment's timing relative to enrollment are not this required content.

12. B — A—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 — A—This violation may be established through a failure to correct a known false statement because the accuracy obligation is genuinely ongoing, extending beyond merely avoiding new falsities. Failing to correct is not irrelevant to this violation, a subsequent failure to correct can independently establish it, and correction is not treated as entirely optional.

14. D — D—This obligation requires distinguishing between a statement the practitioner genuinely knows to be true and one the practitioner merely believes, without actual knowledge, to be true. The distinction is not between verbal and written statements, is not based on the recipient's supervisory status, and is not based on the timing relative to business hours.

15. A — A—Overstating a position's strength could always genuinely mislead the client into underestimating the actual real risk genuinely associated with taking that specific position actually taken. This is not merely a cosmetic formatting concern, does not itself guarantee a favorable outcome, and does not eliminate the practitioner's own underlying analytical obligation.

16. B — B—Competence here always genuinely requires sufficient understanding of valuation principles, or appropriate referral to a qualified valuation specialist with relevant genuine specific expertise actually genuinely available currently. Automatic acceptance regardless of actual familiarity, automatic decline foreclosing development, and sole reliance on the client's own understanding are all inappropriate responses here.

17. A — A—Such a claim should always genuinely be based on genuine, verifiable data reflecting the firm's actual client relationships and retention over time. Substantially rounding up for impressiveness, categorically omitting all such claims, and basing the figure on a single favorable period rather than the overall record are all inappropriate approaches.

18. B — B—This obligation applies regardless of whether producing the records would be genuinely inconvenient or burdensome, provided the underlying request is otherwise lawful and proper. The obligation does depend on the request coming through the proper official channel and on the requesting employee actually being authorized, but not on mere inconvenience.

19. D — D—Failing to identify clearly applicable Additional Child 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. C — C—Reevaluation is always warranted because the newly discovered contemplated merger may genuinely affect whether continued representation of either client remains appropriate here. 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. C — C—This violation is treated with particular seriousness because it involves a direct assault on the integrity of the authorization process the IRS relies upon to verify representative authority. This is not unconnected to the practitioner's tax practice, does carry meaningful implications for client interests, and is genuinely addressed under Circular 230.

22. A — A—Confidentiality always genuinely applies to preliminary consultation information even where the prospective client ultimately decides not to formally engage the practitioner's own services. It applies even following a destruction request, applies regardless of whether the consultation occurred by telephone or in person, and applies regardless of the consultation's specific duration.

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

24. D — D—This accuracy obligation extends to both the factual basis for the requested payment terms 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. B — B—A suspension restricts the practitioner's actual ability to practice before the IRS, while a monetary penalty alone does not itself restrict the ability to practice. A suspension does not always carry a lower financial cost, does carry genuine disciplinary significance, and is not limited to attorneys while a penalty applies to Enrolled Agents specifically.

26. D — D—A joint penalty may generally be assessed where both the firm and the individual practitioner are found to have genuinely participated in or authorized the violation. Mere seniority regardless of actual participation, the firm's total revenue exceeding a threshold, and prior unrelated disciplinary history are not themselves the basis for this joint assessment.

27. A — A—OPR considers the practitioner's conduct in light of the specific nature of the original violation, since different types of misconduct may warrant different scrutiny applied. 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 disclosing the ownership interest and genuinely evaluating whether it could improperly influence the advice given regarding the matter at hand. Simply divesting with no disclosure at all, ignoring the interest as unrelated, and disclosing only upon a specific inquiry all fail to satisfy this proactive disclosure obligation.

29. B — B—A referral-fee-generated prospective client should undergo the same systematic conflict check applied to any other prospective client, regardless of the referral fee arrangement involved. Assuming automatic absence of conflict, skipping the check entirely, and relying exclusively on the referring party's own assurance are all inadequate approaches to this necessary check.

30. D — D—These obligations reflect the recognition that the practitioner's role includes serving as a genuine bridge between complex tax law and the taxpayer's own practical understanding and compliance. This is not about bridging IRS enforcement priorities with the practitioner's business interests, unrelated legal areas, or merely personal preferences on either side.

31. C — C—This commitment reflects the recognition that professional credentials carry both genuine benefits and genuine responsibilities, neither of which can be meaningfully separated from the other. The credential does not carry only benefits with no responsibilities, does not carry only responsibilities with no benefits, and is not purely symbolic in nature.

32. A — A—Sufficient precision always genuinely allows the IRS to confirm the authorization actually covers the specific matter the representative is attempting to address here. This precision is unrelated to calculating any continuing education fee, does not itself determine which office processes the authorization, and is unrelated to verifying the taxpayer's creditworthiness.

33. B — B—A standard power of attorney generally always never actually and quite truly authorizes consenting to extend the assessment statute of limitations absent specific separate authorization for it. It does authorize discussing covered matters with the assigned IRS employee, receiving notice copies, and advocating the taxpayer's position at an examination interview.

34. A — A—The authorization's scope generally extends to matters genuinely arising from the same covered tax period, including a subsequent related examination of that year. There is no regulation treating every subsequent examination as an entirely new matter, a subsequent examination is not automatically outside the scope, and resubmission is not required for each new phase.

35. D — C—This specific circumstance is among the statutorily recognized tolling events under Section 6015, addressing the pendency of an innocent spouse relief request. Such requests are not always automatically granted, the assessment statute does apply to joint return matters generally, and the IRS does have authority to address innocent spouse relief claims.

36. C — D—This request should be evaluated against whether the extension would allow sufficient time to genuinely pursue an administrative resolution before the deadline forces litigation. It is not evaluated against a goal of mere indefinite delay, is not about facilitating a preparer change, and is not about facilitating reassignment to a different examining agent.

37. D — A—Such advice reflects internal IRS legal analysis, a genuinely relevant though not binding factor the practitioner should incorporate into the overall risk assessment. It does not guarantee ultimate success if challenged, is not entirely without relevance to the taxpayer's own matter, and does not constitute binding law the IRS must follow.

38. B — A—A state court's interpretation provides some genuinely persuasive context but not binding federal tax authority, since state rulings do not bind federal tax determinations directly. This is not fully binding federal authority, is not entirely without relevance where state law genuinely informs the federal issue, and does not confer automatic future immunity.

39. A — A—A proper disclosure should include a description of the relevant state law interpretation and how it genuinely bears on the federal tax position actually taken. 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 of this disclosure.

40. C — C—This good-faith reliance demonstrates a genuine absence of intent to conceal facts from the government, even where the underlying legal analysis ultimately proved incorrect. Incorrect legal analysis is not automatically equivalent to evasion, legal error alone does not always establish evasion, and courts are not required to automatically excuse any incorrect but relied-upon position.

41. A — A—TAS assistance includes coordinating between the taxpayer and the relevant IRS functions genuinely handling the identity theft resolution process itself. TAS does not determine the criminal culpability of the identity thief, does not prosecute the responsible individual, and does not guarantee a specific refund amount regardless of the underlying liability.

42. D — D—Such a TAO may generally direct the IRS to expedite the specific case's resolution consistent with the applicable identity theft procedures actually in place. It does not direct automatically granting the underlying refund claim regardless of merits, does not waive a legally correct liability, and does not direct employee termination.

43. C — C—An EA's unlimited practice rights extend to a denied refund claim based on an overpayment, in addition to 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 confirms whether the arrangement genuinely satisfies the applicable requirements distinguishing genuine insurance from a disguised investment vehicle. The insurance company's general industry reputation, the taxpayer's opinion of captive arrangements generally, and the years in existence alone are not themselves the substantive factors this assessment should focus on.

45. B — A—A thorough conflict check for this matter should extend to each individual participant, given their genuinely differing potential interests in the arrangement's ultimate overall tax treatment. The captive's formal legal name alone, its state of domicile, and the total arrangement value are not themselves sufficient without this broader participant-level inquiry.

46. D — A—This entry generally indicates the IRS determined the arrangement genuinely failed to satisfy the applicable requirements necessary for genuine insurance treatment recognized. It does not indicate automatic complete forgiveness of any resulting liability, is not unrelated to any actual IRS action, and is not itself a penalty for having participated in the arrangement.

47. C — A—A proper challenge always focuses on identifying specific facts genuinely demonstrating the arrangement actually satisfied genuine insurance requirements the examiner disputed here. The taxpayer's general opinion of fairness, the examiner's years of experience, and the insurance company's operating history are not themselves the substantive basis this challenge should focus on.

48. A — A—This claim should always address whether the requesting spouse genuinely had actual knowledge of the facts underlying the arrangement's ultimate disallowance by the IRS itself. The requesting spouse's general opinion of captive arrangements, total years married, and current occupation are not themselves the primary consideration this specific knowledge-focused claim requires.

49. B — A—Proper documentation always clearly and quite specifically addresses the specific number of unrelated insureds and the actual genuine spreading of insurance risk across the whole arrangement itself. Wedding venue choice, shared home decor taste, and vacation preferences are not themselves the substantive factors this specific risk-distribution challenge should actually address.

50. C — C—A sound assessment weighs whether the arrangement's structure genuinely reflects a genuine insurance purpose or instead a scheme designed to improperly shift income. The specific insurance company involved, the client's general demeanor at one meeting, and the total premium value alone are not themselves the substantive factors this assessment should focus on.

51. D — A—A practitioner should always genuinely avoid advising the client to simply amend returns without first considering the genuine full scope of the potential criminal exposure identified here. Advising consultation with experienced tax controversy counsel, documenting referral reasoning, and continuing unrelated civil matters within competence are all appropriate, recommended responses instead.

52. A — A—A proper Kovel arrangement requires the accountant's 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. D — A—Proper documentation should always clearly and specifically include policy documents, actuarial analyses, and records genuinely supporting the arrangement's actual risk distribution claimed by the taxpayer. A bare general assertion with no supporting documentation, the insurance company's marketing materials, and the taxpayer's opinion of fairness are not themselves this required documentation.

54. C — A—A proper case assessment always clearly and specifically distinguishes between the arrangement's compliance with genuine insurance requirements and the genuinely separate issue of its claimed premium pricing set. An arbitrary unrelated date, the specific state of domicile, and mere naming convention are not themselves meaningful analytical distinctions this assessment should draw.

55. A — A—Case-building for a genuinely complex pricing dispute should include obtaining or reviewing a credible, independent actuarial analysis supporting the claimed premium amounts. Relying only on narrative with no analysis, simply accepting the captive's own actuary's conclusions without review, and avoiding independent review entirely all fail to properly address this dispute.

56. B — B—A thorough preliminary assessment should always clearly and specifically include documenting the specific date the captive was formed and its genuine implications for the applicable qualification requirements involved. 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 this reasonable cause claim should always document the specific reliance on qualified advisors and the genuine reasonableness of that reliance given the circumstances presented here. The taxpayer's own subjective belief alone, merely the deduction's total dollar amount, and merely the insurance company used are not themselves this required documentation.

58. C — C—A sound approach reflects careful, thorough fact development before committing to a specific strategic approach for this genuinely complex captive insurance 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 qualification position is actually supported by the facts genuinely developed, not simply assumed favorable or unfavorable based on the mere creation. It does not aim for automatically favorable or unfavorable conclusions regardless of facts, and does not rely on an initial unexamined gut impression.

60. B — B—This philosophy should always clearly reflect the understanding that the applicable requirements involve detailed risk-shifting and risk-distribution standards warranting careful, precise documentation of every claim. The requirements do not apply flexibly with no genuine detailed standards, do warrant additional documentation, and the IRS is not prohibited from examining such matters.

61. B — B—This proposal should always genuinely address whether the resulting additional tax liability genuinely affects the taxpayer's current available cash for the proposed payment plan. 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 proposal.

62. A — A—This statement should always reflect the current financial picture, genuinely including the additional tax liability actually resulting from the disallowance itself here. It is not based on the pre-disallowance position alone, is not based on the insurance company's own financial standing, and is not based on merely the actuary used.

63. C — C—This RCP calculation always requires very carefully reflecting the taxpayer's current actual assets and income, genuinely including any effect from the additional liability owed here. The taxpayer's mere structural preference, the disallowed deduction's originally claimed premium amounts, and the insurance company's fee schedule are not themselves this specific relevant content.

64. D — A—This lien attaches to the taxpayer's own property and rights to property generally, consistent with general federal tax lien principles applying broadly. It does not attach only to the specific captive interest, is not exempt from attaching to the taxpayer's assets, and does not attach to the insurance company's own separate corporate assets.

65. B — B—This levy is generally subject to the same general levy procedures and applicable exemptions that would apply to any other tax liability. It does not carry an automatic exemption due to the liability's origin, does not carry a mandatory one-year waiting period, and does not require the insurance company's approval to proceed.

66. A — A—A CNC determination for this taxpayer always generally requires very carefully and closely evaluating the taxpayer's current genuine ability to pay, not the original disallowed deduction amount claimed. The original claimed deduction amount alone, the insurance company's reputation, and the taxpayer's own preferred figure are all inadequate bases for this evaluation.

67. D — D—This hearing should raise the specific issue of whether the levy would create genuine hardship given the taxpayer's actual current financial circumstances presented. A general opinion about captive insurance rules fairness, total years owning an insurance business, and the regulating agency's identity are not themselves the substantive issue this hearing should focus on.

68. C — C—TFRP addresses unpaid employment trust fund taxes, a genuinely distinct issue entirely separate from the individual income tax consequences of a disallowed deduction. It does not address the same underlying issue as a disallowed deduction, is not specifically triggered by a disallowance, and does not arise only for taxpayers who claimed such a deduction.

69. A — A—TFRP liability always genuinely and truly turns on genuine control over trust fund tax payments, entirely unrelated to whether the person separately participated in a captive insurance arrangement. Captive insurance participation does not automatically increase TFRP exposure, participants are not exempt from TFRP, and the two use entirely different calculation methods.

70. C — C—Asserting this privilege always requires establishing the communication genuinely concerned tax advice regarding the arrangement's treatment, not merely general insurance or actuarial guidance given. Communication timing during the insurance company's business hours, written versus verbal communication, and copying outside counsel are not themselves the required elements this privilege claim demands.

71. B — B—Risk distribution must be established through actual actuarial and structural facts genuinely governing the arrangement, not through Cohan-style estimation. Cohan estimates do not apply exclusively to personal property matters, risk distribution is not treated as flexible for estimation purposes, and captive matters generally are not categorically excluded from Cohan for other purposes.

72. D — D—A proper review always genuinely verifies the examiner's specific factual findings regarding the risk-shifting or risk-distribution issue actually cited as the disallowance's basis here. The specific font size, the adjustment's position within the report, and comparative page length to other transaction types are all irrelevant to this genuine substantive verification.

73. C — C—The response should always clearly and quite specifically address whether the specific facts genuinely satisfy each applicable risk-shifting and risk-distribution requirement that the examiner has disputed here. A mere unspecified alternative treatment preference, the representative's prior general experience, and the arrangement's convenient formation month are not themselves the substantive issue.

74. D — D—This should always prompt verification against the taxpayer's actual policy documentation and how the premium deduction was genuinely reported on the filed return. The insurance company'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.

75. A — A—A proper petition should always identify the specific basis for disputing the examiner's factual findings regarding the risk-shifting or risk-distribution issue actually disputed here. A general unsupported opinion about captive arrangements, mere lifetime participation count, and merely the insurance company used are not themselves the required substantive content this petition needs.

76. B — B—Preparation for this dispute should include a clear presentation of the specific evidence genuinely supporting the arrangement's genuine risk-shifting and distribution. Simply asserting propriety with no supporting evidence, avoiding discussion of the rules entirely, and deferring entirely to the Officer's own reconstruction all fail to properly advocate for the taxpayer.

77. A — A—Proper settlement documentation should always clearly specify the specific deduction amount ultimately allowed and the resulting genuine tax effect for the applicable tax year itself. The Officer's general personal preference regarding captive arrangements, the specific conference room location, and the taxpayer's general satisfaction are not themselves this required documentation content.

78. D — D—The small tax case election is generally available where the disputed amount falls at or below the applicable dollar threshold, regardless of the underlying arrangement's complexity. Captive insurance arrangements are not categorically excluded from this election, no advance IRS consent is required to elect it, and individual taxpayers can also participate in such arrangements.

79. B — B—A proper protest should always clearly and quite specifically cite specific evidence supporting the arrangement's genuine compliance with the applicable risk-shifting and risk-distribution requirements set. A bare unsupported opinion about fairness, a demand for unquestioning acceptance, and an unsupported general size assertion are all inadequate substitutes for this required evidence.

80. C — C—Proper documentation should always clearly specify how the reduced allowed deduction was ultimately determined and the resulting genuine recalculated tax effect actually reached here. The Officer's general philosophy regarding captive arrangements, the original formation date, and the taxpayer's general satisfaction are not themselves this required documentation content of this file.

81. A — A—This decision should always weigh whether a neutral mediator could genuinely help resolve the specific remaining factual disagreement over the risk distribution actually disputed here. The mediator's unrelated personal insurance industry experience, a preferred scheduling day, and the representative's unrelated prior mediation experience are not themselves the substantive factors here.

82. D — D—A partial IRS concession generally always reflects a genuine hazards-of-litigation compromise, recognizing real factual uncertainty regarding the risk distribution actually disputed here. 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.

83. B — B—Effective preparation always genuinely and quite clearly includes anticipating challenges to the arrangement's risk-shifting and distribution and preparing well-supported responses to those specific raised challenges. Assuming the Officer will accept the deduction without scrutiny, preparing only for personally interesting challenges, and preparing only for unrelated matters all reflect inadequate preparation.

84. A — A—This approach should reflect the understanding that strict compliance with genuine risk-shifting and distribution requirements is generally required, leaving genuinely little room for exceptions.

The IRS does not generally grant broad equitable exceptions upon request, the requirements are not merely advisory, and courts do not routinely excuse noncompliance regardless of circumstances.

85. C — A—Manual review should always genuinely focus on whether the claimed premium amount is genuinely properly supported and consistent with the arrangement's underlying policy terms. Reviewing only the federal portion as automatically reliable, reviewing no portion at all, and reviewing only identifying fields all fail to address this genuine calculation-specific risk.

86. D — D—This discovery always clearly illustrates the importance of reviewing how the deduction amount was actually calculated and confirming figures were entered only once here. The specific software version, the client's characterization preference, and the total years participating in such arrangements are all irrelevant to this genuine substantive single-entry review needed.

87. B — B—This obligation generally always applies to the return as a whole, genuinely including the specific policy and premium documentation supporting the claimed deduction itself. 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. C — C—Reasonable security should always genuinely reflect the genuine sensitivity and complexity of the underlying policy and financial data actually involved in this matter. 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. C — C—Approval always clearly and genuinely reflects meeting suitability standards regardless of whether the applicant's client base includes taxpayers with genuinely complex returns like captive insurance arrangements involved. Suitability does depend on the applicant's own tax compliance history being reviewed, background being reviewed, and the application information being verified for accuracy.

90. D — D—This decision should always carefully and genuinely include evaluating whether the firm genuinely has sufficient internal expertise or access to appropriate resources to competently handle these matters. 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 routine returns and returns involving genuinely complex issues like captive insurance deductions, 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. B — B—Form 8948 should reference the specific recognized exception category actually applicable to the paper filing, not the underlying complexity of the captive insurance issue itself. It should not merely reference the preparer's general opinion of captive insurance complexity, the specific insurance company used, or the preparer's unrelated past filing history.

93. B — B—A waiver request should not be based on the mere complexity of a client's captive insurance deduction, since complexity 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. A — A—The taxpayer generally must always review the completed return, including the claimed premium deduction, before signing the Form 8879 authorization for electronic filing purposes. The taxpayer need not personally understand every technical actuarial detail, need not obtain a separate independent verification, and need not sign a specific supplemental complexity acknowledgment form.

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

96. C — C—This confirmation should always carefully include checking whether the specific attachment genuinely requires separate Form 8453 transmittal under the current applicable instructions currently in effect. Whether the deduction is favorable or unfavorable, the specific deduction amount, and prior captive insurance history are all irrelevant to this specific transmittal requirement check.

97. C — C—Verification should always carefully confirm the specific identified error has been resolved without inadvertently altering the substantive deduction position actually taken on the return itself. The overall page count, the specific font used, and the taxpayer's refund method preference are all irrelevant to this genuine substantive verification actually needed here.

98. D — D—A sound protocol should always include escalation to a more experienced staff member genuinely familiar with the specific captive insurance rules actually involved in the return itself. Automatic assignment regardless of experience, no differentiated protocol at all, and automatic resubmission without review all fail to appropriately address this specific complexity.

99. A — A—Training should always clearly and genuinely address recognizing when complexity like a captive insurance deduction warrants additional internal review, given the genuinely heightened risk of errors performed. No additional review at all, automatic rejection of the engagement, and immediate escalation to the IRS bypassing internal review are all inappropriate responses.

100. B — B—This overall commitment reflects the recognition that genuine accuracy in complex matters requires the same careful compliance attention as any other filing the Provider handles. Complex returns do carry genuinely distinct compliance considerations, attention should not decrease with complexity, and complex filings do warrant genuine compliance attention, not only routine ones.