PRACTICE EXAM 10: ENROLLED AGENT SEE PART 1 — INDIVIDUALS SIMULATION (100 QUESTIONS)

This simulation exam contains 100 multiple-choice questions covering all six domains of the IRS Special Enrollment Examination (SEE) Part 1: Individuals, weighted to mirror the official exam's domain distribution. Select the single best answer for each question. A complete answer key with explanations follows the exam. Recommended time: 3.5 hours.

1. A preparer's new client is a recently naturalized U.S. citizen who previously filed returns using an ITIN before becoming a citizen and receiving a Social Security number. What should the preparer generally advise regarding the client's use of these two different identification numbers going forward?

A. The client should continue using the ITIN indefinitely, since a Social Security number issued after naturalization cannot be used for tax filing
B. The client should alternate between the two numbers each year, using whichever number was not used on the prior year's return
C. The client must use both numbers simultaneously on every future return filed, listing each number in a separate designated field
D. The client should generally use the new Social Security number on all future returns, since the ITIN generally should no longer be used once a valid Social Security number has been issued

2. A preparer's client wants to know whether providing consent for the preparer to disclose the client's tax return information to a third-party lender for a mortgage application requires a specific type of signed authorization beyond a simple verbal request. What does Circular 230 and related consent requirements generally require in this situation?

A. No written consent is ever required at all, since a client's simple verbal request is always fully sufficient authorization
B. Only the lender's own separate written request is required, with no consent needed at all from the client whose information is being disclosed
C. A specific written consent, generally satisfying the requirements under Section 7216, is generally required before a preparer may disclose a client's tax return information to a third party such as a lender

D. Disclosure is entirely prohibited under all circumstances, regardless of any consent the client might otherwise be willing to provide

3. A preparer's client asks whether an enrolled agent's authority to represent taxpayers before the IRS is limited to specific IRS regions or offices, or whether it extends nationwide regardless of where the client or the enrolled agent is physically located. What is the general scope of an enrolled agent's representation authority?

A. An enrolled agent's authority to represent taxpayers before the IRS generally extends nationwide, unlimited by any specific state or IRS regional office boundary

B. An enrolled agent's authority is generally limited only to the specific state in which the enrolled agent originally obtained their credential

C. An enrolled agent's authority is generally limited only to the specific IRS regional office nearest to the enrolled agent's business address

D. An enrolled agent's authority extends nationwide only for individual returns, but is limited to a single state for business tax matters

4. A preparer's client's return was selected for a correspondence audit, and the IRS letter requests documentation supporting a specific deduction claimed on the return. What is generally the preparer's recommended first step in responding to this type of audit notice?

A. Ignore the notice entirely, since a correspondence audit generally does not require any response at all from the taxpayer

B. Gather the specific documentation requested and respond by the deadline stated in the notice, addressing exactly what the IRS has asked for

C. Immediately file an amended return removing the deduction in question without first reviewing whether the deduction was actually properly supported

D. Request an in-person examination instead, since a correspondence audit is always less favorable to the taxpayer than an in-person audit

5. A preparer's client wants to know the general consequence of a paid preparer failing to obtain and retain the required due diligence documentation, such as Form 8867, when claiming the Earned Income Tax Credit on a client's return. What is a general consequence a preparer may face for this specific failure?

A. No consequence at all applies to the preparer personally, since any penalty for a due diligence failure falls solely on the client instead

B. The preparer may generally be subject to a per-return monetary penalty under Section 6695 for each failure to comply with the specific due diligence requirements

C. The preparer's PTIN is automatically and permanently revoked immediately upon any single due diligence documentation failure of any kind

D. The preparer becomes personally liable for repaying the full amount of the credit claimed, regardless of the client's actual eligibility

6. A preparer's client asks whether a tax return can generally be electronically signed by the taxpayer, rather than requiring a traditional wet-ink physical signature, when the return is being electronically filed through the preparer's e-file system. What is the general answer regarding electronic signatures for e-filed returns?

A. Yes, a taxpayer may generally use an approved electronic signature method, such as a self-select PIN or practitioner PIN, to authorize an e-filed return rather than a traditional wet-ink signature

B. No, a traditional wet-ink physical signature is always required on every return regardless of whether the return is filed electronically

C. Electronic signatures are permitted only for a taxpayer's state return, but a wet-ink signature is always still required for the federal return

D. Electronic signatures are permitted only for a business return, but a wet-ink signature is always still required for an individual return

7. A preparer's new client mentions during intake that they recently received a large inheritance, part of which was used to pay off the client's mortgage, and part of which was invested in a new taxable brokerage account. What is the general relevance of this specific information at the preliminary work stage of return preparation?

A. It has no relevance at all to the current return, since inherited amounts are never taxable and require no further preparer inquiry whatsoever

B. It is relevant only if the client itemizes deductions, and is otherwise entirely irrelevant regardless of the client's actual filing method

C. It is generally relevant preliminary information, since the inheritance itself is generally not taxable, but the mortgage payoff and new brokerage account may affect future deductions and reportable investment income going forward

D. It is relevant only for estate tax purposes, and has no bearing at all on the client's own individual income tax return

8. A preparer's client wants to know whether a taxpayer generally has the right to represent themselves before the IRS in an audit, without engaging a paid preparer or other representative at all. What is the general answer regarding a taxpayer's right of self-representation?

A. No, a taxpayer is generally required to engage a credentialed representative, such as an enrolled agent, before an audit can even legally proceed

B. Self-representation is permitted only for a correspondence audit, but a credentialed representative is always required for any in-person audit

C. Self-representation is permitted only if the taxpayer's proposed adjustment is under a specific low dollar threshold set by the IRS

D. Yes, a taxpayer generally has the right to represent themselves before the IRS in an audit or other matter, without engaging any paid preparer, enrolled agent, CPA, or attorney

9. A preparer's client, a small business owner, wants to know the general recommended minimum period for retaining employment tax records, including payroll records and related documentation, separate from the general three-year retention guideline that applies to most individual income tax records. What is the generally recommended retention period for employment tax records?

A. Generally at least four years from the date the tax becomes due or is paid, whichever is later, a period specifically longer than the general three-year individual return guideline

B. Exactly one year, identical to the shortest general retention guideline that applies to most other types of individual tax records

C. There is no recommended retention period at all for employment tax records, since the underlying employees' own records fully suffice instead

D. Exactly ten years, matching the retention period generally recommended specifically for real estate closing and purchase documents

10. A preparer's client asks whether a preparer who is also a notary public may notarize a document the preparer is separately compensated to prepare for that same client, such as a power of attorney form related to the client's tax matter. What is a general professional concern with this specific dual role?

A. There is no concern at all, since notarization and tax preparation are always considered entirely unrelated professional activities in every state
B. The concern applies only if the preparer charges an additional separate fee specifically for the notarization service itself
C. A general concern is a potential conflict of interest or appearance of impropriety, since the preparer has a direct financial interest in the underlying document being notarized for that same compensated client
D. The concern applies only if the document being notarized is unrelated to any tax matter, but never applies to a tax-related document

11. A preparer's client wants to know whether a Circular 230 written tax opinion, such as one addressing a specific complex transaction, must meet different and more rigorous standards than the informal advice the preparer typically provides during routine annual return preparation. What is the general answer?

A. No, both types of advice are always subject to identical standards under Circular 230, with no meaningful distinction between them at all
B. A formal written opinion is subject to less rigorous standards, since it is generally reviewed less closely by the IRS than a filed return
C. Circular 230 standards apply only to a filed tax return itself, and never apply at all to any form of written or oral tax advice
D. Yes, a formal written tax opinion is generally subject to more rigorous specific standards under Circular 230 than the informal advice typically given during routine return preparation

12. A preparer's client asks about the general difference between the IRS's Automated Underreporter (AUR) program, which generates CP2000 notices, and a traditional field or office examination conducted by a revenue agent. What is a key general distinction between these two types of IRS compliance activity?

A. Both processes are functionally identical in every respect, with no meaningful distinction between an automated matching program and a full examination

B. The AUR program generally identifies discrepancies through automated matching of third-party information returns against the filed return, while a traditional examination generally involves a more comprehensive, often in-person review conducted by a revenue agent

C. The AUR program always results in criminal tax charges, while a traditional examination never results in any criminal referral under any circumstances

D. A traditional examination is always faster and less thorough than the automated AUR matching process, which is the reverse of the general distinction

13. A preparer's client wants to know whether a taxpayer who disagrees with the outcome of an IRS audit has options for appealing that outcome before the matter proceeds to Tax Court litigation. What is a general administrative option generally available to a taxpayer in this specific situation?

A. No administrative appeal option is available at all; a taxpayer who disagrees with an audit result must proceed directly to Tax Court litigation

B. The taxpayer may generally request a review by the IRS Independent Office of Appeals, an administrative avenue for resolving disputes before proceeding to Tax Court litigation

C. The taxpayer must generally first sue the IRS in federal district court before any administrative appeal option becomes available at all

D. The taxpayer's only option is generally to request a private letter ruling from the IRS National Office, rather than pursuing any administrative appeal

14. A preparer's client asks whether an amended return, Form 1040-X, generally has its own separate statute of limitations for claiming a refund, distinct from the standard three-year assessment statute of limitations that applies to the IRS's ability to assess additional tax. What is the general refund claim limitations period?

A. Exactly one year from the original filing deadline, with no alternative measuring point based on when tax was actually paid

B. There is no limitations period at all for filing a refund claim; a taxpayer may generally claim a refund at any time without any deadline

C. Generally the later of three years from the date the original return was filed or two years from the date the tax was actually paid

D. Exactly five years from the original filing deadline, regardless of when any portion of the underlying tax was actually paid

15. A preparer's client wants to know the general purpose of Form 9465, Installment Agreement Request, when the client is unable to pay the full balance due shown on a filed return by the original due date. What is the general purpose of this specific form?

A. To request a formal, generally monthly payment arrangement with the IRS for paying an outstanding tax balance over time rather than in a single lump sum
B. To request a full and complete waiver of the entire tax balance due, rather than merely a structured payment arrangement over time
C. To formally dispute the accuracy of the tax balance shown as due, rather than to request any specific payment arrangement at all
D. To request an extension of the filing deadline itself, rather than to address the taxpayer's ability to actually pay the balance due

16. A preparer's client asks whether a preparer is permitted under Circular 230 to charge a contingent fee, meaning a fee based on a percentage of any refund obtained, for preparing an original, not-yet-audited individual income tax return. What is the general rule regarding contingent fees for this type of engagement?

A. Generally permitted without any restriction at all, since contingent fees are always allowed for any type of tax return preparation engagement
B. Permitted only if the client provides separate written consent specifically authorizing a contingent fee arrangement for the engagement
C. Permitted only for a business tax return, but always prohibited for any individual income tax return regardless of any other circumstance
D. Generally prohibited; contingent fees are generally not permitted for preparing an original tax return, with limited specific exceptions such as certain amended returns filed in connection with an IRS examination

17. A taxpayer received a Form 1099-INT reporting $900 in interest income from a corporate bond, along with a separate $150 in original issue discount (OID) reported in a different box on the same form, representing income the taxpayer must recognize even though no cash was actually paid for the OID portion during the year. How is this OID amount generally treated?

A. Entirely excluded from taxable income until the bond actually matures or is sold, regardless of what the Form 1099-INT itself separately reports

B. Includible only in the year the bond is sold, rather than annually as the OID accrues and is separately reported by the issuer

C. Generally includible in the taxpayer's taxable interest income for the year, even though no actual cash payment corresponding to the OID was received during the year

D. Treated as a nontaxable return of the taxpayer's own original principal investment rather than as taxable interest income

18. A taxpayer received a Form 1099-B reporting the sale of mutual fund shares during the year, with the specific identification cost basis method used to determine which particular shares were sold. What is the general effect of using the specific identification method rather than the default average cost or first-in-first-out method?

A. It has no effect at all on the taxpayer's reported gain or loss, since all cost basis methods always produce an identical result

B. It generally allows the taxpayer to select which specific shares, with their own specific holding periods and cost bases, are treated as sold, potentially allowing more favorable tax results

C. It generally requires the taxpayer to report all shares held as sold simultaneously, regardless of how many shares were actually sold

D. It is available only for a sale of individual stock and is never available at all for a sale of mutual fund shares

19. A taxpayer received a $5,000 Form 1099-R distribution from a traditional IRA, coded as a direct rollover to another traditional IRA completed by the custodian via a trustee-to-trustee transfer, with the taxpayer never actually taking possession of the funds. How is this specific direct rollover distribution generally treated?

A. Generally not includible in the taxpayer's taxable income, since a properly completed direct trustee-to-trustee rollover is not treated as a taxable distribution to the taxpayer

B. Fully includible in the taxpayer's taxable income exactly as an ordinary distribution the taxpayer actually received and kept would be treated

C. Includible only to the extent the rollover was not completed within the specific 60-day window applicable to this type of transfer

D. Subject to the 10% early distribution penalty in addition to being includible in the taxpayer's ordinary taxable income for the year

20. A taxpayer received $4,500 in workers' compensation benefits during the year, paid due to a work-related injury under the applicable state workers' compensation law. How is this workers' compensation payment generally treated for federal income tax purposes?

A. Fully includible in the taxpayer's taxable income exactly as regular wage income from the taxpayer's employer would be reported
B. Includible only to the extent the benefit exceeds the taxpayer's regular pre-injury salary for the same period of time
C. Subject to a separate flat withholding tax applied directly by the state workers' compensation agency before the benefit is paid
D. Generally excluded entirely from the taxpayer's gross income, since workers' compensation paid under a workers' compensation act for a work-related injury is generally not taxable

21. A taxpayer received a $3,000 payment from a qualified tuition program (529 plan) during the year, used entirely for the beneficiary's qualified higher education expenses, with the distribution consisting of $2,000 in original contributions and $1,000 in accumulated earnings. How is this qualified distribution generally treated?

A. Only the $2,000 contribution portion is excluded, with the $1,000 in earnings fully includible in taxable income regardless of how the funds were used
B. The entire $3,000 distribution, including both the contribution and earnings portions, is generally excluded entirely from taxable income, since the funds were used for qualified higher education expenses
C. Only the $1,000 earnings portion is excluded, with the $2,000 contribution portion fully includible in taxable income regardless of how the funds were used
D. The entire $3,000 distribution is fully includible in taxable income, since 529 plan distributions are never eligible for any tax exclusion

22. A taxpayer received a $2,000 payment characterized as a security deposit from a tenant renting the taxpayer's rental property, with the lease agreement specifying the deposit is fully refundable at the end of the lease term if the property is returned undamaged. How is this security deposit generally treated when received?

A. Fully includible in the taxpayer's taxable rental income for the year received, exactly as a regular monthly rent payment would be treated

B. Includible only to the extent the deposit exceeds one full month's regular rental payment under the terms of the lease agreement

C. Generally not includible in the taxpayer's taxable income when received, since it is intended to be fully refundable and does not represent current rental income to the landlord

D. Subject to a separate flat withholding tax applied directly to the deposit amount before it is received by the landlord

23. A taxpayer received a $1,500 payment from an employer-sponsored group-term life insurance plan providing $75,000 of coverage, an amount exceeding the $50,000 coverage threshold above which the cost of employer-provided group-term life insurance generally becomes partially taxable to the employee. How is the cost of coverage above this $50,000 threshold generally treated?

A. Generally includible in the employee's taxable wages, calculated using the IRS's Table I cost figures for the specific amount of coverage exceeding $50,000

B. Entirely excluded from the employee's taxable wages regardless of the total amount of group-term life insurance coverage actually provided

C. Includible only if the employee's beneficiary actually receives a death benefit payment under the policy during the same tax year

D. Subject to a separate flat 37% withholding tax applied directly to the full value of coverage exceeding the $50,000 threshold

24. A taxpayer received a $2,800 distribution from a nonqualified stock option exercise during the year, representing the bargain element between the exercise price and the stock's fair market value on the date of exercise for a nonqualified stock option (NSO), as distinguished from an incentive stock option. How is this bargain element generally taxed?

A. Entirely excluded from taxable income at exercise, with taxation deferred entirely until the underlying shares are eventually sold by the taxpayer

B. Taxed at the preferential long-term capital gains rate at exercise, rather than at the taxpayer's ordinary income tax rate for the year

C. Subject only to the 10% early distribution penalty without also being includible in the taxpayer's ordinary taxable wage income

D. Generally includible in the taxpayer's ordinary taxable wage income in the year of exercise, subject to standard payroll tax withholding, unlike the different treatment that generally applies to an incentive stock option

25. A taxpayer received $600 in interest income from a personal loan the taxpayer made to a family member, with the loan properly documented and interest charged at a stated market rate. How is this interest income generally treated for federal tax purposes, from the perspective of the taxpayer who made the loan and received the interest?

A. Entirely excluded from taxable income, since interest received from a family member is treated as a nontaxable gift rather than as interest income
B. Includible only to the extent the interest rate charged exceeds a specific statutory maximum family-loan interest rate ceiling
C. Generally includible in the taxpayer's taxable interest income for the year, in the same general manner as interest received from any other type of debt instrument
D. Treated as capital gain income rather than as ordinary interest income, since the underlying loan was made to a family member

26. A taxpayer received a $9,000 payment from a traditional pension plan structured as a joint and survivor annuity, where the taxpayer made no after-tax contributions to the plan and the entire pension was funded entirely by the employer. How is this joint and survivor annuity payment generally taxed to the taxpayer during their own lifetime?

A. Generally fully includible in the taxpayer's ordinary taxable income for the year received, since the pension was funded entirely with pretax employer contributions and the taxpayer has no basis to recover tax-free
B. Entirely excluded from taxable income, since a joint and survivor annuity structure receives different, more favorable tax treatment than a single-life annuity
C. Includible only to the extent the payment exceeds what a comparable single-life annuity would have paid to the taxpayer alone
D. Taxable only in the years after the taxpayer's death, when the surviving spouse begins actually receiving the joint and survivor benefit

27. A taxpayer received a $4,000 payment from an employer's qualified moving expense reimbursement, provided to a civilian employee relocating for a new job assignment with the same employer during the current tax year. How is this specific civilian moving expense reimbursement generally treated under current law?

A. Entirely excluded from the employee's taxable wages, since qualified moving expense reimbursements remain fully excludable for any employee under current law

B. Includible only to the extent the reimbursement exceeds the employee's actual documented moving expenses under an accountable plan

C. Subject only to the 10% early distribution penalty without also being includible in the employee's regular taxable wage income

D. Generally fully includible in the employee's taxable wages, since the general exclusion for employer-provided moving expense reimbursements has been suspended for most civilian employees under current law

28. A taxpayer received a $500 payment as a referral bonus from their bank for referring a new customer who opened a checking account, paid directly into the taxpayer's own existing account at that same bank. How is this bank referral bonus generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since a bank referral bonus is treated as a nontaxable rebate or discount rather than as income

B. Generally includible in the taxpayer's gross income as miscellaneous taxable income, similar to how a bank account-opening bonus is generally treated

C. Includible only to the extent the bonus exceeds a specific flat statutory annual bank bonus exclusion threshold amount

D. Treated as tax-exempt interest income rather than as ordinary miscellaneous income, since it was paid directly by a bank

29. A taxpayer received a $1,200 payment from a qualified state tuition prepayment program refund, after the designated beneficiary decided not to attend college and the account was closed with the original contributions, but no earnings, refunded to the taxpayer-contributor. How is this specific refund of original contributions generally treated?

A. Fully includible in the taxpayer's taxable income exactly as a normal, non-qualified distribution including earnings would be treated

B. Includible only to the extent the refund exceeds the beneficiary's actual documented tuition expenses paid during the same year

C. Subject to the 10% additional tax penalty despite representing solely a return of the taxpayer's own original contributions

D. Generally not includible in the taxpayer's taxable income, since the refunded amount represents a return of the taxpayer's own original, already-taxed contributions with no earnings included

30. A taxpayer received $2,200 in combined qualified dividends and net long-term capital gain during the year, and separately has $60,000 of ordinary taxable income from wages, placing the taxpayer's total taxable income within the 15% preferential rate bracket for this specific category of income. How is this $2,200 generally taxed?

A. Taxed at the taxpayer's full ordinary marginal tax rate applicable to the wage income, rather than at any separate preferential rate

B. Taxed at a 15% preferential federal rate, since the taxpayer's total taxable income places this specific portion of income within the applicable 15% preferential rate bracket

C. Taxed at a flat 20% rate regardless of the taxpayer's total taxable income or which specific preferential rate bracket actually applies

D. Entirely excluded from taxation altogether, since qualified dividends and long-term capital gain are always fully tax-exempt income

31. A taxpayer received a Form 1099-NEC reporting $8,000 in nonemployee compensation for consulting work performed as an independent contractor throughout the year, with the taxpayer regularly and continuously engaged in this consulting activity as an ongoing trade or business. How is this income generally reported and treated?

A. Generally reported on Schedule C as self-employment income, subject to both federal income tax and self-employment tax on the resulting net profit

B. Generally reported on Schedule E as passive income, generally not subject to self-employment tax regardless of the taxpayer's level of activity

C. Entirely excluded from taxable income, since Form 1099-NEC income is treated as a nontaxable reimbursement rather than as compensation

D. Reported as wage income on Form 1040 directly, exactly as it would be if the taxpayer were a traditional W-2 employee

32. A taxpayer received a $3,500 payment representing accrued, unused vacation pay from a former employer, paid out in a lump sum upon the taxpayer's voluntary resignation from the company. How is this accrued vacation pay generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since accrued vacation pay paid upon resignation is treated as a nontaxable return of the employee's own time

B. Includible only to the extent the payment exceeds the employee's final regular paycheck amount from the same former employer

C. Generally treated as fully taxable wage income, subject to standard federal income tax withholding and payroll taxes, in the same manner as regular compensation

D. Treated as capital gain income rather than as ordinary wage income, since it represents accumulated value rather than current services

33. A taxpayer received a $700 payment from a qualified state-sponsored 529 ABLE account distribution, used entirely for the disabled beneficiary's qualified disability expenses during the year. How is this qualified ABLE account distribution generally treated for the disabled beneficiary?

A. Fully includible in the beneficiary's taxable income exactly as a non-qualified ABLE account distribution would be treated

B. Generally excluded entirely from the beneficiary's taxable income, since the distribution was used entirely for qualified disability expenses under the applicable ABLE account rules

C. Includible only to the extent the distribution exceeds the beneficiary's own original contributions made into the ABLE account

D. Subject to the 10% additional tax penalty despite being used entirely for the beneficiary's own qualified disability expenses

34. A taxpayer received a $2,000 payment from a qualified retirement plan characterized as a hardship withdrawal, taken due to an immediate and heavy financial need as defined under the plan's own specific hardship withdrawal provisions, with the taxpayer under age 59½ at the time of the withdrawal. How is this hardship withdrawal generally taxed?

A. Entirely excluded from both ordinary income tax and the 10% early distribution penalty, since a qualifying hardship automatically satisfies both requirements

B. Subject only to the 10% early distribution penalty without the underlying withdrawal amount also being includible in ordinary taxable income

C. Excluded from ordinary income tax but still subject to the 10% early distribution penalty, the reverse of the correct general treatment

D. Generally includible in the taxpayer's ordinary taxable income and subject to the 10% early distribution penalty, unless a separate specific penalty exception independently applies

35. A taxpayer received $1,000 in dividend income from shares held in a Real Estate Investment Trust (REIT), where the REIT dividend was characterized on the Form 1099-DIV as ordinary, non-qualified income rather than as a qualified dividend. How is this specific type of REIT dividend generally taxed?

A. Taxed at the preferential 0%, 15%, or 20% long-term capital gains rate, exactly as a qualified dividend from an ordinary corporation would be taxed

B. Entirely excluded from taxable income, since REIT dividends receive a special statutory exclusion not available for other types of corporate dividends

C. Generally taxed at the taxpayer's ordinary income tax rate, since most REIT dividends do not meet the specific requirements to be treated as qualified dividends eligible for the preferential capital gains rate

D. Subject to a separate flat 37% rate distinct from both the taxpayer's ordinary income tax rate and the preferential capital gains rate

36. A taxpayer received a $2,500 payment from a whole life insurance policy surrendered for its cash value during the year, where the total cash value received exceeded the total premiums the taxpayer had paid into the policy over its life by $600. How is this specific policy surrender generally taxed?

A. The $600 excess of cash value received over total premiums paid is generally includible in the taxpayer's ordinary taxable income, with the remaining amount treated as a nontaxable return of the taxpayer's own investment in the policy

B. The full $2,500 cash value received is entirely excluded from taxable income, since life insurance policy proceeds are always fully tax-exempt regardless of any gain

C. The full $2,500 cash value received is fully includible in taxable income, since a policy surrender is never treated as a partial return of the taxpayer's own investment

D. The $600 excess is taxed at the preferential long-term capital gains rate rather than at the taxpayer's ordinary income tax rate for the year

37. A taxpayer's total itemized deductions include $2,500 in unreimbursed gambling losses and a separate $4,000 in mortgage interest, with the taxpayer's total gambling winnings for the year reported at $3,000. What is the taxpayer's total generally allowable itemized deduction from these two specific items combined?

A. $6,500, combining the full $4,000 mortgage interest deduction with the full $2,500 in documented gambling losses with no separate cap applied

B. $4,000, allowing only the mortgage interest deduction, with the entire gambling loss disallowed regardless of the amount of winnings reported

C. $7,000, combining the full $4,000 mortgage interest deduction with a $3,000 gambling loss deduction, since the loss deduction is capped at the amount of winnings reported

D. $7,500, combining the full $4,000 mortgage interest deduction with the full $3,000 in gambling winnings rather than the losses themselves

38. A taxpayer's total charitable contribution deduction includes $200 in cash donated to a political campaign committee during an election year, in addition to $800 donated to a qualified 501(c)(3) public charity. How is the $200 political contribution generally treated for charitable deduction purposes?

A. The $200 political contribution is generally not deductible at all as a charitable contribution, since a political campaign committee does not qualify as an eligible charitable organization

B. The $200 political contribution is fully deductible, identical in treatment to the separate $800 contribution made to the qualified public charity

C. The $200 political contribution is deductible at a reduced 50% rate compared to the full deduction available for the $800 charitable contribution

D. The $200 political contribution is deductible only as a nonrefundable tax credit rather than as any form of itemized charitable deduction

39. A taxpayer's Child Tax Credit calculation involves two qualifying children under age 17, and the couple's calculated regular tax liability before credits is only $1,200, less than the full $4,000 combined credit that would otherwise be available for both children. What generally happens to the portion of the credit exceeding the taxpayer's regular tax liability?

A. The excess portion is entirely forfeited in full, with no refundable component of the Child Tax Credit available under any circumstances

B. The excess portion may generally be claimed as the refundable Additional Child Tax Credit, subject to its own separate applicable calculation and dollar limitations

C. The excess portion is automatically carried forward and added to the following year's Child Tax Credit calculation instead of being addressed currently

D. The excess portion converts automatically into an equivalent increase in the taxpayer's standard deduction for the following tax year

40. A taxpayer's mortgage interest deduction includes interest paid on a mortgage for a second home used personally by the taxpayer for vacation purposes, in addition to the taxpayer's primary residence mortgage, with the combined acquisition debt on both homes falling under the applicable $750,000 limit. How is the second home's mortgage interest generally treated?

A. Generally not deductible at all, since the mortgage interest deduction applies only to a taxpayer's single primary residence and never to a second home

B. Generally deductible only at a reduced 50% rate compared to the full deduction available for the taxpayer's primary residence mortgage interest

C. Generally deductible only if the second home is rented out for at least part of the year rather than used entirely for personal purposes

D. Generally deductible as home mortgage interest, since the mortgage interest deduction generally applies to acquisition debt on both a taxpayer's primary residence and one qualifying second home combined

41. A taxpayer's total Qualified Business Income (QBI) deduction calculation involves a rental real estate activity that rises to the level of a trade or business under the applicable safe harbor or general facts-and-circumstances standard, generating $10,000 of qualifying rental income for the year. How is this rental activity generally treated for QBI purposes?

A. Rental real estate activity is always entirely excluded from QBI deduction eligibility, regardless of whether it rises to the level of a trade or business

B. Rental real estate activity is eligible for the QBI deduction only if it is conducted through a formally organized corporation rather than an individual

C. The rental activity's qualifying income may generally be included in the taxpayer's QBI deduction calculation, since a rental activity that rises to the level of a trade or business is generally eligible for the QBI deduction

D. Rental real estate activity is eligible for the QBI deduction only if the taxpayer is also a licensed real estate professional under state law

42. A taxpayer's total itemized deductions include $3,000 paid for tax return preparation fees related to the taxpayer's personal individual income tax return for the year. How are these specific tax preparation fees generally treated under current law?

A. Generally not deductible at all for most individual taxpayers, since the miscellaneous itemized deduction subject to the 2% AGI floor, which previously allowed this deduction, has been suspended under current law

B. Fully deductible as a miscellaneous itemized deduction subject only to the applicable 2% AGI floor limitation under current law

C. Fully deductible as an above-the-line adjustment to income, available regardless of whether the taxpayer itemizes deductions for the year

D. Deductible dollar-for-dollar as a nonrefundable tax credit rather than as any form of itemized deduction on Schedule A

43. A taxpayer's total foreign earned income for the year is $95,000, all earned while working abroad and qualifying for the Foreign Earned Income Exclusion, with the applicable annual exclusion limit for the year set at $126,500. What is the general amount of foreign earned income the taxpayer may generally exclude?

A. Only $126,500, applying the full annual exclusion limit itself rather than the taxpayer's own smaller actual foreign earned income amount

B. The full $95,000, since the taxpayer's total foreign earned income falls entirely under the applicable annual exclusion limit for the year

C. $31,500, representing only the difference between the annual exclusion limit and the taxpayer's actual foreign earned income for the year

D. $0, since a taxpayer may never actually exclude foreign earned income unless it exceeds the full applicable annual exclusion limit

44. A taxpayer's total mortgage interest deduction includes interest on a mortgage originated before the applicable current-law $750,000 threshold date, with the mortgage balance at $900,000, exceeding the current $750,000 limit but falling under the higher $1,000,000 limit that applied to older mortgages. How is this interest generally treated?

A. Generally deductible only up to the lower $750,000 limit, since the higher $1,000,000 limit no longer applies to any mortgage regardless of its origination date

B. Generally not deductible at all, since any mortgage balance exceeding $750,000 is entirely disqualified from the mortgage interest deduction under current law

C. Generally fully deductible up to the higher $1,000,000 acquisition debt limit that applies to a mortgage originated before the applicable current-law threshold date, a specific grandfathering provision

D. Generally deductible at a reduced 50% rate applied to the full $900,000 mortgage balance, rather than being either fully deductible or fully disallowed

45. A taxpayer's total Adoption Credit calculation includes $6,000 of qualified adoption expenses paid in the year before the adoption became final, and an additional $4,000 paid in the year the adoption actually became final, for a domestic adoption. How are these expenses generally treated across the two different tax years?

A. All expenses, regardless of which specific year they were actually paid, must generally be claimed together only in the year the adoption becomes final

B. Expenses paid before the adoption becomes final are entirely forfeited and never eligible for the Adoption Credit under any circumstances

C. All expenses must generally be claimed in the year immediately following the year the adoption becomes final, regardless of when each amount was actually paid

D. Expenses paid in a year before the adoption becomes final are generally claimed as a credit in the year following the year paid, while expenses paid in the year the adoption becomes final are generally claimed in that same final year

46. A taxpayer's total itemized deductions include $1,200 paid in investment advisory fees related to managing the taxpayer's personal taxable investment portfolio during the year. How are these specific investment advisory fees generally treated under current law?

A. Fully deductible as a miscellaneous itemized deduction subject only to the applicable 2% AGI floor limitation under current law

B. Generally not deductible at all for most individual taxpayers, since the miscellaneous itemized deduction subject to the 2% AGI floor, which previously allowed this deduction, has been suspended under current law

C. Fully deductible as an above-the-line adjustment to income, available regardless of whether the taxpayer itemizes deductions for the year

D. Deductible dollar-for-dollar as a nonrefundable tax credit rather than as any form of itemized deduction on Schedule A

47. A taxpayer's total Premium Tax Credit calculation reconciles advance premium tax credit payments of $4,500 received during the year against the taxpayer's actual calculated allowable credit of $3,800, based on the taxpayer's final household income for the year. What is the general result of this specific reconciliation?

A. The taxpayer generally receives an additional $700 credit, rather than owing a repayment, since more was paid than the taxpayer actually needed

B. No reconciliation or repayment is ever required, since advance premium tax credit payments are treated as a fully nonrefundable gift from the government

C. The full $4,500 in advance payments must generally be repaid in full, regardless of the taxpayer's own separately calculated actual allowable credit

D. The taxpayer generally must repay $700, the excess of the advance payments received over the actual allowable credit, subject to an applicable repayment limitation based on household income

48. A taxpayer's total Child and Dependent Care Credit calculation involves care expenses paid to a licensed day care facility for the taxpayer's two qualifying children, while the taxpayer's spouse was a full-time student for five months during the year and had no actual earned income of their own. How does the spouse's status generally affect the credit calculation?

A. A full-time student spouse for at least five months is generally deemed to have earned income of $250 per month for the credit's earned income limitation

B. The spouse's full-time student status entirely disqualifies the couple from claiming any Child and Dependent Care Credit for the year

C. The spouse's lack of actual earned income has no bearing at all on the credit calculation, since only one spouse's earned income is ever considered

D. The couple must wait until the spouse graduates and begins actually earning income before any portion of the credit becomes available

49. A taxpayer's total itemized deductions include $500 in investment interest expense, incurred on a margin loan used to purchase taxable investment securities, with the taxpayer's net investment income for the year totaling only $300. What is the maximum investment interest expense deduction generally available for the current year?

A. $300, since the investment interest expense deduction is generally limited to the taxpayer's net investment income for the year, with any excess interest expense carried forward
B. The full $500, since investment interest expense is always fully deductible regardless of the taxpayer's actual net investment income for the year
C. $200, representing the excess of the interest expense over net investment income, deductible immediately rather than carried forward to a future year
D. $0, since no investment interest expense deduction at all is available once a taxpayer's net investment income falls under the total interest expense

50. A taxpayer's total itemized deductions include a $2,000 casualty loss from a fire that damaged the taxpayer's rental property, an income-producing business asset rather than the taxpayer's personal residence. How is this specific business-use casualty loss generally treated, compared to a personal-use casualty loss occurring outside a federally declared disaster area?

A. Subject to the identical federally-declared-disaster-area limitation that currently restricts a personal-use casualty loss under current law
B. Generally deductible as a business casualty loss without the same federally-declared-disaster-area limitation that currently restricts the deductibility of a personal-use casualty loss
C. Entirely nondeductible under current law, since the current casualty loss suspension applies equally to both personal-use and business-use property
D. Deductible only as a nonrefundable tax credit rather than as any form of business expense deduction related to the rental activity

51. A taxpayer's total Saver's Credit (Retirement Savings Contributions Credit) calculation involves $1,800 of eligible retirement plan contributions made during the year, with the taxpayer's AGI falling within the applicable range that corresponds to a 20% credit rate for the taxpayer's filing status. What is the resulting Saver's Credit?

A. $400, using an incorrect calculation applying 20% to the full $2,000 cap rather than the taxpayer's actual $1,800 in eligible contributions

B. $1,800, the full contribution amount with no percentage-based credit rate applied at all to the eligible contribution amount

C. $360, calculated as 20% applied to the full $1,800 in eligible contributions, since that amount falls under the $2,000 maximum eligible contribution cap

D. $180, using an incorrect 10% rate rather than the applicable 20% rate that applies at this taxpayer's specific AGI level

52. A taxpayer's total itemized deductions include $1,500 in points paid to refinance an existing mortgage on the taxpayer's primary residence, where the refinance did not involve the initial purchase of the home. How are these specific refinance points generally treated for the year paid?

A. Generally fully deductible in the year paid, in the identical manner as points paid to purchase a taxpayer's primary residence would be treated

B. Generally not deductible at all in any year, since points paid on a refinance transaction are never treated as deductible mortgage interest

C. Generally deductible only in the final year of the new refinanced mortgage, when the loan is either paid off or refinanced again

D. Generally deductible ratably over the life of the new refinanced loan, rather than fully deductible in the single year the points were actually paid

53. A taxpayer's total Earned Income Tax Credit calculation involves a taxpayer with no qualifying children, whose earned income and AGI both fall under the applicable threshold for a childless filer, and who meets the applicable minimum and maximum age requirements for a childless EITC claimant. What is the general availability of the EITC in this specific situation?

A. The EITC is entirely unavailable to any taxpayer without at least one qualifying child, regardless of the taxpayer's income or age

B. The taxpayer may generally still qualify for a smaller EITC amount available to an eligible childless worker, provided the applicable age, income, and other eligibility requirements are all met

C. The taxpayer qualifies for the full maximum EITC amount, identical to the amount available to a taxpayer with multiple qualifying children

D. The EITC is available to a childless taxpayer only if that taxpayer is also permanently and totally disabled under the applicable definition

54. A taxpayer's total itemized deductions include $500 in state disability insurance contributions withheld from the taxpayer's wages under a mandatory state program, in addition to $6,000 in regular state income tax withholding. How are these mandatory state disability insurance contributions generally treated for federal itemized deduction purposes?

A. Generally deductible as part of the taxpayer's state and local tax itemized deduction, combined with the state income tax withholding, subject to the overall $10,000 SALT cap

B. Entirely excluded from any itemized deduction category, since mandatory state disability insurance contributions are never treated as a deductible state tax

C. Deductible only as a separate above-the-line adjustment to income, rather than as part of the combined state and local tax itemized deduction

D. Deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as part of the state and local tax deduction

55. A taxpayer's total mortgage interest deduction includes interest on acquisition debt used to substantially improve the taxpayer's primary residence, such as a major kitchen renovation, financed through a newly originated home equity loan secured by that same residence. How is this specific home equity loan interest generally treated?

A. Generally not deductible at all, since home equity loan interest is never deductible under current law, regardless of how the loan proceeds are actually used

B. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as home mortgage interest on Schedule A

C. Generally deductible as home mortgage interest, since current law allows the deduction for home equity loan interest when the loan proceeds are used to substantially improve the home securing the loan

D. Generally deductible at a reduced rate compared to interest on the taxpayer's original acquisition mortgage, rather than being fully deductible under the same rules

56. A taxpayer's total Lifetime Learning Credit calculation includes $3,000 of qualified education expenses paid for a single course taken to improve job skills at an eligible institution, with the taxpayer's modified AGI falling well under the applicable phase-out threshold for the credit. What is the maximum Lifetime Learning Credit generally available?

A. $3,000, the full expense amount with no percentage-based limitation applied at all to the qualifying education expenses for the course

B. $750, using an incorrect 25% rate rather than the applicable 20% rate that applies under the Lifetime Learning Credit calculation

C. $0, since the Lifetime Learning Credit is unavailable for a single course rather than a full degree or certificate program

D. $600, calculated as 20% applied to the full $3,000 in qualifying expenses, since that amount falls under the credit's $10,000 annual expense cap

57. A single taxpayer's total taxable income for the year, $185,000, is calculated using the standard progressive marginal bracket structure applicable to a Single filer, spanning several different marginal tax brackets from the lowest rate up through a higher rate reached by the taxpayer's top slice of income. How is the taxpayer's total tax liability generally calculated?

A. By applying the single highest marginal rate the taxpayer's income reaches to the taxpayer's entire $185,000 in total taxable income

B. By applying each progressively higher marginal rate only to the specific slice of income falling within that particular bracket, then summing the resulting tax owed across all brackets the taxpayer's income actually passes through

C. By applying the lowest marginal bracket rate to the taxpayer's entire $185,000 in total taxable income for the year

D. By dividing the $185,000 by the total number of brackets crossed and applying a simple average rate to the full amount

58. A married couple filing jointly recognizes $30,000 of net short-term capital gain and a separate $45,000 of net long-term capital loss during the year, from unrelated investment transactions after separate internal netting within each category. How is the resulting net capital position generally treated for the current tax year?

A. The full $30,000 short-term gain is taxed as ordinary income, with the entire separate $45,000 long-term loss disregarded entirely for the current year

B. The two amounts cannot be netted against each other at all, since one is short-term and the other is long-term in character

C. The full $45,000 long-term loss is immediately and fully deductible against ordinary income in the current year with no annual limitation applied

D. The $30,000 short-term gain is fully offset by the $45,000 long-term loss, leaving a $15,000 net capital loss, of which $3,000 is deductible against ordinary income this year, with the remainder carried forward

59. A taxpayer's total tax liability calculation includes a distribution from a traditional IRA taken as part of a series of substantially equal periodic payments under the Section 72(t) exception, but the taxpayer modifies the payment schedule in year three of the required minimum five-year duration. What is the general tax consequence of this early modification?

A. The 10% early distribution penalty generally becomes retroactively applicable to all prior distributions taken under the exception, recalculated as if the exception had never applied from the start

B. No consequence at all applies, since a taxpayer may freely modify a substantially equal periodic payment schedule at any point without any penalty risk

C. Only the specific distribution taken in the year of modification becomes subject to the penalty, with all prior years' distributions remaining fully protected

D. The modification simply restarts the required five-year holding period going forward, without any penalty applying to distributions already taken in prior years

60. A taxpayer's total tax liability calculation includes the alternative minimum tax, where a specific AMT adjustment arises from the difference between regular tax depreciation and the generally slower AMT depreciation method required for certain business property. What is the general purpose of this specific AMT depreciation adjustment?

A. To eliminate depreciation entirely from the AMT calculation, treating all business property as fully expensed immediately for AMT purposes

B. To apply the exact same accelerated depreciation method for both regular tax and AMT purposes, eliminating any adjustment between the two

C. To recompute depreciation using the specific, generally less accelerated AMT depreciation method for AMT purposes, which can result in a positive AMT adjustment when regular tax depreciation is more accelerated

D. To apply a different depreciation method only for real property, while personal property automatically uses the identical method for both purposes

61. A taxpayer's total tax liability calculation includes the Net Investment Income Tax applied to net rental income from a rental property in which the taxpayer does not materially participate, treating the rental activity as passive for this specific purpose. How is rental income from a passive rental activity generally treated for NIIT purposes?

A. Entirely excluded from net investment income, since rental income is never treated as investment income regardless of the taxpayer's participation level

B. Generally included in net investment income subject to the 3.8% NIIT, since passive rental income generally falls within the statutory definition of net investment income for this specific tax

C. Included in net investment income only if the rental property was also sold during the same tax year that generated the rental income

D. Subject to the NIIT only if the taxpayer also owns the rental property through a formally organized corporation rather than individually

62. A taxpayer's total tax liability calculation includes recognition of a $20,000 gain on the sale of section 1231 business property, where the taxpayer had $8,000 of unrecaptured section 1231 losses from the five preceding tax years that must first be recaptured against this current-year gain. What is the general effect of this specific 1231 lookback recapture rule?

A. The prior-year 1231 losses have no effect at all on the current-year gain's character, which remains entirely capital gain regardless of any prior losses

B. The prior-year 1231 losses entirely eliminate the current-year gain from taxation altogether, rather than merely recharacterizing a portion of it

C. The $8,000 in prior-year unrecaptured 1231 losses generally converts an equivalent portion of the current-year 1231 gain from capital gain treatment into ordinary income treatment

D. The prior-year 1231 losses convert the entire $20,000 current-year gain into ordinary income, rather than only the specific $8,000 lookback portion

63. A taxpayer's total tax liability calculation includes recognition of gain from an installment sale of business property to a related party, where the related-party purchaser resells the property to an unrelated third party within two years of the original installment sale. What is a general special rule that applies to this specific related-party installment sale scenario?

A. The original seller generally must accelerate recognition of the remaining deferred gain, treating the amount realized by the related party on the resale as if it were received directly by the original seller

B. No special rule at all applies to a related-party installment sale, which is treated identically to a sale between two entirely unrelated parties

C. The original seller is entirely excused from recognizing any further gain once the related party independently resells the property to a third party

D. The special rule applies only if the resale to the unrelated third party also occurs using the installment method rather than for cash

64. A taxpayer's total tax liability calculation includes a $5,000 recognized gain on the sale of Section 1244 small business corporation stock at a loss in a prior year that had previously been treated as an ordinary loss rather than a capital loss, up to the applicable annual dollar limitation for Section 1244 stock. What is the general purpose of this specific Section 1244 provision?

A. To eliminate self-employment tax on income earned by the owners of a qualifying small business corporation regardless of the corporation's structure

B. To require any gain, rather than a loss, on qualifying small business stock be treated as ordinary income rather than as capital gain

C. To eliminate the need to report a qualifying small business stock loss at all on the taxpayer's individual income tax return

D. To allow an eligible taxpayer to treat a loss on qualifying small business corporation stock as an ordinary loss, rather than a capital loss, up to an applicable annual dollar limitation, providing more favorable loss treatment

65. A taxpayer's total tax liability calculation includes an accuracy-related penalty for negligence, distinct from the separate accuracy-related penalty ground for a substantial understatement of income tax, both potentially applicable to the same underpayment amount. What is a general basis for the negligence component of this specific accuracy-related penalty?

A. A generally careless disregard of tax rules and regulations, or a failure to make a reasonable attempt to comply with the tax law, without necessarily involving a substantial dollar understatement threshold

B. Negligence generally requires proof of intentional civil tax fraud, identical to the higher standard required for the separate civil fraud penalty

C. Negligence applies only once the underpayment amount independently exceeds the same specific dollar threshold required for the substantial understatement penalty ground

D. Negligence generally applies only to a business tax return and never applies at all to an individual's personal income tax return

66. A taxpayer's total tax liability calculation includes tax on a distribution from a traditional IRA that the taxpayer intended to roll over within the required 60-day window, but the taxpayer missed the deadline due to a documented medical emergency during that specific period. What is a general option that might allow the taxpayer to still complete the rollover?

A. No option at all exists once the 60-day rollover deadline has passed; the distribution becomes permanently and irrevocably taxable with no possible exception

B. The taxpayer may generally qualify for a self-certification procedure or request a formal waiver of the 60-day rollover deadline from the IRS, based on specific documented mitigating circumstances such as a medical emergency

C. The taxpayer must simply wait exactly one additional year before the same funds may again be rolled over under a completely new 60-day window

D. The deadline automatically extends to 120 days for any taxpayer who can show any documented reason at all for missing the original deadline

67. A taxpayer's total tax liability calculation includes a $3,000 recognized gain from the sale of a business vehicle used entirely for business purposes, where the vehicle's adjusted basis reflects prior depreciation deductions claimed against the vehicle over its years of business use. How is this gain generally characterized under the depreciation recapture rules for this type of property?

A. Entirely characterized as ordinary income, since any gain on the sale of depreciated business personal property is always fully ordinary income under current law

B. Entirely characterized as capital gain, since depreciation recapture rules apply only to real property and never apply at all to a business vehicle

C. Generally characterized in part as ordinary income under Section 1245 depreciation recapture, to the extent of the depreciation previously claimed, with any remaining gain treated as Section 1231 gain

D. Entirely excluded from taxation altogether, since the vehicle was used entirely for legitimate business purposes throughout its period of ownership

68. A taxpayer's total tax liability calculation includes an accuracy-related penalty ground based on a substantial valuation misstatement, applicable to certain overstatements of value or basis claimed on a return, distinct from a substantial understatement of income tax. What is a general threshold that triggers this specific valuation misstatement penalty ground?

A. Generally when the value or adjusted basis of property claimed on the return is even 5% higher than the amount ultimately determined to be correct

B. Generally when the value or adjusted basis of property claimed on the return is understated, rather than overstated, by any amount at all

C. Generally when the taxpayer fails to obtain any appraisal at all, regardless of whether the actual claimed value was accurate or overstated

D. Generally when the value or adjusted basis of property claimed on the return is 150% or more of the amount ultimately determined to be the correct value or basis

69. A taxpayer's total tax liability calculation includes a $1,000 tax credit for excess Social Security tax withheld, along with a separate calculation reconciling the taxpayer's total federal income tax withholding shown across multiple Forms W-2 from different employers during the year. How are these separate withholding and credit amounts generally treated on the taxpayer's return?

A. Only the federal income tax withholding is credited against tax liability, with the excess Social Security tax credit entirely disregarded and forfeited

B. Only the excess Social Security tax credit is credited against tax liability, with the federal income tax withholding entirely disregarded and forfeited

C. Both amounts are generally combined and credited against the taxpayer's total tax liability for the year, potentially resulting in a refund if the combined amount exceeds the taxpayer's actual calculated tax liability

D. Neither amount is ever credited against the taxpayer's tax liability; both must instead be separately refunded directly by the Social Security Administration

70. A taxpayer's total tax liability calculation includes a civil fraud penalty under Section 6663, applied to an underpayment the IRS has established, by clear and convincing evidence, was due to the taxpayer's actual intentional fraud rather than mere negligence or a good-faith error. What is the general penalty rate that applies under this specific civil fraud penalty?

A. Generally 20%, identical to the standard accuracy-related penalty rate that applies to ordinary negligence or a substantial understatement of tax

B. Generally a flat $10,000 penalty regardless of the actual dollar amount of the underpayment attributable to the taxpayer's fraud

C. Generally 5% per month of the underpayment, calculated identically to the separate failure-to-pay penalty structure under current law
D. Generally 75% of the portion of the underpayment attributable to the taxpayer's fraud, a substantially higher rate than the standard 20% accuracy-related penalty rate

71. A taxpayer's total tax liability calculation includes recognition of gain from an involuntary conversion of business property, such as property destroyed by a fire and replaced using insurance proceeds received during the same tax year. What is the general tax treatment available for gain recognized on this type of involuntary conversion?

A. The taxpayer may generally elect to defer recognition of the gain to the extent the insurance proceeds are reinvested in qualifying replacement property within the applicable statutory replacement period
B. The gain is always fully and immediately taxable in the year of the involuntary conversion, with no deferral option available under any circumstances
C. The gain is entirely and permanently excluded from taxation altogether, regardless of whether any replacement property is ever actually purchased
D. The deferral election is available only for a personal-use residence destroyed by fire, and never applies at all to business or investment property

72. A taxpayer's total tax liability calculation includes tax on a $4,000 distribution from a health savings account (HSA) used for a nonqualified, non-medical personal expense, with the taxpayer under age 65 at the time of the distribution. How is this specific nonqualified HSA distribution generally taxed?

A. Entirely excluded from taxable income, since all HSA distributions are permanently tax-free regardless of how the withdrawn funds are actually used
B. Generally includible in the taxpayer's ordinary taxable income and subject to an additional 20% penalty on the nonqualified distribution amount
C. Subject only to the 20% additional penalty without the underlying distribution amount also being includible in the taxpayer's ordinary taxable income
D. Taxed at a flat, separate 10% rate distinct from both the taxpayer's ordinary income tax rate and any additional penalty amount

73. A taxpayer's total tax liability calculation includes a $2,500 credit for taxes paid to another U.S. state, rather than a foreign country, on income also taxed by the taxpayer's own state of residence, addressing a specific state-level double taxation concern rather than an international one. How is this specific type of credit generally distinguished from the separate federal Foreign Tax Credit?

A. A credit for taxes paid to another state generally addresses double taxation between two different U.S. states at the state income tax level, while the Foreign Tax Credit addresses double taxation between the U.S. federal government and a foreign country

B. Both credits are functionally identical in every respect, addressing the exact same specific type of double taxation concern between the same parties

C. A credit for taxes paid to another state is claimed on the taxpayer's federal return, exactly as the Foreign Tax Credit is claimed on the federal return

D. The credit for taxes paid to another state is entirely unavailable under current law, unlike the Foreign Tax Credit, which remains fully available

74. A taxpayer's total tax liability calculation includes tax computed for a taxpayer using the head of household filing status, whose taxable income places the taxpayer within the same dollar bracket boundaries generally applicable to a single filer for the lowest bracket, but with generally wider bracket boundaries at higher income levels. What is the general relationship between the head of household and single filer bracket structures?

A. Head of household and single filer bracket boundaries are always completely identical at every single income level under current law

B. Head of household bracket boundaries are generally wider than the corresponding single filer boundaries at most income levels, generally resulting in a lower tax liability for the same amount of taxable income

C. Head of household bracket boundaries are always narrower than single filer boundaries, generally resulting in a higher tax liability for the same income

D. Head of household filers use an entirely separate flat tax rate structure, rather than the same general progressive marginal bracket approach

75. A client asks a practitioner whether it is generally advisable to delay claiming a large deductible business expense into the following tax year, given the client expects a meaningfully higher marginal tax bracket next year due to an anticipated business expansion. What should the practitioner generally explain?

A. The timing of the deduction has no effect at all on its tax benefit, regardless of which year the client's marginal rate is actually higher

B. The deduction should always be claimed in the current year regardless of the client's expected marginal tax rate in either year

C. Deferring the deduction into a year when the client expects to be in a higher marginal tax bracket generally increases the deduction's overall tax benefit, since it will offset income taxed at that higher expected rate

D. Only the total dollar amount of the deduction matters, and the specific year in which it is claimed is entirely irrelevant to its value

76. A client asks a practitioner whether converting a portion of a large traditional IRA balance into a Roth IRA over several years, rather than all at once in a single year, is generally a more tax-efficient conversion strategy. What should the practitioner generally explain about this multi-year conversion approach?

A. Spreading the conversion over multiple years always results in a larger total tax liability than converting the entire balance in a single year

B. The specific number of years used to complete the conversion has no bearing at all on the client's total resulting tax liability

C. A multi-year conversion is only available if the client's traditional IRA balance exceeds a specific statutory minimum dollar threshold

D. Spreading the conversion over several years can generally help avoid pushing the client into a significantly higher marginal tax bracket in any single year, compared to recognizing the entire conversion amount as income all at once

77. A client asks a practitioner whether maximizing contributions to a dependent care flexible spending account, rather than claiming the Child and Dependent Care Credit directly, generally produces a better tax result given the client's relatively high marginal tax bracket. What should the practitioner generally explain about this comparison?

A. For a taxpayer in a higher bracket, the pretax FSA contribution can generally provide a larger benefit than the credit, since the exclusion is worth more at higher rates

B. Both options always produce an identical tax benefit for every taxpayer, regardless of the specific taxpayer's marginal tax bracket

C. The Child and Dependent Care Credit always provides a larger tax benefit than a dependent care FSA, regardless of the taxpayer's marginal tax bracket

D. A taxpayer may generally claim the full benefit of both the FSA exclusion and the credit simultaneously on the exact same qualifying care expenses

78. A client asks a practitioner whether it would be advisable to sell a losing investment position before year-end purely to realize a capital loss for tax purposes, while separately planning to repurchase the identical security shortly afterward because the client still believes in its long-term prospects. What should the practitioner generally advise?

A. The practitioner should advise there is no tax concern at all with this specific strategy, regardless of how quickly the client repurchases the identical security

B. The practitioner should advise the loss is always fully deductible regardless of any repurchase timing, since the wash sale rule applies only to gains

C. The practitioner should generally advise the client about the wash sale rule, which would disallow the loss if substantially identical securities are repurchased within 30 days before or after the sale

D. The practitioner should advise the client to repurchase the security the very next trading day, since doing so entirely avoids any wash sale concern

79. A client asks a practitioner whether naming a trust, rather than an individual, as the beneficiary of a traditional IRA is generally advisable, given the client wants to control how the funds are eventually distributed to a minor grandchild after the client's own death. What should the practitioner generally explain about this specific beneficiary designation choice?

A. Naming a trust as beneficiary is never permitted under any circumstances, and only an individual may ever be named as an IRA beneficiary

B. Naming a properly structured trust as beneficiary can generally provide the client greater control over the eventual distribution schedule to the minor grandchild, though the specific trust structure must meet certain requirements to preserve favorable tax treatment for the inherited IRA

C. Naming a trust as beneficiary always eliminates any tax benefit entirely, regardless of how the underlying trust document is actually structured

D. The trust beneficiary designation has no effect at all on how or when the inherited IRA funds must eventually be distributed to the grandchild

80. A client asks a practitioner whether it is generally advisable to pay off a low-interest-rate mortgage early using available cash, rather than investing that same cash in the market, purely from a tax-focused planning perspective given the client no longer itemizes deductions. What should the practitioner generally explain?

A. The mortgage interest deduction always provides the same significant tax benefit to every taxpayer regardless of whether that taxpayer itemizes deductions

B. Paying off the mortgage always eliminates the client's income tax filing obligation entirely going forward, regardless of any other income sources

C. The decision must always be tax-driven, and any purely financial comparison between the two options should generally be entirely disregarded

D. Since the client no longer itemizes, the mortgage interest provides no current tax benefit, so the decision becomes a pure financial comparison of interest rate versus investment return

81. A client asks a practitioner whether harvesting capital losses at year-end, by selling underperforming investments to offset realized capital gains elsewhere in the client's portfolio, is a viable general year-end tax planning strategy. What should the practitioner generally explain about this specific tax-loss harvesting strategy?

A. Tax-loss harvesting never provides any tax benefit at all, since realized capital losses can only ever offset future capital gains and never any current-year gains

B. Tax-loss harvesting always requires the client to permanently exit the market entirely, rather than potentially reinvesting in a similar but not substantially identical security

C. Tax-loss harvesting is available only within a tax-advantaged retirement account and can never be used within a regular taxable brokerage account

D. Tax-loss harvesting can generally reduce the client's current-year tax liability by offsetting realized capital gains, and any losses exceeding gains may generally offset up to $3,000 of ordinary income, with the excess carried forward

82. A client asks a practitioner whether it is advisable to make a large charitable contribution using cash immediately, versus establishing a donor-advised fund with the same amount and then recommending grants to specific charities over several future years. What should the practitioner generally explain about the timing flexibility a donor-advised fund provides?

A. A donor-advised fund generally allows the client to claim the full charitable deduction in the year the fund is initially funded, while retaining flexibility to recommend actual grants to specific charities over multiple future years

B. A donor-advised fund provides no timing flexibility at all, and functions identically to writing separate direct checks to each individual charity

C. The charitable deduction for a donor-advised fund contribution is not available at all until the underlying funds are actually granted to a charity

D. A donor-advised fund eliminates the client's ability to ever claim any charitable deduction, since the fund itself is treated as the ultimate recipient

83. A client asks a practitioner whether working an additional part-time job during retirement, while also receiving Social Security retirement benefits before reaching full retirement age, could reduce the client's actual monthly Social Security benefit under the earnings test. What should the practitioner generally explain about this specific interaction?

A. Working while receiving Social Security benefits before full retirement age has no effect at all on the client's monthly benefit amount under any circumstances

B. Earnings above the applicable annual earnings test limit can generally cause a temporary reduction in Social Security benefits before the client reaches full retirement age, though withheld benefits are generally recredited through a higher benefit amount once full retirement age is reached

C. Any amount of earned income at all, regardless of how small, results in the client's Social Security benefits being permanently and entirely eliminated

D. The earnings test reduction is entirely permanent and is never recredited or recovered at any point, even after the client reaches full retirement age

84. A client asks a practitioner whether it is advisable to use a health savings account as a long-term retirement savings vehicle, rather than spending down the balance each year on current medical expenses, given the client is years away from retirement and in good health. What should the practitioner generally explain about this specific strategy?

A. HSA funds must always be fully spent down each year on current medical expenses, or the unused balance is permanently forfeited at year-end

B. There is no tax advantage at all to retaining and investing HSA funds over a longer period, compared to spending them immediately each year

C. Allowing HSA funds to grow tax-free by paying current qualified medical expenses out-of-pocket, while retaining receipts for later tax-free reimbursement, can generally maximize the account's long-term tax-advantaged growth potential

D. HSA funds may generally be used only for medical expenses incurred in the exact same year the funds were originally contributed to the account

85. A client asks a practitioner whether gifting cash annually to adult children, up to the annual gift tax exclusion amount per recipient, is a viable general estate planning strategy for gradually reducing the client's own future taxable estate. What should the practitioner generally explain about this specific annual gifting strategy?

A. Any annual gift at all, regardless of amount, always requires a gift tax return to be filed and always reduces the client's lifetime exemption amount

B. Annual gifting has no effect at all on the client's future taxable estate, since gifted assets are always still included in the client's estate at death

C. Annual gifts up to the per-recipient exclusion amount generally require no gift tax return and do not reduce the client's lifetime gift and estate tax exemption, making this a generally efficient way to gradually transfer wealth and reduce a future taxable estate

D. The annual exclusion applies only to a single named beneficiary total per year, regardless of how many different family members the client wishes to gift to

86. A client asks a practitioner whether it is generally advisable to itemize deductions on a federal return while claiming the standard deduction on the corresponding state return, or vice versa, given the client's state allows this specific type of independent election. What should the practitioner generally explain about this potential planning opportunity?

A. The client must always use the identical deduction method, either itemizing or standard, on both the federal and state returns in every state

B. In a state permitting an independent election, the client may generally benefit from optimizing each return separately, itemizing on whichever return produces the greater tax benefit

C. This specific planning opportunity is never available in any state under any circumstances, regardless of that state's own specific tax rules

D. Itemizing on the state return automatically disqualifies the client from claiming the standard deduction on the federal return, and vice versa

87. A client asks a practitioner whether purchasing long-term care insurance is generally advisable purely from a tax planning perspective, given the premiums may be partially deductible as a qualifying medical expense subject to the applicable age-based limitation and the overall 7.5% AGI floor. What should the practitioner generally explain about this specific consideration?

A. The tax deduction alone is always the single most important reason to purchase long-term care insurance, outweighing every other planning consideration entirely

B. Long-term care insurance premiums are never deductible under any circumstances, regardless of the client's age or total itemized deduction amount

C. The premium deduction is available only as a nonrefundable tax credit, rather than as any form of itemized medical expense deduction on Schedule A

D. The tax deductibility of long-term care insurance premiums is generally a secondary consideration to the policy's underlying insurance and long-term care planning value, though the potential itemized deduction is a relevant, worthwhile factor to note in the overall decision

88. A decedent's estate is administered by an executor who elects to treat the estate as continuing to hold the decedent's stock portfolio during a lengthy multi-year probate process, generating substantial dividend income allocated between the estate and the estate's beneficiaries across different tax years. How is this dividend income generally taxed across the two categories?

A. Dividend income distributed to beneficiaries during the estate's administration is generally taxed to those beneficiaries, while dividend income the estate retains rather than distributes is generally taxed to the estate itself

B. All dividend income is taxed entirely to the estate itself throughout the full administration period, regardless of any amounts actually distributed

C. All dividend income is taxed entirely to the beneficiaries as it is earned, regardless of whether the estate actually distributes any of it

D. Dividend income earned during estate administration is entirely tax-exempt to both the estate and the beneficiaries under applicable fiduciary tax rules

89. A U.S. citizen taxpayer receives a $40,000 gift from a foreign corporation, rather than from a foreign individual, during the year. How does the specific Form 3520 foreign gift reporting threshold generally differ for a gift received from a foreign corporation or foreign partnership compared to a gift received from a foreign individual?

A. The reporting threshold is identical regardless of whether the gift is received from a foreign individual, corporation, or partnership

B. No reporting obligation of any kind ever applies to a gift received from a foreign corporation, unlike a gift from a foreign individual

C. The reporting threshold for a gift from a foreign corporation or partnership is generally significantly lower than the threshold that applies to a gift from a foreign individual or foreign estate

D. The reporting threshold for a gift from a foreign corporation is significantly higher than the threshold that applies to a gift from a foreign individual

90. A taxpayer's trust document specifically provides that the trustee has the discretionary authority to make distributions of trust principal to a beneficiary for the beneficiary's health, education, maintenance, and support, a common trust provision often referred to by the acronym HEMS. What is the general purpose of including this specific HEMS standard in a trust document?

A. To eliminate the trustee's discretion entirely, requiring the trustee to make identical distributions to every named beneficiary regardless of individual need

B. To provide the trustee clear, ascertainable guidance and legal protection for exercising discretionary distributions, while generally avoiding certain adverse tax consequences that can arise from an unlimited or unascertainable distribution standard

C. To require the trust to terminate entirely and distribute all of its assets outright once any beneficiary first reaches the age of eighteen

D. To convert the trust automatically into a grantor trust, taxed directly to the trustee rather than to the trust or its beneficiaries

91. A taxpayer who is a dual-status alien, having been a nonresident alien for part of the tax year and a resident alien for the remainder of the same tax year due to a mid-year immigration status change, generally must file which type of return for that specific transition year?

A. A standard Form 1040 covering the entire year identically, exactly as it would be filed by a taxpayer who was a resident alien the entire year

B. A standard Form 1040-NR covering the entire year identically, exactly as it would be filed by a taxpayer who was a nonresident alien the entire year

C. No return at all is required for a dual-status alien's specific transition year, regardless of the income earned during either portion of that year

D. A dual-status return, generally combining Form 1040-NR for the nonresident portion of the year with Form 1040 for the resident portion of the same year

92. A decedent's estate includes a traditional IRA left to the decedent's estate itself, rather than to a named individual beneficiary, because the decedent never updated the IRA's beneficiary designation before death. How does this specific lack of a named individual beneficiary generally affect the required distribution timeline for the inherited IRA?

A. The estate as beneficiary has no effect at all on the required distribution timeline, which remains identical regardless of whether a named individual beneficiary exists
B. The estate as beneficiary generally results in a more favorable required distribution timeline than a properly named individual beneficiary would have received
C. The IRA becomes entirely exempt from any required distribution timeline at all once it passes to the decedent's estate rather than to a named individual
D. The estate, as a non-individual beneficiary, is generally subject to a less favorable required distribution timeline than a properly named individual beneficiary would have been subject to

93. A taxpayer's estate includes a family limited partnership interest, where the decedent transferred assets into the partnership during life and retained a limited partnership interest, while gifting general and limited partnership interests to family members over time. What is a general IRS concern regarding this specific type of estate planning structure?

A. The IRS may generally scrutinize whether the family limited partnership was formed and operated with a legitimate non-tax business purpose, or whether it was primarily designed to obtain artificial valuation discounts for estate and gift tax purposes
B. Family limited partnerships are entirely disregarded for federal estate and gift tax purposes under all circumstances, regardless of how they were structured
C. The IRS has no authority at all to examine or question a family limited partnership structure once it has been properly formed under state law
D. The concern applies only if the family limited partnership holds real estate, and never applies at all to a partnership holding marketable securities

94. A U.S. citizen taxpayer who moved abroad mid-year and qualifies for the Foreign Earned Income Exclusion under the physical presence test, rather than the bona fide residence test, generally must satisfy which specific counting requirement to qualify under this particular test?

A. Physical presence in a single specific foreign country for an uninterrupted period covering an entire calendar tax year without exception

B. Physical presence in any foreign country for a minimum of only 30 total days during the relevant twelve-month measurement period

C. Physical presence in one or more foreign countries for at least 330 full days during any period of twelve consecutive months

D. Physical presence in the taxpayer's specific country of citizenship, or a country with a direct tax treaty with the United States, for any period at all

95. A taxpayer's trust, structured as a charitable remainder trust, pays an income stream to a named individual beneficiary for a term of years or for the beneficiary's lifetime, with the remaining trust principal ultimately passing to a designated qualified charity at the end of that term. What is a general tax benefit associated with establishing this specific type of trust?

A. The grantor receives no tax benefit at all until the individual income beneficiary's interest has fully terminated and the charity actually receives the assets

B. The grantor generally receives a current charitable income tax deduction for the present value of the remainder interest ultimately passing to charity, while also potentially deferring capital gains recognition on appreciated property contributed to the trust

C. The individual income beneficiary's payments received from the trust are always entirely tax-free, regardless of the character of the trust's underlying income

D. The charitable remainder trust structure is available only for cash contributions and can never be funded using appreciated property of any kind

96. A taxpayer's estate includes life insurance proceeds payable to the decedent's named beneficiary, where the decedent, during life, retained certain incidents of ownership over the policy, such as the right to change the beneficiary or borrow against the policy's cash value. How does retaining these incidents of ownership generally affect the estate tax treatment of the proceeds?

A. The life insurance proceeds are generally includible in the decedent's gross estate for federal estate tax purposes, despite being paid directly to a named beneficiary rather than to the estate itself

B. The life insurance proceeds are entirely excluded from the decedent's gross estate, since they were paid directly to a named beneficiary rather than to the estate

C. The life insurance proceeds are includible in the gross estate only if the named beneficiary is also the decedent's own surviving spouse

D. Retaining incidents of ownership has no effect at all on the estate tax treatment of the proceeds, regardless of who is named as the policy's beneficiary

97. A taxpayer's estate's executor must generally obtain a taxpayer identification number for the estate itself, separate from the decedent's own individual Social Security number, in order to open an estate bank account and file the estate's own fiduciary income tax return. What specific type of identification number does the executor generally need to obtain for the estate?

A. An Employer Identification Number (EIN), obtained by the executor on behalf of the estate, functioning as the estate's own separate taxpayer identification number

B. The decedent's own original Social Security number continues to be used indefinitely for the estate, with no separate number ever required

C. A new individual Social Security number must be issued directly to the estate itself, functioning identically to a living person's own number

D. No separate identification number of any kind is ever required for an estate, regardless of the estate's activities or filing obligations

98. A taxpayer's revocable living trust is funded during the grantor's lifetime with the grantor's personal residence, retitled from the grantor's individual name into the name of the trust. How does this specific retitling of the personal residence generally affect the grantor's continued eligibility for the Section 121 home sale gain exclusion upon a future sale?

A. The grantor permanently and immediately loses all eligibility for the Section 121 exclusion the moment the residence is retitled into the trust's name

B. The trust itself, rather than the grantor, must independently and separately satisfy the ownership and use tests before any exclusion becomes available

C. The grantor generally remains eligible for the Section 121 exclusion, since a revocable living trust is generally treated as a grantor trust disregarded for income tax purposes, meaning the grantor is still treated as the owner for exclusion purposes

D. The exclusion becomes available only if the grantor formally converts the revocable trust into an irrevocable trust before any future sale of the residence

99. A U.S. citizen taxpayer who is a bona fide resident of the Commonwealth of the Northern Mariana Islands for the entire tax year earns income entirely from sources within that specific U.S. territory. How is this specific territorial income generally treated under the applicable mirror tax system for this particular territory?

A. The resident must file a standard U.S. Form 1040 with the IRS exactly as a mainland U.S. resident would, reporting all territorial-source income

B. The resident generally files with the Commonwealth of the Northern Mariana Islands' own tax authority under its own applicable mirror or local tax code, rather than filing a separate U.S. federal individual income tax return with the IRS

C. The resident is entirely exempt from any tax filing obligation anywhere, since residents of this territory are not required to file any tax return at all

D. The resident must file Form 1040-NR, reporting the territorial income as U.S.-source income effectively connected with a U.S. trade or business

100. A taxpayer's estate includes both a probate proceeding in the decedent's state of legal domicile and a separate ancillary probate proceeding in a different state where the decedent owned out-of-state real property. What is the general purpose of this specific ancillary probate proceeding?

A. To entirely replace the primary probate proceeding in the decedent's state of domicile, rather than functioning as a separate, additional proceeding

B. To address only the decedent's personal property, such as bank accounts, rather than any specific real property located in the second state

C. To eliminate the need to file a federal estate tax return, regardless of the combined value of both the domiciliary and out-of-state real property

D. To administer and transfer the specific out-of-state real property located in the second state, since real property is generally governed by the probate law of the state in which it is actually located

Answer Key and Explanations — Practice Exam 10

1. D — Once an individual receives a valid Social Security number, such as after naturalization, the client should generally use that Social Security number on all future tax filings, and the previously issued ITIN generally should no longer be used, since it was assigned specifically for individuals without SSN eligibility at an earlier point in time.

2. C — Under Section 7216 and related regulations, a preparer generally must obtain the client's specific written consent, meeting certain content and format requirements, before disclosing the client's tax return information to a third party, such as a mortgage lender, for a purpose other than preparing the return itself for the client.

3. A — Unlike a CPA or attorney, whose underlying professional license may be tied to a specific state, an enrolled agent's authority to practice before the IRS is a federal credential granted directly by the IRS, and it generally extends nationwide, unlimited by state boundaries or specific IRS regional office jurisdiction at all.

4. B — In response to a correspondence audit notice requesting documentation for a specific item, a preparer should generally gather the specific supporting documentation requested and respond by the stated deadline, directly addressing what the IRS has asked for, rather than ignoring the notice or taking an unrelated action, such as filing an amended return, before fully understanding the audit issue.

5. B — A paid preparer who fails to comply with the specific due diligence requirements for certain credits, including the Earned Income Tax Credit, may generally be subject to a per-return monetary penalty under Section 6695, a penalty applied to the preparer directly and separate from any adjustment the IRS might separately make to the client's own return.

6. A — A taxpayer filing electronically may generally use an approved electronic signature method, such as a self-select PIN or a practitioner PIN entered through the preparer's e-file software, to authorize the e-filed return, rather than requiring the traditional wet-ink physical signature that is instead generally associated only with paper-filed returns today.

7. C — While the inheritance itself is generally not taxable to the recipient, a preparer should generally note this information as relevant preliminary context, since paying off the mortgage will generally reduce future mortgage interest deductions, and the new brokerage account will generally begin generating reportable dividend, interest, and capital gain income going forward.

8. D — A taxpayer generally has the right to represent themselves before the IRS in an audit or other tax matter, without engaging a paid preparer, enrolled agent, CPA, attorney, or other representative, though many taxpayers choose to engage a qualified representative given the complexity that can arise during an audit or dispute.

9. A — Employment tax records, including payroll records and related documentation, are generally recommended to be retained for at least four years from the date the tax becomes due or is paid, whichever is later, a specifically longer period than the general three-year guideline commonly cited for most individual income tax return records.

10. C — A general professional concern with a preparer also notarizing a document they were separately compensated to prepare for that same client is the potential conflict of interest or appearance of impropriety, since a notary is generally expected to act as a neutral, disinterested witness, a role in tension with the preparer's own direct financial interest in that client relationship.

11. D — Circular 230 generally imposes more rigorous, specific standards on formal written tax advice, such as a written opinion addressing a specific complex transaction, compared to the more general standards that apply to informal advice given during routine annual return preparation, reflecting the greater reliance a client may reasonably place on a formal written opinion.

12. B — The Automated Underreporter program generally identifies discrepancies through automated matching of third-party information returns, such as Forms W-2 and 1099, against amounts reported on the filed return, generating a CP2000 notice, while a traditional examination generally involves a more comprehensive review, often conducted in person or by correspondence with a revenue agent examining multiple aspects of the return.

13. B — A taxpayer who disagrees with the outcome of an IRS examination generally has the option to request a review by the IRS Independent Office of Appeals, a separate administrative function intended to resolve tax disputes without the need for litigation, providing an avenue for resolution before the matter proceeds, if unresolved, to Tax Court.

14. C — A taxpayer generally has until the later of three years from the date the original return was filed, or two years from the date the tax was actually paid, to file a claim for refund, such as an amended return, a distinct limitations period from the separate statute of limitations governing the IRS's own ability to assess additional tax.

15. A — Form 9465, Installment Agreement Request, is generally used to request a formal, typically monthly payment arrangement with the IRS, allowing a taxpayer unable to pay a full balance due in a single lump sum to instead pay the outstanding tax liability over an agreed-upon period of time, subject to applicable interest and possibly a setup fee.

16. D — Circular 230 generally prohibits a practitioner from charging a contingent fee for preparing an original tax return, reflecting a concern that such a fee structure could incentivize aggressive or unsupportable positions, though limited specific exceptions exist, such as for certain amended returns filed in connection with an IRS examination or a claim for refund based on an IRS-only computational adjustment.

17. C — Original issue discount is generally includible in a bondholder's taxable interest income annually as it accrues, even though the corresponding cash is not actually received until the bond matures or is sold, since OID represents economic interest income the taxpayer is required to recognize under the applicable original issue discount rules each year.

18. B — The specific identification method generally allows a taxpayer to select which specific shares, each with their own specific purchase date and cost basis, are treated as sold in a given transaction, which can allow the taxpayer to more favorably manage the resulting holding period and gain or loss, compared to the default average cost or first-in-first-out methods.

19. A — A direct trustee-to-trustee rollover, where the funds move directly between retirement account custodians without the taxpayer ever taking personal possession, is generally not includible in the taxpayer's taxable income, distinguishing it from an indirect 60-day rollover, where the taxpayer briefly takes possession of the funds before redepositing them into another qualifying account.

20. D — Amounts received as workers' compensation for a work-related sickness or injury, paid under a workers' compensation act or similar statute, are generally excluded entirely from the recipient's gross income for federal income tax purposes, a specific statutory exclusion distinct from the generally taxable treatment that applies to most other wage-replacement benefits.

21. B — A distribution from a qualified tuition program, such as a 529 plan, that is used entirely for the beneficiary's qualified higher education expenses is generally excluded entirely from taxable income, including both the return of the original contributions and the accumulated earnings portion, consistent with the tax-advantaged purpose of these specific education savings accounts.

22. C — A security deposit intended to be fully refundable to the tenant at the end of the lease term, assuming the property is returned undamaged, is generally not includible in the landlord's taxable income when received; however, any portion later retained due to damage or unpaid rent generally becomes taxable income at that later time.

23. A — The cost of employer-provided group-term life insurance coverage exceeding $50,000 is generally includible in the employee's taxable wages, calculated using the IRS's Table I uniform premium cost figures based on the employee's age and the specific amount of coverage exceeding that $50,000 statutory threshold, rather than the employer's own actual premium cost.

24. D — The bargain element on a nonqualified stock option is generally includible in the employee's ordinary taxable wage income in the year of exercise, subject to standard federal income tax and payroll tax withholding, a different and generally less favorable timing rule than the treatment that can apply to a qualifying incentive stock option exercise.

25. C — Interest income received by a taxpayer who made a properly documented loan, including a loan to a family member, is generally includible in the lender's taxable interest income in the same general manner as interest received from any other debt instrument, regardless of the personal relationship between the lender and the borrower involved in the transaction.

26. A — A pension payment from a plan funded entirely with pretax employer contributions, with no after-tax employee contributions creating any recoverable basis, is generally fully includible in the recipient's ordinary taxable income each year it is received, regardless of whether the pension is structured as a joint and survivor annuity or a single-life annuity for the recipient.

27. D — Under current law, the exclusion for employer-provided qualified moving expense reimbursements has generally been suspended for most civilian employees, with a narrow exception generally preserved only for active-duty members of the Armed Forces moving pursuant to a military order, meaning this civilian employee's reimbursement is generally fully includible in taxable wages.

28. B — A referral or account-opening bonus paid by a bank as an incentive, rather than as a true reduction in the price of a product or service purchased, is generally includible in the recipient's gross income as taxable miscellaneous income, consistent with IRS guidance treating this type of bank incentive payment as taxable rather than as a nontaxable rebate.

29. D — A refund consisting solely of a taxpayer's own original contributions to a qualified tuition program, with no earnings included in the refunded amount, is generally not includible in the taxpayer's taxable income, since it simply represents a return of the taxpayer's own previously taxed capital rather than any taxable gain or investment earnings.

30. B — Qualified dividends and net long-term capital gain are taxed at preferential rates of 0%, 15%, or 20%, based on the taxpayer's total taxable income. Since this taxpayer's total taxable income places the $2,200 within the applicable 15% bracket threshold, that specific portion of income is taxed at the 15% preferential federal rate.

31. A — Nonemployee compensation received for consulting work performed as an independent contractor, when the taxpayer is regularly and continuously engaged in that activity as an ongoing trade or business, is generally reported on Schedule C, with the resulting net profit subject to both federal income tax and self-employment tax under the applicable self-employment tax rules.

32. C — A lump-sum payment for accrued, unused vacation pay, paid upon an employee's resignation or other termination of employment, is generally treated as fully taxable wage compensation, subject to standard federal income tax withholding and payroll taxes, in substantially the same manner as the employee's regular wage compensation would have been treated during active employment.

33. B — A distribution from a qualified ABLE (Achieving a Better Life Experience) account, used entirely for the designated beneficiary's qualified disability expenses, is generally excluded entirely from the beneficiary's taxable income, consistent with the tax-advantaged purpose of these specific accounts, which are designed to help individuals with disabilities save without jeopardizing certain means-tested benefits.

34. D — A hardship withdrawal from a qualified retirement plan, while it may satisfy the plan's own internal hardship withdrawal provisions, does not by itself constitute a separate statutory exception to the 10% early distribution penalty under the tax code; the withdrawal is generally includible in ordinary taxable income and remains subject to the penalty unless a distinct, independently applicable exception applies.

35. C — Most REIT dividends do not meet the specific holding period and other requirements to be classified as qualified dividends, and are therefore generally taxed at the shareholder's ordinary income tax rate, rather than at the lower preferential long-term capital gains rate that applies to a qualified dividend from a typical domestic or qualifying foreign corporation.

36. A — When a life insurance policy is surrendered for its cash value during the policyholder's lifetime, gain is recognized only to the extent the cash value received exceeds the taxpayer's total investment, generally the premiums paid into the policy. Here, the $600 excess is includible in ordinary taxable income, while the remainder is a nontaxable return of the taxpayer's own investment.

37. C — Mortgage interest of $4,000 is fully deductible, while gambling losses are deductible only up to the amount of gambling winnings reported, here $3,000, even though the taxpayer's actual documented losses were $2,500. Since the $2,500 in documented losses is under the $3,000 winnings cap, the full $2,500 loss combines with the $4,000 interest for a $6,500 total.

38. A — Contributions made to a political campaign, party, or candidate are generally not deductible as a charitable contribution, since a political organization does not meet the requirements to be treated as a qualified charitable organization under the applicable tax rules, unlike the separate $800 contribution made to the qualified 501(c)(3) public charity, which remains fully deductible.

39. B — When the nonrefundable Child Tax Credit exceeds a taxpayer's regular tax liability, the excess portion may generally be claimed as the refundable Additional Child Tax Credit, subject to its own separate calculation, including an earned income-based limitation and the specific applicable per-child refundable dollar cap for that particular tax year.

40. D — The home mortgage interest deduction generally applies to acquisition debt on a taxpayer's primary residence and one additional qualifying second home used personally, such as a vacation home, provided the combined acquisition debt on both properties falls under the applicable $750,000 limit, making this second home's mortgage interest generally deductible under current law.

41. C — A rental real estate activity that rises to the level of a trade or business, whether under the specific IRS safe harbor or the general facts-and-circumstances standard, is generally eligible to have its qualifying net income included in the taxpayer's QBI deduction calculation, subject to the same general rules and thresholds that apply to other qualifying businesses.

42. A — Under current law, tax return preparation fees related to an individual's personal tax return generally fall within the miscellaneous itemized deduction category that was previously subject to a 2% AGI floor, a category of deduction that has generally been suspended for most individual taxpayers, meaning these fees are generally no longer deductible on the individual income tax return.

43. B — The Foreign Earned Income Exclusion allows a qualifying taxpayer to exclude foreign earned income up to the applicable annual limit for the year. Since this taxpayer's total foreign earned income of $95,000 falls entirely under the $126,500 annual limit, the full $95,000 may generally be excluded from the taxpayer's U.S. taxable income for the year.

44. C — A mortgage originated before the applicable current-law threshold date generally remains grandfathered under the prior, higher $1,000,000 acquisition debt limit, rather than being subject to the lower $750,000 limit that applies to newer mortgages. Since this $900,000 balance falls under that higher grandfathered limit, the interest is generally fully deductible.

45. D — For a domestic adoption, qualified adoption expenses paid in a year before the adoption becomes final are generally claimed as a credit in the year following the year the expenses were actually paid, while expenses paid in the year the adoption becomes final, or in a later year, are generally claimed as a credit in that same year paid.

46. B — Under current law, investment advisory fees related to managing a taxpayer's personal taxable investment portfolio generally fall within the miscellaneous itemized deduction category previously subject to a 2% AGI floor, a category that has generally been suspended for most individual taxpayers, meaning these fees are generally no longer deductible on the individual income tax return.

47. D — When advance premium tax credit payments received during the year exceed the taxpayer's actual allowable Premium Tax Credit, based on final household income reported on the return, the taxpayer generally must repay the $700 excess, though this repayment is generally subject to an applicable dollar limitation based on the taxpayer's household income as a percentage of the federal poverty line.

48. A — For Child and Dependent Care Credit purposes, a spouse who is a full-time student for at least five months of the year is generally deemed to have earned income of $250 per month (for two or more qualifying persons, or $200 per month for one), allowing the couple to satisfy the earned income limitation for both spouses.

49. A — The itemized deduction for investment interest expense is generally limited to the taxpayer's net investment income for the year. Since net investment income here is $300, less than the full $500 incurred, the deduction is generally limited to $300 for the current year, with the remaining $200 carried forward to a future year.

50. B — A casualty loss to business or income-producing property, such as a rental property, is generally deductible without the current-law limitation restricting personal-use casualty losses to only those occurring in a federally declared disaster area, since that specific limitation applies to the personal casualty loss itemized deduction rather than to a loss connected with a trade or business or income-producing activity.

51. C — The Saver's Credit equals the applicable percentage rate, here 20% based on the taxpayer's AGI and filing status, multiplied by the lesser of actual eligible contributions or the $2,000 maximum eligible contribution cap per individual. Since the $1,800 actual contribution falls under that cap, 20% of $1,800 yields a $360 credit for the year.

52. D — Unlike points paid to purchase a primary residence, which are generally fully deductible in the year paid, points paid to refinance an existing mortgage are generally required to be deducted ratably over the life of the new refinanced loan, rather than being fully deductible in the single year the refinance points were actually paid by the taxpayer.

53. B — A taxpayer without a qualifying child may still generally qualify for a smaller EITC amount available specifically to an eligible childless worker, provided the taxpayer meets the applicable age requirements, income limitations, and other general eligibility requirements, though the maximum credit available is significantly smaller than for a taxpayer with a qualifying child.

54. A — Mandatory contributions to certain state-run disability insurance programs, when the contribution functions similarly to a state income tax, are generally deductible as part of the combined state and local tax itemized deduction on Schedule A, along with the taxpayer's regular state income tax withholding, both subject to the same overall $10,000 SALT cap under current law.

55. C — Under current law, interest on a home equity loan is generally deductible as home mortgage interest when the loan proceeds are used to buy, build, or substantially improve the home securing the loan, such as this kitchen renovation, making the resulting interest generally deductible in the same manner as interest on the taxpayer's original acquisition debt would be treated.

56. D — The Lifetime Learning Credit equals 20% of qualified education expenses, up to a $10,000 annual expense cap, and is available for a single course taken to acquire or improve job skills, without requiring enrollment in a full degree program. Applying 20% to the $3,000 in qualifying expenses yields a $600 credit for this taxpayer.

57. B — Under the progressive marginal tax bracket system, each specific slice of a taxpayer's income is taxed at the marginal rate applicable to that particular bracket, and the taxpayer's total tax liability is the sum of the tax owed across each bracket the income passes through, rather than the taxpayer's entire income being taxed at a single top marginal rate.

58. D — After netting within each category, the $45,000 net long-term loss is applied against the $30,000 net short-term gain, leaving a $15,000 net capital loss for the year. Of that amount, $3,000 is deductible against ordinary income this year (the annual limit for joint filers), with the remaining $12,000 carried forward to future tax years.

59. A — Modifying a substantially equal periodic payment schedule before the later of five years or reaching age 59½ generally triggers retroactive application of the 10% early distribution penalty to all payments received under the exception before the modification, recalculated as if the Section 72(t) exception had never applied, generally along with applicable interest on the resulting deficiency.

60. C — The AMT generally requires certain business property to be depreciated using a specific, generally less accelerated method for AMT purposes than the method used for regular tax purposes, and this difference can create a positive AMT adjustment in earlier years when regular tax depreciation exceeds the corresponding AMT depreciation for the same property.

61. B — Rental income from an activity in which the taxpayer does not materially participate is generally treated as passive income and generally falls within the statutory definition of net investment income for Net Investment Income Tax purposes, subjecting it to the 3.8% NIIT to the extent the taxpayer's modified AGI also exceeds the applicable threshold for the year.

62. C — Under the Section 1231 five-year lookback rule, a taxpayer's current-year net Section 1231 gain is generally recharacterized as ordinary income to the extent of the taxpayer's unrecaptured Section 1231 losses from the preceding five tax years, here $8,000, with only the remaining portion of the current-year gain retaining favorable capital gain treatment.

63. A — A special related-party installment sale rule generally accelerates the original seller's recognition of remaining deferred gain when the related-party purchaser resells the property within two years of the original sale, treating the amount the related party realizes on that resale as if it were received directly by the original seller, closing a potential related-party deferral loophole.

64. D — Section 1244 generally allows an eligible individual taxpayer to treat a loss on qualifying small business corporation stock as an ordinary loss, rather than the generally less favorable capital loss treatment that would otherwise apply, up to an applicable annual dollar limitation, providing a more favorable, fully deductible loss treatment intended to encourage investment in small business corporations.

65. A — The negligence component of the Section 6662 accuracy-related penalty generally applies to a careless disregard of tax rules and regulations, or a failure to make a reasonable attempt to comply with the tax law, a distinct basis from the separate substantial understatement ground, which instead specifically requires the underpayment to exceed an applicable dollar or percentage threshold.

66. B — A taxpayer who misses the 60-day rollover deadline due to specific circumstances beyond their reasonable control, such as a documented medical emergency, may generally qualify for a self-certification procedure allowing a late rollover, or in more complex cases may request a formal private letter ruling waiver from the IRS, potentially still allowing the rollover to be completed.

67. C — Gain on the sale of depreciable business personal property, such as a business vehicle, is generally subject to Section 1245 depreciation recapture, recharacterizing the gain as ordinary income to the extent of the depreciation previously claimed against the property, with any remaining gain beyond that recaptured amount generally treated as Section 1231 gain eligible for capital gain treatment.

68. D — The substantial valuation misstatement penalty ground generally applies when the value or adjusted basis of property claimed on a return is 150% or more of the amount ultimately determined to be correct, a specific statutory threshold distinct from the separate substantial understatement of income tax ground, which is based on the total dollar amount instead.

69. C — Both the federal income tax withheld across the taxpayer's multiple Forms W-2 and any excess Social Security tax withholding credit are generally combined and credited against the taxpayer's total calculated tax liability for the year, and if the combined total of these payments and credits exceeds that liability, the taxpayer generally receives a refund of the excess amount.

70. D — The civil fraud penalty under Section 6663 generally applies at a substantially higher 75% rate to the portion of an underpayment the IRS establishes, by clear and convincing evidence, was attributable to the taxpayer's actual intentional fraud, reflecting the significantly more severe nature of this penalty compared to the standard 20% accuracy-related penalty that applies to mere negligence.

71. A — Under the involuntary conversion rules, a taxpayer who recognizes gain because insurance or other proceeds exceed the adjusted basis of business or investment property destroyed, such as by fire, may generally elect to defer recognition of that gain to the extent the proceeds are reinvested in qualifying replacement property within the applicable statutory replacement period following the conversion.

72. B — A distribution from a Health Savings Account used for a nonqualified expense unrelated to qualified medical expenses is generally includible in the taxpayer's ordinary taxable income and is also generally subject to an additional 20% penalty on the nonqualified amount, unless the taxpayer has reached age 65, become disabled, or died, at which point the additional penalty no longer applies.

73. A — A credit for income taxes paid to another U.S. state is generally a state-level mechanism, typically claimed on the taxpayer's resident state return, addressing double taxation between two different states, distinct from the separate federal Foreign Tax Credit, which addresses double taxation between the U.S. federal government and a foreign country on the same foreign-source income.

74. B — The head of household filing status generally uses wider bracket boundaries than the single filing status at most income levels, meaning a given dollar amount of taxable income generally reaches each higher marginal rate at a higher threshold for a head of household filer, generally resulting in a lower total tax liability than the same income taxed as single.

75. C — A practitioner should generally explain that deferring a deductible expense into a future year when the client expects to be in a higher marginal tax bracket generally increases the deduction's overall tax value, since it will offset income otherwise taxed at that higher rate, the reverse of the acceleration strategy that applies when rates are expected to fall.

76. D — A practitioner should generally explain that spreading a large Roth conversion over multiple years can help avoid pushing the client's taxable income into a significantly higher marginal tax bracket in any single year, compared to recognizing the entire conversion amount as income all at once, potentially reducing the overall tax cost of the conversion across the multi-year period.

77. A — A practitioner should generally explain that for a taxpayer in a higher marginal tax bracket, a dependent care FSA's pretax exclusion can generally provide a larger tax benefit than the credit's generally lower fixed percentage rate, though the same qualifying expenses generally cannot be used to claim both benefits, requiring the client to choose the more advantageous option available.

78. C — A practitioner should generally advise the client about the wash sale rule, which disallows a current loss deduction when substantially identical securities are purchased within 30 days before or after the sale that generated the loss, meaning the client's plan to promptly repurchase the same security would likely disallow the loss for current deduction purposes.

79. B — A practitioner should generally explain that naming a properly structured trust as an IRA beneficiary can provide the client greater control over the distribution schedule to a minor grandchild than an outright individual designation would, though the trust must generally meet specific IRS requirements, often called a see-through trust, to preserve favorable required distribution treatment for the inherited account.

80. D — A practitioner should generally explain that since the client no longer itemizes deductions, the mortgage interest currently provides no incremental tax benefit, so the decision to pay off the mortgage versus investing the cash elsewhere generally becomes a pure financial comparison between the mortgage's rate and the client's expected investment return, rather than a tax-driven decision.

81. D — A practitioner should generally explain that tax-loss harvesting, selling underperforming investments to realize losses that offset realized capital gains elsewhere in the portfolio, can reduce the client's current-year tax liability, and any losses exceeding total gains may generally offset up to $3,000 of ordinary income annually, with any further excess loss carried forward to future tax years.

82. A — A practitioner should generally explain that contributing to a donor-advised fund generally allows the client to claim the full charitable deduction in the year the fund is initially funded, while providing flexibility to recommend actual grants to specific qualified charities over subsequent years, decoupling the timing of the deduction from the timing of when specific charities actually receive the funds.

83. B — A practitioner should generally explain that earnings exceeding the applicable annual earnings test limit can cause a temporary reduction in Social Security benefits paid before the client reaches full retirement age, though the withheld amounts are generally not permanently lost, since Social Security generally recredits the benefit to a higher amount once full retirement age is reached.

84. C — A practitioner should generally explain that HSA funds generally roll over indefinitely and can be invested for long-term growth, so a client who pays current qualified medical expenses out-of-pocket while retaining documentation can potentially reimburse those expenses tax-free from the HSA later, allowing the account balance to grow tax-free longer as a supplemental retirement resource for the client.

85. C — A practitioner should generally explain that annual gifts to any number of recipients, each up to the annual per-recipient exclusion amount, generally require no gift tax return and do not reduce the client's lifetime gift and estate tax exemption, making regular annual gifting a generally efficient way to gradually transfer wealth and reduce the client's future taxable estate.

86. B — A practitioner should generally explain that in a state permitting an independent election, the client may generally benefit from separately evaluating and optimizing each return, potentially itemizing on the return where doing so produces the greater tax benefit while claiming the standard deduction on the other, rather than being required to use the identical method on both returns.

87. D — A practitioner should generally explain that while long-term care insurance premiums may be partially deductible as a qualifying medical expense, subject to an age-based limitation and the overall 7.5% AGI floor, the tax deductibility is generally secondary to the policy's underlying insurance and planning value, and the potential deduction should be presented as one relevant factor among several others.

88. A — Consistent with the general fiduciary income tax distribution deduction principle, dividend income the estate actually distributes to beneficiaries during administration is generally taxed to those beneficiaries, while dividend income the estate retains rather than distributes is generally taxed directly to the estate itself, using the estate's own separate income tax rate schedule for that retained portion.

89. C — Form 3520's foreign gift reporting requirement generally applies a significantly lower reporting threshold to gifts received from a foreign corporation or foreign partnership compared to the higher aggregate threshold that applies to gifts received from a foreign individual or foreign estate, reflecting a specific concern about disguised compensation or other transactions routed through a foreign entity.

90. B — A HEMS (health, education, maintenance, and support) distribution standard generally provides the trustee clear, legally ascertainable guidance for exercising discretionary distribution authority, and this type of ascertainable standard generally helps avoid certain adverse tax and creditor-related consequences that can arise from a trust document granting a trustee-beneficiary unlimited, non-ascertainable discretionary distribution authority.

91. D — A dual-status alien, who was a nonresident alien for part of the tax year and a resident alien for the remaining part of that same year, generally must file a dual-status return for that specific transition year, combining elements of Form 1040-NR for the nonresident period with Form 1040 for the resident period, following the specific dual-status filing rules.

92. D — When a decedent's estate, rather than a properly named individual beneficiary, inherits a traditional IRA due to a missing or outdated beneficiary designation, the estate is generally subject to a less favorable required distribution timeline than an individual beneficiary would have received, illustrating the general importance of keeping retirement account beneficiary designations current and accurate.

93. A — The IRS may generally scrutinize a family limited partnership to determine whether it was formed and genuinely operated for a legitimate non-tax business purpose, or whether it functions primarily as a device to obtain artificial valuation discounts for estate and gift tax purposes, since a partnership lacking genuine economic substance may be challenged and its claimed valuation discounts disallowed.

94. C — The physical presence test for the Foreign Earned Income Exclusion generally requires the taxpayer to be physically present in one or more foreign countries for at least 330 full days during any twelve consecutive months, a specific day-counting requirement distinct from the more subjective bona fide residence test's focus on the nature of the taxpayer's foreign stay.

95. B — A charitable remainder trust generally provides the grantor a current charitable income tax deduction for the present value of the remainder interest that will ultimately pass to the designated charity, while also potentially allowing the grantor to contribute appreciated property and defer immediate recognition of the built-in gain, spreading potential tax consequences over the trust's payment term.

96. A — When a decedent retains certain incidents of ownership over a life insurance policy during life, such as the right to change the beneficiary, surrender the policy, or borrow against its cash value, the proceeds are generally includible in the decedent's gross estate for federal estate tax purposes, even though paid directly to a named beneficiary rather than to the estate.

97. A — An estate generally requires its own separate Employer Identification Number, obtained by the executor on the estate's behalf, functioning as the estate's own taxpayer identification number for purposes such as opening an estate bank account, reporting income earned by estate assets, and filing the estate's own separate Form 1041 fiduciary income tax return.

98. C — Because a revocable living trust is generally treated as a grantor trust, disregarded for federal income tax purposes during the grantor's lifetime, the grantor generally continues to be treated as the owner of a personal residence titled in the trust's name, and generally remains eligible for the Section 121 exclusion upon a future sale, provided the tests are otherwise met.

99. B — Similar to several other U.S. territories, a bona fide resident of the Commonwealth of the Northern Mariana Islands for the entire tax year is generally subject to that territory's own applicable local or mirror tax system, filing with the territory's own tax authority based on income sourced within the territory, rather than filing a separate federal return with the IRS.

100. D — An ancillary probate proceeding is generally required to administer and transfer real property the decedent owned in a state other than their state of legal domicile, since real property is generally governed by the probate law of the specific state in which it is physically located, requiring this separate, additional proceeding alongside the primary domiciliary probate proceeding.