PRACTICE EXAM 11: 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 brings a shoebox of receipts and bank statements but no organized summary of income and expenses for a small side business the client operates. What is generally the preparer's recommended first step in this specific situation?

A. Work with the client to organize and categorize the documentation into a coherent summary of income and expenses before attempting to prepare the return
B. Simply estimate the client's income and expenses without reviewing any of the actual provided documentation at all
C. Refuse to prepare the return at all until the client hires a separate bookkeeper to organize the records first
D. Report the business as having no income or expenses for the year, since the records are not already organized

2. A preparer's client asks whether a taxpayer who received an IRS Letter 12C, requesting additional information to process a filed return, must respond within a specific stated deadline or risk further delay or disallowance. What is the general recommended approach to this specific letter?

A. Ignore the letter entirely, since Letter 12C requests are generally optional and have no bearing on the return's ultimate processing
B. Respond by the deadline stated in the letter, providing the specific information or documentation requested to avoid further processing delay
C. File an entirely new original return rather than responding to the specific information request in the letter itself

D. Wait for a second, follow-up letter before taking any action at all, since the first letter is rarely actually enforced

3. A preparer's client wants to know whether Form 2848 power of attorney authority automatically includes the ability to sign the client's tax return on the client's behalf. What is the general answer regarding this specific scope question?

A. Yes, signing authority is always automatically and fully included any time a valid Form 2848 is properly executed by the taxpayer

B. Form 2848 never grants any signing authority at all under any circumstances, regardless of what is specifically indicated on the form

C. Signing authority is granted only through a completely separate form, unrelated in any way to Form 2848 itself

D. Generally no; a Form 2848 grants broad representation authority, but the authority to actually sign a return on the taxpayer's behalf generally requires a specific, separate authorization within the form

4. A preparer's client asks whether the IRS Taxpayer Advocate Service is generally available to assist a taxpayer experiencing a significant financial hardship or an unresolved problem with the IRS that has not been resolved through normal channels. What is the general purpose of this specific IRS office?

A. To serve as the IRS's primary examination and audit function, rather than as an independent taxpayer assistance channel

B. To collect delinquent tax debt more aggressively than the IRS's standard collection function would otherwise pursue

C. To provide an independent channel within the IRS for a taxpayer experiencing significant hardship or an unresolved problem to seek assistance when normal IRS channels have not resolved the issue

D. To provide legal representation directly to the IRS in Tax Court litigation against the taxpayer, rather than to assist the taxpayer

5. A preparer's client wants to know whether a preparer is generally required to verify a client's claimed dependents by independently contacting the other parent or reviewing a custody agreement, or whether the preparer may generally rely on the client's own representations absent any red flags. What is the general standard?

A. A preparer must always independently contact the other parent and obtain a copy of any custody agreement before ever claiming any dependent

B. A preparer may generally rely on the client's representations regarding dependents absent specific red flags suggesting the information is incorrect, though certain credits require additional documented due diligence inquiry

C. A preparer may never claim any dependent at all unless the client provides formal, notarized documentation proving the dependency relationship

D. A preparer bears no responsibility at all for a dependent claim, regardless of any red flags suggesting the information is incorrect

6. A preparer's client asks whether the IRS generally accepts digital or scanned copies of receipts and other supporting documentation as adequate substantiation for a claimed deduction, rather than requiring the client to retain the original paper documents. What is the general answer regarding digital recordkeeping?

A. No, only original paper documents are ever accepted as adequate substantiation, regardless of how legible or complete a digital copy might be

B. Digital copies are accepted only for a business return, but original paper documents are always still required for an individual return

C. Digital copies are accepted only if the client also separately retains the original paper documents indefinitely alongside the digital copies

D. Generally yes; the IRS generally accepts adequate digital or scanned copies of receipts and other records as sufficient substantiation, provided the digital copies are legible and accurately reflect the original documents

7. A preparer's client wants to know whether a taxpayer who receives a CP2000 notice and agrees the proposed adjustment is correct must file a formal amended return, Form 1040-X, to resolve the matter, or whether a different, more limited response is generally sufficient. What is the general answer?

A. Generally, the taxpayer may simply respond to the CP2000 notice itself indicating agreement, rather than needing to separately file a full Form 1040-X amended return

B. Yes, a full Form 1040-X amended return is always required in every case to resolve any CP2000 notice, regardless of the taxpayer's response

C. No response of any kind is ever required once a CP2000 notice is received, regardless of whether the taxpayer agrees with the proposed adjustment

D. The taxpayer must instead file an entirely new original return for the year, rather than responding to the notice or filing an amended return

8. A preparer's client asks whether a paid preparer is generally permitted to prepare a tax return using a template or software-generated fictitious taxpayer scenario purely for internal training purposes, using data that does not correspond to any actual real client. What is the general professional consideration in this specific situation?

A. Never permitted under any circumstances, since Circular 230 entirely prohibits a preparer from ever preparing any return, including a training scenario
B. Permitted only if the fictitious training return is separately and formally filed with the IRS under a specifically designated training identification number
C. Generally permitted, since using clearly fictitious training data for internal professional development purposes does not implicate the same confidentiality or accuracy concerns that apply to an actual client's real return
D. Permitted only if the preparer first obtains written authorization from the IRS National Office before preparing any fictitious training return

9. A preparer's client wants to know the general difference between an IRS revenue ruling and a private letter ruling, both of which interpret how the tax law applies to a specific set of facts. What is a key general distinction between these two types of IRS guidance?

A. Both types of guidance are functionally identical in every respect, with no meaningful distinction between them regarding scope or precedential value
B. A revenue ruling is generally published guidance that any taxpayer may rely upon, while a private letter ruling is generally issued to a specific taxpayer and generally may not be relied upon as precedent by any other taxpayer
C. A private letter ruling is generally published guidance any taxpayer may rely upon, while a revenue ruling applies only to the specific requesting taxpayer
D. Neither a revenue ruling nor a private letter ruling carries any legal weight at all, and both may generally be entirely disregarded by the IRS

10. A preparer's client wants to know whether a taxpayer generally has the right to record an in-person IRS interview or examination meeting, provided the taxpayer gives the IRS advance notice of the intent to record. What is the general answer regarding a taxpayer's right to record such a meeting?

A. No, recording an IRS interview is never permitted under any circumstances, regardless of any advance notice the taxpayer might provide beforehand

B. Recording is permitted only if the IRS itself separately consents in writing, regardless of any advance notice the taxpayer might otherwise provide

C. Recording is permitted only for a correspondence audit conducted entirely by mail, but never for any type of in-person interview or meeting

D. Generally yes; a taxpayer generally has the right to make an audio recording of an in-person interview, provided the taxpayer gives the IRS advance written notice of that intent

11. A preparer's client wants to know whether a taxpayer's request for an installment agreement to pay an outstanding tax balance over time generally stops the accrual of interest and the late-payment penalty on the unpaid balance while the agreement is in effect. What is the general answer?

A. Yes, both interest and the failure-to-pay penalty are entirely and immediately eliminated the moment an installment agreement is approved by the IRS

B. Only the failure-to-pay penalty stops accruing, while interest continues, the exact reverse of the correct general treatment under current law

C. Generally no; interest and the failure-to-pay penalty generally continue to accrue on the unpaid balance while an installment agreement is in effect, though the failure-to-pay penalty rate may be reduced

D. Only interest stops accruing, while the failure-to-pay penalty continues at its full original rate, the exact reverse of the correct general treatment

12. A preparer's client asks whether an Offer in Compromise, allowing a taxpayer to settle a tax debt for less than the full amount owed, is generally available to any taxpayer who simply cannot afford to pay their full tax liability, or whether more specific eligibility criteria generally apply. What is the general answer?

A. Specific eligibility criteria generally apply; an Offer in Compromise is generally available only when the IRS determines the offered amount reasonably reflects the taxpayer's actual reasonable collection potential, not merely an inability or unwillingness to pay the full amount

B. Any taxpayer who simply states an inability to pay the full amount owed automatically and immediately qualifies for an Offer in Compromise

C. An Offer in Compromise is never actually available under any circumstances, regardless of the taxpayer's actual documented financial situation

D. An Offer in Compromise is available only to a business taxpayer, and is never actually available at all to an individual taxpayer

13. A preparer's client wants to know whether a taxpayer who receives a math error notice from the IRS, correcting a simple calculation error on the filed return, generally has the same formal appeal rights as a taxpayer who receives a notice following a full audit examination. What is the general distinction?

A. Both types of notices carry entirely identical appeal rights and procedures, with no meaningful distinction between the two types of IRS correspondence

B. A math error notice generally provides broader, more extensive appeal rights than a notice following a full audit examination would provide

C. No response or appeal of any kind is ever available for a math error notice, regardless of whether the taxpayer disagrees with the correction

D. A math error notice generally provides a more limited, expedited procedure for the taxpayer to request abatement, distinct from the more formal appeal rights generally available following a full audit examination

14. A preparer's client wants to know whether a preparer who identifies a potential conflict of interest between two clients, such as a divorcing couple both seeking to have the same preparer complete their now-separate individual returns, may still generally represent both clients under Circular 230. What is the general standard?

A. The preparer may never represent both clients under any circumstances at all, regardless of any consent either client might be willing to provide

B. The preparer may always freely represent both clients without any need for consent, disclosure, or any other conflict-of-interest safeguard at all

C. The preparer may generally continue representing both clients only if each client provides informed, specific written consent after being advised of the potential conflict, and the preparer reasonably believes competent representation of both remains possible

D. Only the client who first engaged the preparer may continue to be represented, with the other client automatically and entirely excluded

15. A preparer's client wants to know whether the IRS generally requires a specific reasonable cause explanation, beyond simply stating an inability to pay, in order to request abatement of the failure-to-file or failure-to-pay penalty. What is the general standard for requesting this specific type of penalty abatement?

A. No explanation of any kind is ever required at all; the IRS automatically and fully abates any failure-to-file or failure-to-pay penalty upon request

B. Generally, the taxpayer must generally demonstrate reasonable cause, such as a specific unavoidable event beyond the taxpayer's control, rather than merely stating an inability or unwillingness to pay the tax owed

C. Simply stating a general inability to pay the tax owed is always fully sufficient by itself to obtain abatement of either penalty

D. Penalty abatement is available only for the failure-to-file penalty, and is never actually available at all for the failure-to-pay penalty

16. A preparer's client wants to know whether the IRS's First-Time Penalty Abatement administrative waiver is generally available to a taxpayer who has a generally clean compliance history but is now facing a failure-to-file or failure-to-pay penalty for the current year. What is the general purpose of this specific administrative waiver?

A. To generally provide a taxpayer with a clean compliance history for the preceding several years an administrative option for penalty relief without needing to separately establish specific reasonable cause

B. To provide penalty relief only to a taxpayer who has never previously filed any tax return at all under any circumstances

C. To permanently and entirely eliminate a taxpayer's ability to ever be assessed any future penalty of any kind going forward

D. To provide relief only for an accuracy-related penalty, and never for a failure-to-file or failure-to-pay penalty specifically

17. A taxpayer received a $2,400 payment characterized as alimony under a divorce decree finalized in 2016, before the current-law change to alimony taxation took effect. How is this specific pre-2019 divorce agreement's alimony payment generally treated on the recipient's return?

A. Generally excluded entirely from the recipient's taxable income, since the current-law treatment applies retroactively to every divorce agreement regardless of when it was executed

B. Generally includible in the recipient's taxable income, since the older pre-2019 alimony tax treatment rules continue to apply to a divorce agreement executed before the applicable current-law threshold date

C. Includible only to the extent the payment exceeds a specific flat statutory alimony exclusion threshold amount that applies to the recipient

D. Treated as a nontaxable property settlement rather than as includible alimony income, since the underlying divorce is now several years old

18. A taxpayer received a $9,000 distribution from a Roth IRA the taxpayer had opened and funded eight years earlier, taken at age 62, consisting entirely of the taxpayer's own original contributions with no earnings withdrawn. How is this qualified Roth IRA distribution generally taxed?

A. Fully includible in the taxpayer's ordinary taxable income, exactly as a traditional IRA distribution funded with pretax contributions would be taxed

B. Subject to the 10% early distribution penalty despite the taxpayer having reached age 59½ well before this specific distribution was taken

C. Generally entirely tax-free and penalty-free, since the distribution consists solely of the taxpayer's own original contributions, which may always be withdrawn tax-free and penalty-free regardless of the account's age

D. Includible in taxable income only to the extent the distribution exceeds the taxpayer's original total Roth IRA contribution amount

19. A taxpayer received a $1,800 payment from a state's unclaimed property fund, representing a forgotten bank account balance the state had been holding on the taxpayer's behalf for several years before the taxpayer successfully claimed it. How is this unclaimed property payment generally treated for federal tax purposes?

A. Fully includible in the taxpayer's taxable income exactly as any newly earned wage or investment income would be reported for the year received

B. Includible only to the extent the payment exceeds a specific flat statutory unclaimed property exclusion threshold amount for the year

C. Subject to a separate flat withholding tax applied directly by the state before the unclaimed property is actually released to the taxpayer

D. Generally not includible in the taxpayer's taxable income, since the payment simply represents the taxpayer's own previously owned funds being returned rather than newly earned income

20. A taxpayer received $4,200 in Form 1099-R reported income from a distribution of employer stock from a qualified retirement plan, where the distribution qualifies for net unrealized appreciation (NUA) treatment on the stock's built-in appreciation. What is the general tax advantage of this specific NUA treatment?

A. The stock's cost basis is generally taxed as ordinary income upon distribution, while the built-in net unrealized appreciation is generally taxed at the more favorable long-term capital gains rate when the stock is later sold

B. The entire distribution, including both basis and appreciation, is generally taxed entirely at ordinary income tax rates upon distribution with no special treatment

C. The entire distribution, including both basis and appreciation, is generally entirely tax-free upon distribution under the specific NUA treatment

D. The built-in appreciation is generally taxed immediately as ordinary income upon distribution, while only the cost basis defers taxation until sale

21. A taxpayer received $600 in interest income from a state income tax refund the taxpayer received late, where the state paid interest on the delayed refund in addition to the refund principal itself. How is this specific interest portion generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since interest paid on a delayed state refund is treated identically to the refund principal itself under the tax benefit rule

B. Includible only to the extent the interest amount exceeds a specific flat statutory state refund interest exclusion threshold

C. Subject to a separate flat withholding tax applied directly by the state before the interest is paid to the taxpayer

D. Generally includible in the taxpayer's taxable interest income for the year received, regardless of whether the underlying state tax refund principal itself is taxable

22. A taxpayer received a $3,000 payment as a cash award from an employer for an outstanding safety achievement, presented at a company-wide ceremony but not part of the taxpayer's regular salary or bonus structure. How is this specific employee achievement award generally treated for federal tax purposes?

A. Generally includible in the employee's taxable wages, since a cash award, even one recognizing an achievement, is generally fully taxable compensation regardless of the specific reason it was awarded

B. Entirely excluded from taxable income, since any employee achievement award recognizing exceptional performance is treated as a nontaxable gift

C. Includible only to the extent the award exceeds a specific flat statutory annual employee achievement award exclusion threshold amount

D. Treated as a nontaxable fringe benefit rather than as wages, since it was presented at a formal company-wide recognition ceremony

23. A taxpayer received a $1,100 payment representing a court-ordered award of prejudgment interest in connection with a lawsuit settlement, separate from the underlying settlement award itself for a physical injury claim. How is this specific prejudgment interest portion generally treated?

A. Entirely excluded from taxable income, since prejudgment interest is treated identically to the underlying physical injury settlement award itself

B. Generally includible in the taxpayer's taxable income, since prejudgment interest is generally treated as taxable interest income even when the underlying settlement award itself qualifies for the physical injury exclusion

C. Includible only to the extent the interest amount exceeds the taxpayer's actual documented attorney fees paid in connection with the lawsuit

D. Treated as a nontaxable gift from the defendant rather than as interest income, since it arose from the same underlying lawsuit

24. A taxpayer received a Schedule K-1 from a limited liability company (LLC) taxed as a partnership, reporting $18,000 of ordinary business income allocated to the taxpayer as a member who actively participates in the LLC's day-to-day management. How is this specific active LLC member's allocated income generally treated?

A. Entirely excluded from taxable income until the LLC actually makes a matching cash distribution to the member during a future tax year

B. Includible in taxable income but never subject to self-employment tax, regardless of the member's level of active participation in the LLC

C. Generally includible in the taxpayer's taxable income and generally subject to self-employment tax, since the taxpayer actively participates in the LLC's day-to-day management rather than functioning as a passive investor

D. Treated as a nontaxable return of the member's own original capital investment in the LLC rather than as taxable business income

25. A taxpayer received a $2,600 payment from a qualifying long-term care insurance policy, structured as a reimbursement of the taxpayer's actual documented long-term care expenses incurred during the year, rather than as a fixed daily indemnity payment exceeding a specific per-day limit. How are these reimbursement-type benefits generally treated?

A. Fully includible in the taxpayer's taxable income exactly as any other insurance reimbursement payment received during the year would be treated

B. Includible only to the extent the benefit exceeds the taxpayer's original total premiums paid into the long-term care policy over its life

C. Subject to a separate flat withholding tax applied directly by the insurance company before the benefit is actually paid to the taxpayer

D. Generally excluded entirely from the taxpayer's taxable income, since qualifying long-term care insurance benefits, whether reimbursement-type or within the applicable per-day limit, are generally not taxable

26. A taxpayer received $700 in dividend income from shares of a real estate investment trust (REIT) specifically identified on the Form 1099-DIV as a return of capital distribution, rather than as an ordinary or qualified dividend. How is this specific return of capital distribution generally treated?

A. Fully includible in the taxpayer's taxable income for the current year exactly as an ordinary dividend distribution would be treated

B. Generally not currently includible in taxable income; instead, it generally reduces the taxpayer's cost basis in the REIT shares, with any excess over basis eventually taxable as capital gain

C. Entirely and permanently excluded from taxation altogether, with no adjustment at all to the taxpayer's cost basis in the REIT shares

D. Subject to a separate flat withholding tax applied directly by the REIT before the return of capital distribution is paid to the shareholder

27. A taxpayer received a $5,500 payment from a whistleblower award under the IRS Whistleblower Program, for information provided that led to the successful collection of unpaid tax from another taxpayer. How is this specific whistleblower award generally treated for federal tax purposes for the recipient?

A. Generally includible in the recipient's taxable income as ordinary income, similar to how other award or prize income is generally treated under current law

B. Entirely excluded from taxable income, since a whistleblower award is treated as a nontaxable public service benefit rather than as taxable income

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

D. Treated as capital gain income rather than as ordinary income, since it relates to the collection of an underlying tax debt

28. A taxpayer received a $1,400 payment representing a state's homestead property tax rebate, calculated as a percentage of the property taxes the taxpayer actually paid on their primary residence during the year. How is this specific state property tax rebate generally treated for federal tax purposes if the taxpayer did not itemize deductions in the year the underlying tax was paid?

A. Fully includible in the taxpayer's taxable income regardless of whether the taxpayer itemized deductions in the year the underlying property tax was actually paid

B. Includible only to the extent the rebate exceeds a specific flat statutory annual property tax rebate exclusion threshold amount

C. Generally not includible in the taxpayer's taxable income, since the taxpayer received no federal tax benefit from deducting the underlying property tax in the year it was paid, under the general tax benefit rule

D. Subject to a separate flat withholding tax applied directly by the state before the rebate is actually paid to the taxpayer

29. A taxpayer received a $2,100 payment from an employer's qualified transportation fringe benefit plan, covering the cost of a monthly transit pass used for the taxpayer's regular commute to work, within the applicable monthly statutory exclusion limit for qualified transportation benefits. How is this specific transit benefit generally treated?

A. Fully includible in the employee's taxable wages exactly as regular salary compensation would be reported, regardless of the applicable monthly limit

B. Generally excluded entirely from the employee's taxable wages, up to the applicable monthly statutory exclusion limit for qualified transportation fringe benefits

C. Includible only to the extent the benefit exceeds the employee's actual documented monthly commuting mileage rather than transit pass cost

D. Subject to backup withholding at a flat 24% rate applied directly to the transit benefit before it is provided to the employee

30. A taxpayer received a $900 payment from a class action settlement specifically characterized as compensation for emotional distress that did not originate from a physical injury or physical sickness. How is this specific type of emotional distress settlement payment generally treated for federal tax purposes?

A. Generally includible in the taxpayer's taxable income, since compensation for emotional distress not originating from a physical injury or physical sickness generally does not qualify for the physical injury exclusion

B. Entirely excluded from taxable income, since all emotional distress settlement payments are treated identically to a physical injury settlement under current law

C. Includible only to the extent the payment exceeds the taxpayer's actual documented medical expenses related to treating the emotional distress

D. Treated as a nontaxable gift from the defendant rather than as compensation connected to the underlying lawsuit and settlement

31. A taxpayer received $3,300 in combined net short-term and net long-term capital gain from various investment sales during the year, along with a separate $1,000 net Section 1256 contract gain from regulated futures contracts, subject to the specific 60/40 blended rate treatment that applies to Section 1256 contracts. How is this specific Section 1256 gain generally taxed?

A. Taxed entirely as short-term capital gain, exactly as it would be if the contracts had actually been held for one year or less

B. Taxed entirely as long-term capital gain, exactly as it would be if the contracts had actually been held for more than one year

C. Generally taxed as 60% long-term capital gain and 40% short-term capital gain, regardless of the taxpayer's actual specific holding period for the underlying futures contracts

D. Taxed entirely as ordinary income, since Section 1256 contracts never receive any form of preferential capital gains tax treatment

32. A taxpayer received a $700 payment representing a rebate from a home energy efficiency utility program, provided directly by the taxpayer's local utility company for installing qualifying energy-efficient equipment, structured as a subsidy rather than as compensation for any service the taxpayer performed. How is this specific utility rebate generally treated?

A. Fully includible in the taxpayer's taxable income exactly as any other cash payment received from any other unrelated source would be treated

B. Includible only to the extent the rebate exceeds a specific flat statutory annual utility rebate exclusion threshold amount

C. Subject to a separate flat withholding tax applied directly by the utility company before the rebate is actually paid to the taxpayer

D. Generally excluded from the taxpayer's taxable income under a specific statutory exclusion for a qualified subsidy provided by a utility for the purchase or installation of energy conservation measures

33. A taxpayer received a $1,600 payment representing accumulated, unused sick pay from a former employer's self-insured sick pay plan, paid in a lump sum following the taxpayer's retirement. How is this specific accumulated sick pay payment generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since accumulated sick pay paid upon retirement 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 a nontaxable retirement benefit rather than as ordinary wage income, since it was paid in connection with the employee's retirement

34. A taxpayer received a $500 payment as a finder's fee for helping a friend locate a rare collectible item that the friend then purchased, with the taxpayer receiving the fee directly from the seller of the collectible rather than from the friend. How is this specific finder's fee generally treated for federal tax purposes?

A. Entirely excluded from taxable income, since a finder's fee paid for a casual, informal favor between friends is treated as a nontaxable gift

B. Generally includible in the taxpayer's gross income as miscellaneous taxable income, regardless of the informal, one-time nature of the specific arrangement

C. Includible only to the extent the fee exceeds a specific flat statutory annual finder's fee exclusion threshold amount

D. Treated as capital gain income rather than as ordinary miscellaneous income, since it relates to the sale of a collectible item

35. A taxpayer received $2,000 in combined net long-term capital gain and qualified dividend income during the year, with the taxpayer's total taxable income placing this specific category of income within the 20% preferential rate bracket, the highest of the three available preferential rate tiers. How is this $2,000 generally taxed?

A. Taxed at a 20% preferential federal rate, since the taxpayer's total taxable income places this specific portion of income within the highest applicable preferential rate bracket

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

C. Taxed at a flat 37% 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 under current law

36. A taxpayer received a $3,800 distribution from a traditional IRA, where the entire amount is used within the same tax year to pay for the taxpayer's own unreimbursed qualifying medical expenses that exceed 7.5% of the taxpayer's AGI for the year, with the taxpayer under age 59½ at the time of the distribution. How is this specific distribution generally treated?

A. Entirely excluded from both ordinary income tax and the 10% early distribution penalty, since it was used entirely for the taxpayer's own qualifying medical expenses

B. Subject to the full 10% early distribution penalty in addition to ordinary income tax, since no exception applies to medical expenses under current law

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

D. Generally excluded from the 10% early distribution penalty to the extent the distribution does not exceed the taxpayer's unreimbursed medical expenses exceeding 7.5% of AGI, though the distribution remains includible in ordinary taxable income

37. A taxpayer's total itemized deductions include $7,500 in mortgage interest and $2,000 in charitable contributions, for a combined total of $9,500, under the taxpayer's applicable $14,600 standard deduction. What is the taxpayer's generally recommended deduction approach for the year?

A. Claim the $9,500 in itemized deductions regardless of the fact that the standard deduction amount is actually larger for the year
B. Claim both the standard deduction and the itemized deductions together, combining the two amounts into a single, larger total deduction
C. Claim the $14,600 standard deduction, since it exceeds the taxpayer's $9,500 in total itemized deductions and produces the lower taxable income for the year
D. Claim neither deduction at all, since the itemized total falls under the applicable standard deduction amount for the taxpayer's filing status

38. A taxpayer's total charitable contribution deduction includes a $2,000 donation of used clothing and household items in good condition, donated to a qualified thrift store operated by a public charity, with the taxpayer maintaining a detailed itemized list and photographs of the donated items. What is generally required to substantiate this specific type of non-cash contribution?

A. A contemporaneous written acknowledgment or receipt from the charity, along with the taxpayer's own detailed records establishing the items' condition and fair market value at the time of donation
B. No documentation of any kind is ever required for a donation of used clothing and household items, regardless of the total claimed value
C. Only a formal, independent qualified appraisal is ever sufficient, regardless of the total dollar value of the donated used clothing and household items
D. Only a bank record showing the specific dollar amount of the donation is required, exactly as would be required for a cash contribution

39. A taxpayer's Adoption Credit calculation for a qualifying adoption exceeds the taxpayer's current-year tax liability after applying other credits, resulting in a portion of the nonrefundable Adoption Credit going unused for the current year. What is the general treatment of this excess unused Adoption Credit amount?

A. The excess unused amount is entirely forfeited in full, with no carryforward or future usability available under any circumstances

B. The excess unused Adoption Credit amount generally may be carried forward and used in each of the following five tax years, subject to the same applicable limitations in each year

C. The excess unused amount is automatically refunded in cash to the taxpayer regardless of the taxpayer's actual current-year tax liability

D. The excess unused amount must be used entirely in the following single year or it is permanently forfeited after that one year

40. A taxpayer's total Qualified Business Income (QBI) deduction calculation involves a specified service trade or business (SSTB), such as a law practice, where the owner's taxable income before the QBI deduction falls within the applicable phase-in range between the lower and higher SSTB thresholds. What is the general QBI deduction treatment for an SSTB within this specific range?

A. The QBI deduction is generally entirely disallowed the moment taxable income enters any part of the applicable SSTB phase-in range at all

B. The QBI deduction remains generally fully available without any reduction at all as long as taxable income falls anywhere within the phase-in range

C. SSTB classification has no effect at all on the QBI deduction calculation once taxable income enters the applicable phase-in range

D. The QBI deduction is generally partially available, phased in or out proportionally based on where the taxpayer's taxable income falls within the applicable SSTB phase-in range

41. A taxpayer's total American Opportunity Credit calculation is being evaluated for a student who was convicted of a felony drug offense during the tax year in question. What is the general effect of this specific conviction on the student's American Opportunity Credit eligibility for that year?

A. The felony drug conviction has no effect at all on American Opportunity Credit eligibility, and the credit remains fully available regardless of any conviction

B. The student remains eligible for the American Opportunity Credit, but only at a reduced 50% rate compared to a student with no such conviction

C. The felony drug conviction affects only the separate Lifetime Learning Credit, and has no bearing at all on American Opportunity Credit eligibility

D. The student generally becomes entirely ineligible for the American Opportunity Credit for any tax year in which the student was convicted of a felony drug offense

42. A taxpayer's total mortgage interest deduction includes interest paid on a mortgage secured by a boat that qualifies as a second home under the specific statutory definition, meeting the sleeping, cooking, and toilet facility requirements. How is this specific boat mortgage interest generally treated?

A. Generally deductible as home mortgage interest, since a boat meeting the specific statutory sleeping, cooking, and toilet facility requirements qualifies as a second home for mortgage interest deduction purposes

B. Generally not deductible at all, since the mortgage interest deduction applies only to a traditional land-based structure and never to a boat or vessel

C. Generally deductible only at a reduced rate compared to interest on a traditional land-based second home, rather than being fully deductible under the same rules

D. Generally deductible only if the boat is also used for at least some portion of the year to generate rental income from third parties

43. A taxpayer's total itemized deductions include $600 in unreimbursed employee business expenses specifically incurred by a qualified performing artist meeting the specific statutory requirements for this narrow category of employee expense deduction. How are these specific qualified performing artist expenses generally treated under current law?

A. Generally not deductible at all, since the current suspension of the miscellaneous itemized deduction applies equally to every category of employee, without exception

B. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as an above-the-line adjustment to income

C. Generally deductible as an above-the-line adjustment to income, since a qualified performing artist meeting the specific narrow statutory requirements remains eligible for this specific unreimbursed employee expense deduction under current law

D. Generally deductible only as a nonrefundable tax credit rather than as any form of deduction, whether above-the-line or itemized

44. A taxpayer's total Foreign Tax Credit calculation is being evaluated for a taxpayer who paid $200 in foreign tax on foreign-source passive investment income, an amount under the applicable simplified limitation threshold that allows claiming the credit directly without filing the full Form 1116. What is the general purpose of this specific simplified election?

A. To eliminate the Foreign Tax Credit entirely for any taxpayer whose foreign tax paid falls under the applicable simplified election threshold
B. To allow an eligible taxpayer with a relatively small amount of foreign tax paid on passive income to claim the Foreign Tax Credit directly without needing to complete the more detailed Form 1116 limitation calculation
C. To require every taxpayer claiming the Foreign Tax Credit, regardless of the amount involved, to complete the full Form 1116 calculation without exception
D. To convert the Foreign Tax Credit into a fully refundable credit once the taxpayer's foreign tax paid falls under the applicable threshold

45. A taxpayer's total Child and Dependent Care Credit calculation involves care expenses paid for a qualifying disabled dependent who is over age 13 but who is physically or mentally incapable of self-care, requiring supervision similar to that needed by a younger child. How is this specific disabled dependent generally treated for credit eligibility purposes?

A. The disabled dependent never qualifies for purposes of the credit once the dependent exceeds age 13, regardless of any physical or mental incapacity
B. The disabled dependent qualifies for purposes of the credit, but only at a reduced 50% rate compared to a qualifying child under age 13
C. The disabled dependent generally qualifies as a qualifying individual for purposes of the credit, regardless of the dependent's actual age, since the dependent is physically or mentally incapable of self-care
D. The disabled dependent qualifies for purposes of the credit only if the taxpayer also separately claims the disabled dependent as a dependent

46. A taxpayer's total itemized deductions include a $1,200 charitable contribution of appreciated stock held short-term, rather than long-term, donated directly to a qualified public charity. How is the deductible amount generally calculated for this specific short-term appreciated property contribution?

A. Generally based on the stock's full current fair market value, exactly as would apply to a donation of long-term held appreciated stock

B. Generally limited to zero, since short-term appreciated property is entirely ineligible for any charitable contribution deduction under current law

C. Generally based on the average of the stock's cost basis and its current fair market value, rather than either figure being used exclusively

D. Generally limited to the taxpayer's cost basis in the stock, rather than the stock's higher current fair market value, since the stock was held short-term rather than long-term

47. A taxpayer's total Premium Tax Credit eligibility is being evaluated for a taxpayer whose household income falls at exactly 250% of the federal poverty line for the taxpayer's family size, a level generally within the range that qualifies for the credit under current law. What is a general factor affecting the specific credit amount at this income level?

A. The taxpayer's required contribution percentage toward the premium of the applicable benchmark plan generally increases as household income rises as a percentage of the federal poverty line, reducing the credit amount at higher income levels within the eligible range

B. Household income as a percentage of the federal poverty line has no bearing at all on the specific Premium Tax Credit amount once basic eligibility is established

C. The credit amount is always identical for every eligible taxpayer regardless of where the taxpayer's household income falls within the eligible range

D. The credit amount decreases as household income falls as a percentage of the federal poverty line, the exact reverse of the correct general relationship

48. A taxpayer's total itemized deductions include $900 in points paid on a home improvement loan that was not used to buy, build, or substantially improve the taxpayer's home, but was instead used to pay off unrelated personal credit card debt. How are these specific points generally treated?

A. Generally fully deductible in the year paid, in the identical manner as points paid on a mortgage used to purchase a taxpayer's primary residence

B. Generally not deductible at all as home mortgage interest points, since the loan proceeds were not used to buy, build, or substantially improve the home securing the loan

C. Generally deductible ratably over the life of the loan, rather than either fully deductible in the year paid or entirely nondeductible

D. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as home mortgage interest points

49. A taxpayer's total itemized deductions include $400 in unreimbursed National Guard or Reserve travel expenses, incurred while traveling more than 100 miles from home to attend a required drill or meeting, a specific narrow category of employee expense deduction preserved under current law. How are these specific travel expenses generally treated?

A. Generally not deductible at all, since the current suspension of the miscellaneous itemized deduction applies equally to every category of employee, without exception

B. Generally deductible as an above-the-line adjustment to income, since this specific narrow category of Armed Forces reservist travel expense remains an exception to the general suspension of unreimbursed employee expense deductions

C. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as an above-the-line adjustment to income

D. Generally deductible only as a nonrefundable tax credit rather than as any form of deduction, whether above-the-line or itemized

50. A taxpayer's total Retirement Savings Contributions Credit (Saver's Credit) calculation involves a taxpayer who received a distribution from a retirement plan during the testing period surrounding the year of the contribution being evaluated for the credit. What is the general effect of this specific distribution on the Saver's Credit calculation?

A. The distribution has no effect at all on the Saver's Credit calculation, regardless of the amount or timing of the distribution taken

B. The distribution automatically and entirely disqualifies the taxpayer from claiming any Saver's Credit at all for the year, regardless of the amount involved

C. The amount of the distribution generally reduces the eligible contribution amount used to calculate the Saver's Credit, potentially reducing or eliminating the resulting credit for the year

D. The distribution increases the eligible contribution amount used to calculate the credit, the exact reverse of the correct general treatment

51. A taxpayer's total itemized deductions include $1,500 in unreimbursed expenses for a service animal specifically trained to assist with the taxpayer's own diagnosed medical condition, including costs for the animal's food, grooming, and veterinary care directly related to maintaining the animal's ability to perform its assistive function. How are these specific service animal expenses generally treated?

A. Generally not deductible at all, since expenses related to any animal, including a trained service animal, are never treated as a qualifying medical expense
B. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as a qualifying medical expense
C. Generally deductible only as a nonrefundable tax credit rather than as any form of itemized medical expense deduction on Schedule A
D. Generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other unreimbursed medical expenses

52. A taxpayer's total mortgage interest deduction includes interest on a mortgage where the taxpayer is a co-borrower along with a non-spouse relative, with both co-borrowers legally obligated on the loan but only the taxpayer actually making the monthly mortgage payments from the taxpayer's own funds. How is the mortgage interest deduction generally allocated in this specific situation?

A. Generally deductible by the taxpayer who actually paid the interest from their own funds, provided that taxpayer is also legally liable on the underlying mortgage debt
B. Generally must be split evenly between both co-borrowers regardless of which specific co-borrower actually made the payments from their own funds
C. Generally deductible only by the co-borrower who is not the taxpayer, regardless of which specific co-borrower actually made the payments
D. Generally not deductible at all by either co-borrower, since a non-spouse co-borrower arrangement disqualifies the entire mortgage from any deduction

53. A taxpayer's total Earned Income Tax Credit calculation involves a taxpayer who is legally separated from a spouse under a written separation agreement, but not yet formally divorced, and who lived apart from that spouse for the entire second half of the tax year. How does this specific separation status generally affect EITC filing status eligibility?

A. The taxpayer must always file as Married Filing Jointly to claim the EITC, regardless of any legal separation agreement or period spent living apart
B. The taxpayer may generally be treated as unmarried for EITC purposes under the specific statutory rules, potentially allowing a filing status other than Married Filing Separately, which is otherwise generally ineligible for the EITC
C. The specific separation status has no effect at all on EITC eligibility, since only a fully finalized divorce decree can ever change the taxpayer's filing status

D. The taxpayer becomes entirely and permanently ineligible for the EITC once any form of legal separation agreement exists, regardless of any other facts

54. A taxpayer's total itemized deductions include $500 paid for a home energy audit conducted by a certified home energy auditor, eligible for a specific limited credit under the Energy Efficient Home Improvement Credit, separate from the credit available for actual qualifying property installations. What is the general credit available for this specific home energy audit expense?

A. 30% of the cost, subject only to the credit's general $1,200 aggregate annual limit shared with other qualifying property, without any separate audit-specific sub-limit
B. A flat $500 credit equal to the full cost of the audit, regardless of the credit's general percentage-based calculation approach
C. 30% of the cost, up to a specific $150 annual limit for a qualifying home energy audit, a separate, smaller sub-limit distinct from the credit's other qualifying property categories
D. No credit at all is available for a home energy audit, which qualifies only for the entirely separate Residential Clean Energy Credit instead

55. A taxpayer's total itemized deductions include $2,200 in mortgage insurance premiums paid on a qualifying mortgage during the year. How are these mortgage insurance premiums generally treated for itemized deduction purposes under current tax law, which has changed the treatment of this specific item over time?

A. The deductibility of mortgage insurance premiums as qualified residence interest has expired and been extended multiple times under current law; a preparer should verify current-year status before claiming this specific deduction
B. Mortgage insurance premiums are permanently and unconditionally deductible every year without exception under a single, unchanging, long-standing statutory provision
C. Mortgage insurance premiums have never been deductible at any point under any version of federal tax law throughout its entire history
D. Mortgage insurance premiums are deductible only as a nonrefundable tax credit, rather than as any form of itemized interest deduction on Schedule A

56. A taxpayer's total Child and Dependent Care Credit calculation involves qualifying work-related care expenses paid to the taxpayer's own 17-year-old child, who provided care for a younger qualifying sibling so both parents could work. How are payments to this specific caregiver generally treated for purposes of the credit?

A. Payments to the taxpayer's own 17-year-old child qualify for the credit exactly the same as payments to any unrelated caregiver, with no special restriction based on the relationship or the child's age
B. Payments to the taxpayer's own child qualify for the credit only if that child is paid at least the federal minimum wage for the care services actually provided during the year
C. Payments to the taxpayer's own child qualify for the credit only if a formal, written household employment agreement was signed by both parents before the care arrangement began
D. Payments to the taxpayer's own child who is under age 19 at year-end generally do not qualify for the Child and Dependent Care Credit, regardless of the age of the sibling being cared for or the legitimacy of the care arrangement

57. A taxpayer's taxable income places them in a situation where a portion of income falls into a higher marginal tax bracket. What is the general correct method for calculating the taxpayer's total federal income tax liability using the tax rate schedules?

A. Apply the single highest marginal rate reached to the taxpayer's entire amount of taxable income, without regard to the lower brackets
B. Apply the lowest marginal rate reached to the taxpayer's entire amount of taxable income, without regard to the higher brackets
C. Apply each marginal rate only to the specific portion of taxable income that falls within that particular bracket, summing the results across all applicable brackets
D. Apply an simple average of all the marginal rates the taxpayer's income passes through to the entire amount of taxable income

58. A married couple's 16-year-old dependent child has $3,200 of unearned investment income and no earned income for the year. How is this child's investment income generally treated under the kiddie tax rules?

A. The child's net unearned income above the applicable threshold is generally taxed at the parent's marginal tax rate rather than the child's own generally lower rate
B. The child's unearned income is always taxed entirely at the child's own individual tax rate, regardless of the amount or the parent's own tax bracket

C. The child's unearned income is entirely tax-exempt as long as the child remains a dependent claimed on the parent's own return
D. The child's unearned income is taxed at a single flat 37% rate regardless of the amount involved or either the child's or parent's actual bracket

59. A single taxpayer has modified adjusted gross income of $250,000, including $40,000 of net investment income from interest, dividends, and capital gains. How is the Net Investment Income Tax generally calculated in this specific situation?

A. 3.8% is applied to the taxpayer's entire $250,000 modified adjusted gross income, without regard to the specific $200,000 single-filer threshold
B. 3.8% is applied to the lesser of the $40,000 net investment income or the amount by which MAGI exceeds the applicable $200,000 threshold for a single filer
C. 3.8% is applied only to the amount of MAGI below the $200,000 threshold, rather than to any income above that specific threshold
D. A flat $2,000 tax applies automatically any time a single taxpayer's net investment income exceeds $10,000, regardless of total MAGI

60. A taxpayer's return includes several tax preference and adjustment items that could potentially trigger the Alternative Minimum Tax. What is the general purpose of the AMT calculation within the overall federal income tax system?

A. To completely replace the regular income tax system entirely for every taxpayer nationwide, regardless of income level or the presence of any preference items
B. To provide an additional refundable credit exclusively for lower-income taxpayers who have no preference items or adjustments at all
C. To reduce the regular tax liability of taxpayers who claim itemized deductions, as a specific reward for itemizing rather than using the standard deduction
D. To ensure that taxpayers with substantial preference items and adjustments still pay a minimum baseline level of federal income tax, computed under a separate, parallel set of rules

61. A taxpayer's Schedule SE calculation shows net self-employment earnings of $150,000 for the year, with no other wage income. How is the Social Security portion of self-employment tax generally applied to this specific amount?

A. The full 12.4% Social Security portion applies to the entire $150,000 amount, without any annual wage base limit capping that specific portion

B. The Social Security portion of self-employment tax does not apply at all to any self-employed taxpayer, regardless of the amount of net earnings

C. The 12.4% Social Security portion applies only up to the annual wage base limit, with any net earnings above that limit subject only to the separate 2.9% Medicare portion

D. The 12.4% Social Security portion applies only to the first $10,000 of net self-employment earnings, with everything above that amount fully exempt

62. A taxpayer's prior-year tax liability was $8,000, and this year's total tax liability is projected at $15,000, with insufficient withholding to cover the difference. What is the general safe harbor rule that helps this taxpayer avoid an underpayment penalty on estimated tax?

A. Generally, paying in through withholding and timely estimated payments at least the lesser of 90% of the current year's tax or 100% of the prior year's tax (110% if prior-year AGI exceeded the applicable threshold) avoids the penalty

B. A taxpayer avoids any underpayment penalty automatically as long as the full remaining balance is paid in full by the original April filing deadline

C. A taxpayer must always pay in at least 100% of the current year's actual final tax liability to avoid any underpayment penalty whatsoever

D. No underpayment penalty ever applies to any individual taxpayer at all, regardless of how little was paid in throughout the year via withholding or estimates

63. A taxpayer is comparing the general effect of a $1,000 nonrefundable tax credit against a $1,000 tax deduction, given the taxpayer's 22% marginal tax bracket. What is the general difference in dollar-for-dollar benefit between these two specific tax items?

A. Both items provide the exact same dollar-for-dollar tax benefit of $1,000 in reduced tax liability, regardless of the taxpayer's specific marginal bracket

B. The $1,000 deduction reduces tax liability dollar-for-dollar by the full $1,000, while the $1,000 credit only reduces taxable income, the exact reverse of the correct treatment

C. Neither item provides any tax benefit at all unless the taxpayer's total itemized deductions exceed the applicable standard deduction amount for the year

D. The $1,000 credit reduces the taxpayer's tax liability dollar-for-dollar by the full $1,000, while the $1,000 deduction reduces taxable income by $1,000, saving only $220 in tax at the 22% marginal rate

64. A taxpayer sold stock at a loss and, within 30 days before the sale, purchased substantially identical replacement shares in the same company. How is this specific loss generally treated under the wash sale rule?

A. The loss is fully allowed and immediately deductible in the current year, exactly as if no replacement shares had been purchased at all
B. The loss is generally disallowed for current deduction purposes, and the disallowed amount is instead added to the basis of the newly purchased replacement shares
C. The loss is permanently and entirely disallowed forever, with no adjustment at all made to the basis of the replacement shares purchased
D. The loss automatically converts into a fully deductible ordinary loss rather than remaining a capital loss, due to the specific wash sale timing

65. A taxpayer actively participates in a rental real estate activity that generated a $30,000 loss for the year, and the taxpayer's modified adjusted gross income is $85,000. How is this specific rental loss generally treated under the passive activity loss rules?

A. The entire $30,000 loss is always fully deductible against nonpassive income, regardless of the taxpayer's level of participation or MAGI
B. Up to $25,000 of the loss may generally be deducted against nonpassive income under the active participation exception, subject to phase-out as MAGI rises above $100,000
C. None of the loss is ever deductible at all in the current year, regardless of the taxpayer's MAGI or level of active participation in the activity
D. The loss can only offset passive income from other passive activities, with no active participation exception available under any circumstances

66. A taxpayer's business generates a net operating loss for the current tax year, with no NOL carryback generally available under current law for this type of loss. How is this specific NOL generally treated going forward?

A. The NOL is entirely forfeited and permanently lost if it cannot be used in full within the current tax year, with no future carryforward available at all

B. The NOL must be carried back exactly three tax years before any carryforward option becomes available under current law

C. The NOL may fully offset 100% of taxable income in any future carryforward year, without any percentage limitation applying at all

D. The NOL is generally carried forward indefinitely to future tax years, where it may offset up to 80% of taxable income computed before the NOL deduction in each such year

67. A taxpayer's total qualified dividends and net long-term capital gains for the year are taxed using the Qualified Dividends and Capital Gain Tax Worksheet rather than the ordinary tax rate schedule. What is the general purpose of using this specific worksheet?

A. To apply the separate, generally lower preferential 0%, 15%, or 20% rate structure to the qualified dividends and long-term capital gain portion of taxable income, rather than ordinary rates

B. To apply the taxpayer's single highest ordinary marginal tax rate to the entire amount of taxable income, including the qualified dividends and capital gains

C. To completely exclude all qualified dividends and long-term capital gains from taxable income entirely, regardless of the taxpayer's total income level

D. To convert the qualified dividends and long-term capital gains into fully refundable tax credits rather than taxing them as any form of income at all

68. A taxpayer's Schedule D shows a net short-term capital loss of $4,000 and a net long-term capital gain of $1,000 for the year. What is the general result after netting these two specific categories together?

A. A net long-term capital gain of $1,000 and a fully separate, unrelated short-term loss of $4,000, since the two categories are never netted together at all

B. A net capital gain of $5,000, produced by incorrectly adding the loss and the gain together rather than properly netting the two opposite results

C. A net short-term capital loss of $3,000, since the $1,000 long-term gain is first netted against the larger short-term loss, reducing it but not eliminating it

D. No capital gain or loss at all results from this specific combination of a short-term loss and a long-term gain under the netting rules

69. A taxpayer invests in a business activity but has not met the at-risk amount requirements for the full amount of losses allocated to the taxpayer from that specific activity for the year. How are the losses exceeding the taxpayer's at-risk amount generally treated?

A. The losses exceeding the at-risk amount are entirely and permanently forfeited, with no future carryforward or deduction ever available under any circumstances
B. The losses exceeding the at-risk amount are generally suspended and carried forward to future years, deductible only as and when the taxpayer's at-risk amount subsequently increases
C. The losses exceeding the at-risk amount are fully currently deductible regardless of the taxpayer's at-risk amount, since the at-risk rules apply only to corporations
D. The losses exceeding the at-risk amount automatically convert into a fully refundable tax credit rather than remaining suspended as a carryforward loss

70. A high-income taxpayer's aggregate business losses for the year exceed the applicable excess business loss limitation threshold under current law. How are the disallowed losses above this specific threshold generally treated?

A. The disallowed excess business loss amount is generally treated as part of the taxpayer's net operating loss carryforward to future tax years, rather than being permanently forfeited
B. The disallowed excess business loss amount is entirely and permanently forfeited in full, with absolutely no future carryforward treatment available under any circumstances
C. The excess business loss limitation applies only to corporate taxpayers, with no equivalent limitation ever applying to any individual noncorporate taxpayer
D. The disallowed excess amount is instead immediately converted into a fully refundable tax credit rather than any form of loss carryforward

71. A taxpayer's taxable income falls at a level where using the published IRS Tax Tables versus the Tax Computation Worksheet could theoretically apply. What is the general rule governing which specific method a taxpayer must use to compute tax from taxable income?

A. Every taxpayer, regardless of income level, must always use the Tax Computation Worksheet exclusively, since the Tax Tables were fully discontinued under current law
B. Every taxpayer, regardless of income level, must always use the Tax Tables exclusively, since the Tax Computation Worksheet applies only to corporate returns

C. The taxpayer may freely choose either method at their own discretion in every case, since both methods always produce exactly the same identical tax result

D. Taxpayers with taxable income under a specific threshold generally use the Tax Tables, while taxpayers with taxable income at or above that threshold generally use the Tax Computation Worksheet or equivalent rate schedule

72. A married couple files a joint return and has one spouse with significant self-employment income and the other spouse with only modest wage income for the year. How is the couple's self-employment tax liability generally calculated in this specific joint-filing situation?

A. Self-employment tax is generally calculated once on the couple's combined total self-employment and wage income together, treating both spouses as a single combined taxpayer

B. Only the spouse with the higher total income is responsible for any self-employment tax liability at all, regardless of which spouse actually earned the self-employment income

C. Self-employment tax is generally calculated separately for each spouse based on that spouse's own individual net self-employment earnings, even though the couple files one combined joint return

D. Self-employment tax is entirely eliminated whenever a married couple elects to file a joint return, regardless of either spouse's individual self-employment earnings

73. A taxpayer's total tax liability calculation involves both a nonrefundable credit and a refundable credit of equal dollar amounts, in a situation where the taxpayer's tax liability before credits is lower than the combined total of both credits. What is the general practical difference between these two types of credits in this specific situation?

A. Both types of credits behave identically in every respect, with any excess amount always lost regardless of whether the specific credit is refundable or nonrefundable

B. The nonrefundable credit can only reduce tax liability down to zero, with any excess generally lost, while the refundable credit's excess amount is generally paid to the taxpayer even below zero liability

C. The refundable credit can only reduce tax liability down to zero, while the nonrefundable credit's excess amount is instead paid out to the taxpayer, the exact reverse of the correct treatment

D. Neither credit type can ever reduce a taxpayer's liability below the amount of tax already withheld during the year, regardless of the credit's refundability

74. A taxpayer's income includes both ordinary wage income and a modest amount of tax-exempt municipal bond interest for the year. How is this tax-exempt interest generally treated in the overall computation of the taxpayer's federal income tax liability?

A. The tax-exempt interest is generally fully included in taxable income and taxed at the taxpayer's ordinary marginal tax rate, exactly like fully taxable interest income
B. The tax-exempt interest is generally taxed at a special flat reduced rate of 10%, rather than being either fully excluded or fully included in taxable income
C. The tax-exempt interest is generally excluded from taxable income entirely, but it is still generally reported for informational purposes and may affect the taxability of certain other items, such as Social Security benefits
D. The tax-exempt interest generally must be reported as self-employment income, subjecting it to self-employment tax in addition to any regular income tax

75. A taxpayer's total tax return reflects a substantial understatement of income tax liability, and the IRS determines that a portion of the understatement resulted from the taxpayer's negligent disregard of the applicable tax rules. What is the general accuracy-related penalty consequence of this specific negligence finding?

A. No penalty at all generally applies for simple negligence, since accuracy-related penalties are generally reserved exclusively for cases of proven criminal tax fraud
B. A flat 75% civil fraud penalty automatically applies any time ordinary negligence, rather than actual fraud, is found on a taxpayer's return
C. The taxpayer is automatically subject to criminal prosecution for negligence alone, with no civil accuracy-related penalty option available under current law
D. A 20% accuracy-related penalty generally applies to the portion of the underpayment attributable to the taxpayer's negligence or disregard of the applicable rules and regulations

76. A taxpayer approaching retirement asks an Enrolled Agent for general guidance on the order in which to draw down funds from a taxable brokerage account, a traditional IRA, and a Roth IRA to generally minimize lifetime tax liability. What is the general conventional withdrawal-sequencing guidance for this type of situation?

A. Generally draw from taxable accounts first, then tax-deferred traditional accounts, and finally tax-free Roth accounts last, to allow tax-advantaged accounts more time to continue growing
B. Generally draw from the Roth IRA first in every situation, regardless of the taxpayer's other account balances or overall tax bracket considerations
C. Generally draw from all three account types in exactly equal proportions every year, regardless of each account's specific tax treatment
D. Generally draw from the traditional IRA first in every situation, regardless of the taxpayer's current tax bracket or required minimum distribution timing

77. A taxpayer asks an Enrolled Agent whether it is generally advisable to increase Form W-4 withholding allowances mid-year after realizing a large balance is owed for the prior year. What is the general professional guidance regarding this specific situation?

A. Generally recommend the taxpayer submit a revised Form W-4 promptly to increase withholding for the remainder of the year, helping avoid a similar underpayment and potential penalty next year
B. Generally recommend the taxpayer do nothing at all until the following year's return is actually filed, since mid-year withholding changes are never permitted under current law
C. Generally recommend the taxpayer stop all withholding entirely for the remainder of the current year to compensate for the prior year's underpayment
D. Generally recommend the taxpayer file an entirely new Form SS-4 rather than a revised Form W-4 to address the specific withholding shortfall

78. A taxpayer asks an Enrolled Agent for general guidance on whether to itemize deductions or claim the standard deduction, given that the taxpayer's total itemized deductions are only slightly below the applicable standard deduction amount for the year. What is the general recommended advisory approach in this specific situation?

A. Always recommend itemizing deductions in every situation, regardless of whether the standard deduction would actually produce a lower total tax liability
B. Generally calculate the tax liability both ways and recommend whichever specific method produces the lower overall total tax liability for the taxpayer
C. Always recommend the standard deduction in every situation, regardless of whether itemizing would actually produce a lower total tax liability
D. Recommend whichever method was used on the taxpayer's prior-year return, regardless of any change in the taxpayer's current-year itemized deduction total

79. A taxpayer with a large, unexpected capital gain late in the year asks an Enrolled Agent about general year-end tax planning strategies to help offset the additional tax impact. What is one general, widely recognized strategy an Enrolled Agent might discuss with this taxpayer?

A. Generally advise the taxpayer that no legitimate strategy exists at all to address a large capital gain once it has already been recognized during the year

B. Generally advise the taxpayer to simply not report the capital gain at all on the return, since unreported gains are rarely detected by the IRS

C. Generally advise the taxpayer to immediately repurchase the exact same securities that generated the gain to eliminate the resulting tax liability

D. Generally discuss tax-loss harvesting, meaning selling other investments currently at a loss before year-end to offset the recognized capital gain, subject to the wash sale rule

80. A taxpayer asks an Enrolled Agent for general advice on the tax advantages of contributing to a Health Savings Account, given that the taxpayer is enrolled in a qualifying high-deductible health plan. What is the general triple-tax-advantage feature of an HSA that the Enrolled Agent should generally explain?

A. Contributions are generally deductible, but growth and all withdrawals from the account, including for qualifying medical expenses, are generally fully taxable

B. Contributions are never deductible under any circumstances, though growth and all withdrawals are generally entirely tax-free regardless of purpose

C. Contributions are generally deductible, growth within the account is generally tax-deferred, and qualifying withdrawals for medical expenses are generally entirely tax-free

D. HSAs generally provide no tax advantage of any kind at all beyond what is already available through a standard personal checking account

81. A taxpayer asks an Enrolled Agent whether accelerating a charitable contribution into the current year, by bunching multiple years of planned giving into one year, could generally provide a tax advantage. What is the general reasoning behind this specific bunching strategy?

A. Bunching contributions generally has no effect at all on whether a taxpayer's total itemized deductions exceed the applicable standard deduction amount

B. Bunching several years of charitable contributions into one year can generally push total itemized deductions above the standard deduction in that specific year, allowing itemizing, while other years use the standard deduction

C. Bunching contributions generally converts the charitable deduction into a fully refundable tax credit, rather than remaining an itemized deduction

D. Bunching contributions is generally prohibited under current law, since charitable deductions must generally be spread evenly across multiple tax years

82. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of converting a portion of a traditional IRA to a Roth IRA in a specific year when the taxpayer's income is unusually low. What is the general planning rationale behind this type of Roth conversion timing?

A. Roth conversions are never taxable in any year at all, regardless of the taxpayer's specific income level in the year the conversion actually occurs

B. Converting during a low-income year generally has no effect at all on the marginal tax rate applied to the taxable portion of the conversion

C. Roth conversions can generally only be done during a year in which the taxpayer's income is unusually high, rather than unusually low

D. Converting during a low-income year generally allows the taxable conversion amount to be taxed at the taxpayer's currently lower marginal tax rate, rather than a potentially higher rate in a future year

83. A taxpayer asks an Enrolled Agent for general advice regarding required minimum distributions from a traditional IRA after reaching the applicable RMD age. What is the general consequence of failing to take a required minimum distribution by the applicable deadline?

A. Generally an excise tax penalty applies to the amount that should have been withdrawn but was not, calculated as a percentage of the shortfall, though the penalty may generally be reduced if timely corrected

B. Generally no consequence at all applies to a missed required minimum distribution, as long as the shortfall amount is eventually withdrawn at any point in the future

C. Generally the entire IRA account balance becomes immediately and fully taxable in the year the required minimum distribution is missed, regardless of the shortfall amount

D. Generally the IRA custodian, rather than the taxpayer, is solely responsible for any penalty resulting from a missed required minimum distribution

84. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of gifting appreciated stock, rather than cash, to a qualified charity. What is the general tax advantage of donating appreciated stock held long-term, compared to selling the stock and donating the cash proceeds?

A. Donating the appreciated stock directly generally provides no tax advantage at all compared to first selling the stock and then donating the resulting cash proceeds
B. Donating the appreciated stock directly generally requires the taxpayer to recognize additional capital gain beyond what would result from simply selling the stock
C. Donating the appreciated stock directly generally allows the taxpayer to deduct its full fair market value while avoiding recognition of the capital gain that would result from first selling the stock
D. Donating the appreciated stock directly generally limits the taxpayer's charitable deduction to the stock's original cost basis rather than its fair market value

85. A taxpayer asks an Enrolled Agent for general advice on whether filing a joint return or filing separately as Married Filing Separately would generally be more advantageous, given one spouse has significant unreimbursed medical expenses relative to that spouse's own individual income. What is the general advisory approach for this situation?

A. Generally calculate the tax result both ways, since filing separately can sometimes lower the 7.5% AGI floor applied to medical expenses for the spouse with the lower individual income, though other credits and deductions may be lost
B. Always recommend filing separately in every such situation, since filing separately generally provides an unconditional advantage whenever medical expenses exist
C. Always recommend filing jointly in every such situation, since filing separately generally results in an automatic, absolute prohibition on deducting any medical expenses
D. Recommend whichever filing status the couple used in the immediately preceding tax year, regardless of any change in either spouse's current-year medical expenses

86. A taxpayer asks an Enrolled Agent for general guidance on estate and gift tax planning relevant to preparing a current individual income tax return, specifically regarding the annual gift tax exclusion. What is the general effect of staying within the annual gift tax exclusion amount per recipient?

A. Any gift at all, regardless of amount, generally requires the filing of a gift tax return and generally reduces the donor's lifetime gift and estate tax exemption

B. Gifts within the annual exclusion amount are generally treated as fully taxable income to the recipient, requiring inclusion on the recipient's own income tax return

C. Gifts within the annual exclusion amount per recipient generally do not require the filing of a gift tax return and generally do not reduce the donor's lifetime gift and estate tax exemption

D. The annual gift tax exclusion generally applies only to gifts made to a donor's own spouse, with no exclusion available for gifts made to any other individual recipient

87. A taxpayer asks an Enrolled Agent for general guidance on properly documenting the business-use percentage of a personal vehicle used partly for a small business, to substantiate the vehicle expense deduction claimed. What is the general recommended record-keeping practice the Enrolled Agent should generally advise?

A. Generally rely solely on a single rough year-end estimate of total business mileage, prepared entirely from memory without any contemporaneous supporting records

B. Generally maintain a contemporaneous mileage log recording the date, destination, business purpose, and mileage of each business trip throughout the year

C. Generally maintain no mileage records at all, since vehicle expense deductions generally require no substantiation whatsoever under current law

D. Generally record only the single total number of miles driven for the entire year, without separately identifying which specific trips were business-related

88. A nonresident alien with U.S.-source income files a federal income tax return using Form 1040-NR. What is one general key difference between Form 1040-NR and the standard Form 1040 that an Enrolled Agent should generally understand?

A. Form 1040-NR generally taxes the nonresident alien's entire worldwide income exactly the same way as a Form 1040 taxes a U.S. citizen's worldwide income

B. Form 1040-NR generally allows an unlimited standard deduction identical to the amount available to any U.S. citizen filing a standard Form 1040

C. Form 1040-NR is generally used exclusively by U.S. citizens who are simply living temporarily outside the United States during the tax year

D. Form 1040-NR generally taxes only U.S.-source and effectively connected income, and the standard deduction is generally unavailable except for certain treaty-eligible taxpayers

89. An estate's fiduciary income tax return, Form 1041, reports both income retained by the estate and income distributed to beneficiaries during the year. How is income distributed to a beneficiary generally treated for income tax purposes?

A. All estate income is generally taxed exclusively to the estate itself, regardless of whether any portion of that income was actually distributed to a beneficiary
B. Distributed income is generally taxed twice, once to the estate and again separately to the beneficiary who actually received the distribution
C. Distributed income is generally taxed to the beneficiary who received it, reported to that beneficiary on a Schedule K-1, rather than being taxed again at the estate level
D. Distributed income is generally entirely tax-exempt to both the estate and the receiving beneficiary, regardless of the specific type of income distributed

90. A taxpayer who is a U.S. citizen living and working abroad for the entire tax year asks about excluding foreign earned income from U.S. taxation using the Foreign Earned Income Exclusion. What is one general test the taxpayer must generally satisfy to qualify for this specific exclusion?

A. Generally satisfy either the bona fide residence test or the physical presence test, establishing a sufficient connection to a foreign country during the applicable period
B. Generally hold only a valid U.S. passport for the entire year, with no requirement at all regarding actual physical presence or residence in any foreign country
C. Generally earn the foreign income exclusively through self-employment, since the exclusion is generally entirely unavailable to any employee earning foreign wages
D. Generally file the return using Form 1040-NR rather than a standard Form 1040, since only nonresident aliens generally qualify for this specific exclusion

91. A same-sex married couple, legally married under the law of the state where the marriage was performed, files their federal income tax return. What is the general federal filing status treatment generally available to this couple?

A. The couple is generally required to each file as Single, since federal tax law generally does not recognize any same-sex marriage regardless of state law
B. The couple is generally required to file using a special, separate filing status category that does not exist for any other type of legally married couple

C. The couple is generally prohibited from filing a joint return under any circumstances, regardless of the marriage's valid legal status under state law
D. The couple is generally treated exactly the same as any other legally married couple for federal income tax purposes, generally eligible to file as Married Filing Jointly or Married Filing Separately

92. A taxpayer files a final individual income tax return on behalf of a taxpayer who died during the tax year. What is one general key characteristic of this specific final return?

A. The final return generally must report a full twelve months of income regardless of the actual date of the taxpayer's death during the year
B. The final return generally reports the decedent's income only through the actual date of death, and a surviving spouse may generally still file jointly for that year if otherwise eligible
C. The final return generally cannot be filed jointly with a surviving spouse under any circumstances, regardless of the couple's marital status at the date of death
D. The final return generally must be filed using Form 1041, the same fiduciary return form generally used for an estate, rather than a standard Form 1040

93. A U.S. citizen taxpayer holds a foreign bank account with an aggregate value exceeding $10,000 at any point during the calendar year. What is the general separate reporting requirement this specific taxpayer must generally satisfy, apart from the income tax return itself?

A. Generally no separate reporting requirement at all exists beyond the standard income tax return, regardless of the specific foreign account's aggregate value
B. Generally file the foreign account information directly and exclusively with the foreign bank itself, rather than with any U.S. government agency
C. Generally file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts (FBAR), electronically with the Financial Crimes Enforcement Network by the applicable deadline
D. Generally file a separate, complete duplicate Form 1040 return solely dedicated to reporting the specific foreign financial account information

94. A bankruptcy estate is created when an individual taxpayer files for Chapter 7 bankruptcy during the tax year. What is one general characteristic of the separate bankruptcy estate for federal income tax purposes?

A. The bankruptcy estate is generally never treated as a separate taxable entity at all, with all income continuing to be reported solely on the individual debtor's own Form 1040

B. The bankruptcy estate generally has no filing requirement of any kind, regardless of the amount or type of income generated by estate property during the bankruptcy

C. The bankruptcy estate generally must file using Form 1120, the standard corporate income tax return, rather than any individual or fiduciary tax return form

D. The bankruptcy estate is generally treated as a separate taxable entity, generally required to file its own Form 1041 return reporting the estate's own income and deductions

95. A taxpayer receives a Schedule K-1 from a partnership reporting the taxpayer's distributive share of partnership income, deductions, and credits for the year. How is this distributive share generally treated on the taxpayer's own individual income tax return?

A. Generally excluded entirely from the taxpayer's own individual income tax return, since partnership income is generally taxed exclusively at the partnership entity level

B. Generally included on the taxpayer's own Form 1040 in the year the partnership's tax year ends, regardless of whether any actual cash distribution was made to the taxpayer during the year

C. Generally included only in a year in which the partnership actually makes a cash distribution to the taxpayer, regardless of the amount of income actually allocated

D. Generally taxed at a special flat rate entirely separate from and unrelated to the taxpayer's own individual ordinary income tax rate schedule

96. A taxpayer who is a shareholder in a validly elected S corporation receives a Schedule K-1 reporting the taxpayer's pro-rata share of the S corporation's income for the year. How is this income generally treated for self-employment tax purposes on the shareholder's individual return?

A. The S corporation's pass-through income reported on Schedule K-1 is generally not subject to self-employment tax, unlike a general partner's distributive share of partnership income

B. The S corporation's pass-through income is generally always subject to self-employment tax, treated exactly the same as a general partner's distributive share of partnership income

C. The S corporation's pass-through income is generally subject to self-employment tax only if the shareholder also happens to be a full-time employee of the corporation

D. The S corporation's pass-through income is generally subject to a flat, separate 15.3% specialized tax entirely distinct from the standard self-employment tax calculation

97. A trust is structured as a grantor trust under the applicable grantor trust rules, with the grantor retaining certain powers over the trust's income or corpus. How is the trust's income generally treated for federal income tax purposes under this specific structure?

A. The trust's income is generally taxed directly to the grantor personally, rather than being taxed to the trust itself or to any separate trust beneficiary
B. The trust's income is generally taxed exclusively to the trust itself, using the trust's own separate, compressed income tax rate schedule, regardless of the grantor's retained powers
C. The trust's income is generally taxed exclusively and only to the trust's beneficiaries, regardless of any powers the grantor may have specifically retained
D. A grantor trust generally has no income tax filing or reporting requirement of any kind, since a grantor trust is generally treated as entirely tax-exempt

98. A minor child's parent establishes a custodial account under the state's Uniform Transfers to Minors Act, funded with securities that later generate investment income. Whose taxpayer identification number and return generally reports this specific investment income?

A. Generally reported under the custodial parent's own taxpayer identification number and included entirely on the parent's own individual income tax return instead
B. Generally reported under a separate, distinct trust taxpayer identification number, since a UTMA custodial account is generally treated as a formal trust entity
C. Generally exempt from income tax reporting entirely, since a minor child generally has no individual filing obligation under any circumstances regardless of income
D. Generally reported under the minor child's own taxpayer identification number and, if required, on the child's own individual income tax return, subject to the applicable kiddie tax rules

99. A taxpayer files an amended individual income tax return, Form 1040-X, to correct an error discovered on a previously filed original return from three years earlier. What is the general statute of limitations period within which this amended return must generally be filed to claim a refund?

A. Generally within a single fixed one-year period from the original filing date, regardless of when the tax shown on that original return was actually paid
B. Generally with no time limitation at all, since a taxpayer may generally file a Form 1040-X to claim a refund at literally any point in the future

C. Generally within three years from the date the original return was filed, or two years from the date the tax was actually paid, whichever period is later
D. Generally within exactly ten years from the original filing date, matching the separate statute of limitations that generally applies to IRS collection actions

100. A taxpayer's individual income tax return includes income earned in Puerto Rico by a bona fide resident of Puerto Rico for the entire tax year. How is this specific Puerto Rico-source income generally treated for federal income tax purposes?

A. Income from Puerto Rico sources is generally fully taxable on the federal return exactly the same as income earned within any of the fifty states
B. Income from Puerto Rico sources earned by a bona fide resident of Puerto Rico is generally excludable from federal gross income under the specific statutory exclusion for this situation
C. Income from Puerto Rico sources is generally taxed at a special flat 10% federal rate, distinct from both full taxation and full exclusion treatment
D. Bona fide Puerto Rico residency generally has no bearing at all on the federal tax treatment of income earned specifically from Puerto Rico sources

Answer Key and Explanations — Practice Exam 11

1. A — When a client provides substantial but disorganized documentation, a preparer should generally work with the client to organize and categorize the records into a coherent summary of income and expenses before attempting to prepare an accurate return, rather than estimating figures, guessing at totals, or declining the engagement outright without first attempting this step.

2. B — Letter 12C generally requests specific additional information needed to process a filed return, such as documentation supporting withholding claimed. A taxpayer should generally respond by the deadline stated in the letter with the specific information requested, since failing to respond can result in further delay or an adjustment to the return.

3. D — A Form 2848 power of attorney generally grants broad representation authority, such as receiving confidential information and negotiating with the IRS, but the specific authority to actually sign a taxpayer's return on their behalf generally requires a specific, separate authorization checked and completed within the form, reflecting the more significant nature of signing authority.

4. C — The Taxpayer Advocate Service is an independent organization within the IRS generally intended to assist taxpayers experiencing significant financial hardship or an unresolved problem not resolved through normal IRS channels, providing a separate, independent avenue for taxpayer assistance distinct from the IRS's standard examination, collection, or general customer service functions available to most taxpayers.

5. B — A preparer may generally rely in good faith on a client's own representations regarding dependents, absent specific red flags suggesting the information provided is incorrect or incomplete, though claiming certain refundable credits, such as the Earned Income Tax Credit, generally requires additional documented due diligence inquiry beyond simple reliance on the client's statement.

6. D — The IRS generally accepts adequate digital or scanned copies of receipts and other supporting records as sufficient substantiation for a claimed deduction, provided the digital copies are legible, complete, and accurately reflect the original documents, offering taxpayers a generally more convenient recordkeeping option than retaining only original paper documents for every transaction.

7. A — When a taxpayer agrees with a proposed adjustment shown on a CP2000 notice, the taxpayer may generally simply respond to the notice itself indicating agreement, using the response form provided with the notice, rather than needing to separately prepare and file a full Form 1040-X amended return to resolve the specific discrepancy identified.

8. C — Using clearly fictitious, non-real client data for internal professional training purposes is generally permitted and does not implicate the same client confidentiality or return accuracy concerns that govern the preparation of an actual client's real tax return, since no genuine taxpayer information or filing obligation is actually involved in the training exercise.

9. B — A revenue ruling is generally published guidance reflecting the IRS's position on a specific issue that any taxpayer with substantially similar facts may generally rely upon, while a private letter ruling is generally issued in response to a specific taxpayer's own request and generally may not be relied upon as precedent by any other, unrelated taxpayer.

10. D — A taxpayer generally has a statutory right to make an audio recording of an in-person interview with the IRS, provided the taxpayer gives the IRS advance written notice of the intent to record, a right intended to provide the taxpayer their own accurate record of what was actually discussed during the interview.

11. C — Entering into an installment agreement generally does not stop interest and the failure-to-pay penalty from continuing to accrue on the outstanding unpaid balance, though the failure-to-pay penalty rate may generally be reduced while a taxpayer is in an approved installment agreement, compared to the higher penalty rate that applies when no agreement is in effect.

12. A — An Offer in Compromise generally requires the taxpayer to meet specific eligibility criteria, and the IRS generally evaluates whether the amount offered reasonably reflects the taxpayer's actual reasonable collection potential, based on income, assets, and expenses, rather than accepting an offer simply because a taxpayer expresses an inability or unwillingness to pay the full amount owed.

13. D — A math error notice, correcting a simple, apparent calculation or clerical error on a filed return, generally provides the taxpayer a more limited, expedited procedure to request abatement of the correction within a specific short window, distinct from the more formal deficiency and appeal procedures generally available following a full audit examination of the return.

14. C — Under Circular 230's conflict-of-interest provisions, a practitioner identifying a potential conflict, such as representing both spouses in a divorcing couple's now-separate returns, may generally continue representing both only if each client provides informed, specific written consent after being advised of the conflict, and the practitioner reasonably believes competent and diligent representation of each client remains possible.

15. B — The IRS generally requires a taxpayer to demonstrate reasonable cause, such as a serious illness, natural disaster, or other specific unavoidable circumstance beyond the taxpayer's control, in order to request abatement of the failure-to-file or failure-to-pay penalty, rather than accepting a general inability or unwillingness to pay the underlying tax as sufficient grounds by itself.

16. A — The First-Time Penalty Abatement administrative waiver generally provides a taxpayer with a generally clean compliance history for the preceding several years an administrative avenue for penalty relief, without needing to separately establish specific reasonable cause, offering a more streamlined option than the traditional reasonable cause abatement process for an otherwise generally compliant taxpayer.

17. B — For a divorce or separation agreement executed before the applicable current-law threshold date of January 1, 2019, the older alimony tax treatment generally continues to apply: payments meeting the definition of alimony are generally deductible by the payer and includible in the recipient's taxable income, unless the agreement is later specifically modified to adopt the newer treatment.

18. C — A distribution of a taxpayer's own original Roth IRA contributions is generally always tax-free and penalty-free, regardless of the taxpayer's age or how long the account has been open, since contributions were made with after-tax dollars; this general contribution-ordering rule applies even before considering whether a distribution of any earnings would separately qualify for tax-free treatment.

19. D — A payment representing the return of a taxpayer's own previously owned property, such as funds from a forgotten bank account claimed through a state's unclaimed property fund, is generally not includible in the taxpayer's taxable income, since it simply represents the taxpayer's own principal being returned rather than newly earned or accrued income to the taxpayer.

20. A — Under net unrealized appreciation treatment, when employer stock is distributed from a qualified retirement plan, the stock's original cost basis is generally taxed as ordinary income at distribution, while the built-in net unrealized appreciation is generally taxed at the more favorable long-term capital gains rate when the stock is later sold, rather than being taxed entirely as ordinary income.

21. D — Interest paid by a state on a delayed tax refund is generally treated as taxable interest income to the recipient, includible in the taxpayer's federal taxable income for the year received, regardless of whether the underlying refund principal itself is taxable under the separate tax benefit rule, since interest represents a distinct category of taxable income from the refund principal.

22. A — A cash award given to an employee, even one recognizing an achievement such as an outstanding safety record, is generally includible in the employee's taxable wages, since cash awards generally do not qualify for the more limited exclusion available for certain non-cash length-of-service or safety achievement awards meeting specific separate statutory requirements.

23. B — Prejudgment interest awarded in connection with a lawsuit settlement is generally treated as taxable interest income and is generally includible in the taxpayer's taxable income, even when the underlying settlement award itself, such as compensation for a physical injury, qualifies for a specific statutory exclusion from gross income, since interest is treated as a separate, distinct category of income.

24. C — An LLC member who actively participates in the entity's day-to-day management, rather than functioning as a passive investor, generally has their allocated share of the LLC's ordinary business income includible in taxable income and generally subject to self-employment tax, similar to how a general partner's allocated share of partnership income is generally treated for self-employment tax purposes.

25. D — Benefits received under a qualifying long-term care insurance contract, whether structured as a reimbursement of actual documented expenses or as a per-day indemnity payment within the applicable statutory daily limit, are generally excluded entirely from the recipient's taxable income, reflecting the favorable tax treatment generally afforded to qualifying long-term care insurance benefits under current federal tax law.

26. B — A return of capital distribution from a REIT is generally not currently includible in the shareholder's taxable income; instead, it generally reduces the shareholder's cost basis in the REIT shares, with any portion of the distribution exceeding the shareholder's remaining basis eventually treated as taxable capital gain, deferring rather than permanently eliminating the eventual tax consequence.

27. A — A whistleblower award received under the IRS Whistleblower Program, for information leading to the successful collection of unpaid tax from another taxpayer, is generally includible in the recipient's taxable income as ordinary income, similar to the general treatment of other prize and award income under current federal tax law, without a specific statutory exclusion for this type of award.

28. C — Consistent with the general tax benefit rule, a state property tax rebate is generally not includible in the taxpayer's taxable income when the taxpayer received no federal tax benefit from deducting the underlying property tax, such as when the taxpayer claimed the standard deduction rather than itemizing in the year the tax was originally paid.

29. B — A qualified transportation fringe benefit, such as employer-provided transit passes for an employee's regular commute, is generally excluded entirely from the employee's taxable wages, up to the applicable monthly statutory exclusion limit, consistent with the general tax-favored treatment Congress has provided for certain employer-subsidized commuting benefits under current federal tax law and regulations.

30. A — Compensation for emotional distress that does not originate from a physical injury or physical sickness generally does not qualify for the specific statutory exclusion that applies to a physical injury or physical sickness settlement, and is generally includible in the recipient's taxable income, though amounts specifically reimbursing actual documented medical expenses for treating the distress may separately be excludable.

31. C — Section 1256 contracts, such as regulated futures contracts, are subject to a specific blended 60/40 rate treatment under the mark-to-market rules, meaning 60% of the net gain is generally treated as long-term capital gain and 40% as short-term capital gain, regardless of the taxpayer's actual specific holding period for the underlying contracts.

32. D — A subsidy provided, directly or indirectly, by a public utility for the purchase or installation of a qualifying energy conservation measure is generally excluded from the recipient's taxable income under a specific statutory exclusion, reflecting a distinct treatment from a typical taxable rebate or incentive payment received from an unrelated commercial source outside this specific utility subsidy provision.

33. C — A lump-sum payment for accumulated, unused sick pay, paid by a former employer's self-insured sick pay plan upon an employee's retirement, 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.

34. B — A finder's fee or similar payment received for performing a service, such as helping locate a specific item that was then purchased, is generally includible in the recipient's gross income as taxable miscellaneous income, regardless of the informal or one-time nature of the specific arrangement, since income is generally taxable when earned rather than only when formally structured as employment.

35. A — 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 $2,000 within the highest applicable 20% bracket threshold, that specific portion of income is taxed at the 20% preferential federal rate for the year.

36. D — A traditional IRA distribution used to pay unreimbursed qualifying medical expenses exceeding 7.5% of the taxpayer's AGI is generally excluded from the 10% early distribution penalty under a specific statutory exception, up to the amount exceeding that threshold, though the distribution itself still remains includible in the taxpayer's ordinary taxable income.

37. C — A taxpayer generally benefits from claiming whichever amount is larger between the standard deduction and total itemized deductions, since a larger deduction produces lower taxable income. Here, the $14,600 standard deduction exceeds the $9,500 in itemized deductions, so the standard deduction should generally be claimed rather than itemizing on Schedule A.

38. A — For a non-cash charitable contribution such as donated used clothing and household items, a taxpayer generally needs a contemporaneous written acknowledgment from the charity, along with the taxpayer's own detailed records, such as an itemized list and photographs, establishing the donated items' actual condition and fair market value at the time of donation.

39. B — When the nonrefundable Adoption Credit exceeds a taxpayer's current-year tax liability, the excess unused amount generally may be carried forward and used to offset tax liability in each of the following five tax years, subject to the same applicable annual dollar limitation and phase-out rules, rather than being entirely forfeited or limited to only the following single year.

40. D — For a specified service trade or business whose owner's taxable income before the QBI deduction falls within the applicable phase-in range between the lower and higher SSTB thresholds, the QBI deduction is generally partially available, phased out proportionally as income rises through that specific range, rather than being either fully available or fully disallowed at every point within the range.

41. D — A specific statutory eligibility restriction generally disqualifies a student from the American Opportunity Credit for any tax year in which the student has been convicted of a federal or state felony offense for possessing or distributing a controlled substance, a restriction that generally does not similarly apply to the separate Lifetime Learning Credit.

42. A — A boat, or a recreational vehicle, that meets the specific statutory definition of a qualifying second home, generally requiring sleeping, cooking, and toilet facilities, may generally be treated as a second home for mortgage interest deduction purposes, making interest on a qualifying loan secured by that boat generally deductible under the general rules.

43. C — Unlike most other unreimbursed employee business expenses, which have generally been suspended as a deduction for most employees under current law, a qualified performing artist meeting specific narrow statutory requirements, including a relatively low AGI threshold, remains eligible to deduct qualifying unreimbursed employee expenses as an above-the-line adjustment to income, a narrow exception preserved under current law.

44. B — The simplified Foreign Tax Credit election generally allows an eligible taxpayer with foreign tax paid on passive income under the applicable simplified threshold, and meeting other specific requirements, to claim the credit directly on the return without completing the more detailed Form 1116 limitation calculation, reducing compliance burden for a taxpayer with a relatively small amount of foreign tax paid.

45. C — A dependent who is physically or mentally incapable of self-care generally qualifies as a qualifying individual for Child and Dependent Care Credit purposes regardless of actual age, extending the credit's availability beyond the standard under-age-13 requirement that applies to a taxpayer's own qualifying child, provided the other general eligibility requirements for the credit are also satisfied.

46. D — Unlike a donation of long-term appreciated property, which is generally deductible at the property's full fair market value, a donation of short-term capital gain property, such as stock held one year or less, is generally limited to the taxpayer's cost basis in the property, rather than its potentially higher current fair market value, when calculating the allowable charitable deduction.

47. A — The Premium Tax Credit is generally calculated based on the difference between the cost of the applicable benchmark health plan and a required taxpayer contribution amount, and that required contribution percentage generally increases as household income rises as a percentage of the federal poverty line, so the credit amount generally decreases as income rises.

48. B — Points paid on a loan secured by the taxpayer's home are generally deductible as home mortgage interest only when the loan proceeds are used to buy, build, or substantially improve the home. Since these proceeds paid off unrelated personal credit card debt, the resulting points are generally not deductible as home mortgage interest.

49. B — Similar to the narrow exception preserved for a qualified performing artist, unreimbursed travel expenses incurred by a National Guard or military reserve member traveling more than 100 miles from home to attend a required drill remain deductible as an above-the-line adjustment, a specific exception to the general suspension of unreimbursed employee expenses.

50. C — A distribution received from a retirement plan during the applicable testing period surrounding the year of the contribution being evaluated generally reduces the eligible contribution amount used to calculate the Saver's Credit, since the distribution is treated as offsetting the contribution, potentially reducing or entirely eliminating the resulting credit available for that specific tax year.

51. D — Unreimbursed expenses for a service animal specifically trained to assist with a taxpayer's diagnosed medical condition, including costs directly related to maintaining the animal's health and ability to perform its assistive function, are generally deductible as a qualifying medical expense on Schedule A, subject to the same overall 7.5% AGI floor that applies to other qualifying unreimbursed medical expenses.

52. A — When multiple co-borrowers are legally liable on a mortgage but only one actually pays the interest from their own funds, the deduction is generally available to the specific co-borrower who both actually paid the interest and is legally liable on the debt, rather than being automatically split evenly between all co-borrowers regardless of who actually made the payments.

53. B — A taxpayer who is legally separated under a written separation agreement, or who lived apart from a spouse for the last six months of the year, may generally be treated as unmarried under specific statutory rules, allowing a filing status other than Married Filing Separately, which generally disqualifies a taxpayer from claiming the Earned Income Tax Credit.

54. C — The Energy Efficient Home Improvement Credit generally provides a specific, smaller $150 annual sub-limit for a qualifying home energy audit conducted by a certified auditor, applying the standard 30% rate, a distinct, separate limit from the credit's broader general $1,200 aggregate annual limit that applies to most other qualifying energy-efficient property installations.

55. A — The itemized deduction for mortgage insurance premiums, treated as qualified residence interest, has historically been a temporary provision that has expired and been retroactively extended multiple times by Congress, meaning a preparer should generally verify the specific current-year status of this deduction before claiming it, rather than assuming it is permanently and unconditionally available every year.

56. D — Qualifying work-related care expenses paid to the taxpayer's own child who is under age 19 at year-end generally do not qualify for the Child and Dependent Care Credit, regardless of the caregiving child's relationship to the qualifying person cared for, since the statute specifically excludes payments to the taxpayer's own younger dependents and children.

57. C — Under the marginal tax rate system, each rate in the tax rate schedule applies only to the specific slice of taxable income that falls within that particular bracket, not to the taxpayer's entire taxable income, so total tax liability is the sum of the tax computed at each applicable bracket rate.

58. A — Under the kiddie tax rules, a dependent child's net unearned income above the applicable annual threshold is generally taxed using the parent's marginal tax rate rather than the child's own typically lower individual rate, preventing income-shifting strategies that would otherwise take advantage of a child's generally lower individual tax bracket for investment-type income.

59. B — The 3.8% Net Investment Income Tax generally applies to the lesser of the taxpayer's net investment income or the amount by which modified adjusted gross income exceeds the applicable threshold, $200,000 for a single filer. Here, MAGI exceeds the threshold by $50,000, but net investment income of $40,000 is lower, so the tax applies to the $40,000 figure.

60. D — The Alternative Minimum Tax exists to ensure that taxpayers with substantial tax preference items and adjustments still pay at least a minimum baseline level of federal income tax, computed under a separate, parallel set of rules with its own exemption amount and rate structure, applied alongside the regular tax calculation each year.

61. C — Self-employment tax consists of a 12.4% Social Security portion, capped at the applicable annual wage base limit, and a 2.9% Medicare portion, which applies to all net self-employment earnings without any similar wage base cap, so earnings above the Social Security wage base remain subject only to the uncapped Medicare portion.

62. A — The general estimated tax safe harbor allows a taxpayer to avoid the underpayment penalty by paying in, through withholding and timely estimated payments, at least the lesser of 90% of the current year's tax liability or 100% of the prior year's tax liability, with that prior-year figure rising to 110% for higher-income taxpayers whose prior-year AGI exceeded the applicable threshold.

63. D — A tax credit reduces tax liability dollar-for-dollar, so a $1,000 credit saves the taxpayer the full $1,000 regardless of bracket, while a tax deduction only reduces taxable income, so its actual tax savings equal the deduction amount multiplied by the taxpayer's marginal rate — here, $1,000 times 22% equals only $220 in actual tax savings.

64. B — Under the wash sale rule, a loss on the sale of stock or securities is generally disallowed for current deduction purposes when substantially identical replacement shares are purchased within the 61-day window spanning 30 days before and after the sale, and the disallowed loss amount is instead added to the basis of the newly acquired replacement shares.

65. B — Under the passive activity loss rules, a taxpayer who actively participates in rental real estate may generally deduct up to $25,000 of losses against nonpassive income, an exception that phases out as modified AGI rises from $100,000 to $150,000. At $85,000 MAGI, this taxpayer is below the phase-out range and may generally use the full exception.

66. D — Under current law, most NOLs generally have no carryback option and instead carry forward indefinitely to future tax years, where the deduction is limited to offsetting up to 80% of taxable income computed before applying the NOL deduction itself in each such carryforward year, rather than being forfeited or fully offsetting all income.

67. A — The Qualified Dividends and Capital Gain Tax Worksheet applies the separate, generally lower preferential rate structure, 0%, 15%, or 20% depending on total taxable income, to the qualified dividend and net long-term capital gain portion of a taxpayer's income, rather than taxing that portion at the taxpayer's higher ordinary marginal tax rate.

68. C — Under the capital gain and loss netting rules, the net short-term and net long-term results are combined together: a $4,000 net short-term loss combined with a $1,000 net long-term gain nets to an overall $3,000 net capital loss, which is treated as a net short-term loss since the short-term category was the larger of the two competing results.

69. B — Under the at-risk rules, a taxpayer's deductible loss from a specific activity is generally limited to the taxpayer's at-risk amount in that activity. Losses exceeding this at-risk amount are generally suspended, not forfeited, and carried forward to future tax years, becoming deductible as and when the taxpayer's at-risk amount in that activity subsequently increases.

70. A — Under the excess business loss limitation, aggregate business losses of a noncorporate taxpayer above the applicable annual threshold are disallowed as a current-year deduction, but the disallowed excess amount is generally treated as part of the taxpayer's net operating loss carryforward, available to offset income in future tax years rather than being permanently and entirely forfeited.

71. D — Taxpayers with taxable income below a specific published threshold generally compute their tax directly from the IRS Tax Tables, which provide pre-calculated tax amounts for narrow income ranges, while taxpayers with taxable income at or above that threshold generally use the Tax Computation Worksheet or the applicable tax rate schedule instead.

72. C — Even though a married couple files one combined joint income tax return, self-employment tax is generally calculated separately for each spouse based on that specific spouse's own individual net self-employment earnings, since self-employment tax attaches to the individual who actually earned the self-employment income, not to the couple's combined total.

73. B — A nonrefundable credit can reduce a taxpayer's tax liability only down to zero, with any amount exceeding the remaining liability generally lost rather than paid out, while a refundable credit's excess amount, beyond what is needed to reduce liability to zero, is generally paid to the taxpayer as part of a refund even though no tax liability remains.

74. C — Interest from qualifying tax-exempt municipal bonds is generally excluded from federal taxable income entirely, but it is still generally required to be reported on the return for informational purposes, and it can indirectly affect the taxability of certain other items, such as the taxable portion of Social Security benefits, even though it is not itself directly taxed.

75. D — The accuracy-related penalty generally imposes a 20% penalty on the portion of an underpayment attributable to a taxpayer's negligence or disregard of the applicable rules and regulations, a lower civil penalty distinct from the substantially higher 75% civil fraud penalty, which requires the IRS to establish actual fraudulent intent rather than mere negligence.

76. A — A common general withdrawal-sequencing approach for retirement income planning is to draw from taxable accounts first, then tax-deferred traditional retirement accounts, and finally tax-free Roth accounts last, allowing the tax-advantaged accounts additional time to continue growing tax-deferred or tax-free, though an Enrolled Agent should note this is a general guideline, not a rule applicable to every situation.

77. A — When a taxpayer discovers a large balance due, a preparer should generally recommend submitting a revised Form W-4 promptly to increase withholding for the remainder of the current year, helping the taxpayer avoid a similar underpayment, and the associated potential estimated tax penalty, when filing the following year's federal income tax return.

78. B — When a taxpayer's itemized deductions are close to the standard deduction amount, an Enrolled Agent should generally calculate the resulting tax liability both ways, itemizing and using the standard deduction, and recommend whichever specific method actually produces the lower overall total tax liability for that taxpayer's particular situation and facts.

79. D — A widely recognized year-end tax planning strategy for a taxpayer facing a large capital gain is tax-loss harvesting: selling other investments currently held at a loss before year-end to generate offsetting capital losses, while remaining mindful of the wash sale rule if repurchasing similar securities is contemplated again soon afterward this same year.

80. C — A Health Savings Account generally offers a triple tax advantage: contributions are generally deductible (or excluded from wages if made through payroll), growth within the account is generally tax-deferred, and qualifying withdrawals used for eligible medical expenses are generally entirely tax-free, making it a distinctive planning tool for eligible taxpayers.

81. B — The bunching strategy involves concentrating several years of planned charitable giving into a single tax year, which can generally push that year's total itemized deductions above the standard deduction amount, allowing the taxpayer to itemize and gain full benefit from the contributions in that year, while claiming the standard deduction in the other, lower-giving years.

82. D — A Roth conversion is generally taxable in the year it occurs, so converting during a year when the taxpayer's income, and therefore marginal rate, is unusually low can generally allow the taxable amount to be taxed at that lower current rate, rather than a potentially higher marginal rate the taxpayer might otherwise face in a future year.

83. A — A taxpayer who fails to take a required minimum distribution by the applicable deadline is generally subject to an excise tax penalty calculated as a percentage of the shortfall amount that should have been withdrawn but was not, though this penalty may generally be reduced if the shortfall is timely corrected and the missed distribution is properly reported.

84. C — Donating long-term appreciated stock directly to a qualified charity generally allows the taxpayer to deduct the stock's full fair market value as a charitable contribution, subject to applicable AGI limitations, while also generally avoiding recognition of the capital gain that would otherwise result from first selling the stock and then donating the cash proceeds.

85. A — An Enrolled Agent should generally calculate the tax result under both filing statuses, since filing separately can sometimes lower the 7.5% AGI floor applied to one spouse's medical expenses by basing it on that spouse's own lower individual AGI, though filing separately also generally disqualifies the couple from several other credits and deductions that should be weighed together.

86. C — Gifts made within the annual gift tax exclusion amount per recipient generally do not require the donor to file a gift tax return and generally do not reduce the donor's lifetime gift and estate tax exemption, distinguishing them from larger gifts, which generally must be reported even though gift tax may not actually become due.

87. B — An Enrolled Agent should generally advise a taxpayer to maintain a contemporaneous mileage log recording the date, destination, business purpose, and mileage of each individual business trip throughout the year, since this type of detailed, contemporaneous record generally provides the strongest substantiation for a vehicle expense deduction if the return is ever examined.

88. D — Form 1040-NR generally taxes a nonresident alien only on U.S.-source income and income effectively connected with a U.S. trade or business, unlike a Form 1040, which generally taxes a U.S. citizen or resident's worldwide income, and the standard deduction is generally unavailable on Form 1040-NR except for certain taxpayers eligible under a specific tax treaty provision.

89. C — Under the general fiduciary income tax rules, income distributed to a beneficiary during the year is generally taxed to that beneficiary, who receives a Schedule K-1 reporting the specific character and amount of the distributed income, rather than the estate itself being taxed on income it has already distributed out to a beneficiary.

90. A — To qualify for the Foreign Earned Income Exclusion, a U.S. citizen or resident generally must satisfy either the bona fide residence test, establishing genuine residency in a foreign country for an uninterrupted period including a full tax year, or the physical presence test, requiring at least 330 full days present in a foreign country during a 12-month period.

91. D — A same-sex couple legally married under the law of any state is generally treated exactly the same as any other legally married couple for federal income tax purposes, generally eligible to choose between filing as Married Filing Jointly or Married Filing Separately, consistent with the general federal recognition of the marriage's underlying legal validity.

92. B — A decedent's final individual income tax return generally reports only the income actually received through the specific date of death, rather than a full year, and a surviving spouse generally remains eligible to file a joint return for that year using the Married Filing Jointly status, provided the couple would have otherwise qualified to file jointly.

93. C — A U.S. citizen with an aggregate foreign financial account value exceeding $10,000 at any point during the calendar year generally must file FinCEN Form 114, the Report of Foreign Bank and Financial Accounts, commonly known as the FBAR, electronically with the Financial Crimes Enforcement Network, separate from and in addition to the taxpayer's standard federal income tax return.

94. D — When an individual files for Chapter 7 bankruptcy, a separate bankruptcy estate is generally created as a distinct taxable entity for federal income tax purposes, generally required to file its own Form 1041 fiduciary return reporting the estate's own income, deductions, and credits, separate from the individual debtor's own personal income tax return.

95. B — A partnership is generally a pass-through entity, meaning a partner's distributive share of partnership income, deductions, and credits, as reported on Schedule K-1, is generally included on the partner's own individual income tax return for the year in which the partnership's tax year ends, regardless of whether the partnership actually distributed any corresponding cash to that partner.

96. A — A shareholder's pro-rata share of S corporation income reported on Schedule K-1 is generally not subject to self-employment tax, a key general distinction from a general partner's distributive share of partnership income, which is generally subject to self-employment tax, though reasonable shareholder compensation actually paid as wages remains generally subject to standard payroll taxes.

97. A — Under the grantor trust rules, when a grantor retains certain specified powers over trust income or corpus, the trust's income is generally treated as taxed directly to the grantor personally, rather than to the trust itself under the trust's own separate, generally compressed rate schedule, or to any separate trust beneficiary who may otherwise ultimately benefit from the trust.

98. D — Income generated by assets held in a custodial account under the Uniform Transfers to Minors Act is generally reported under the minor child's own taxpayer identification number, since the child is the actual owner of the account's assets, and, if a filing requirement applies, on the child's own return, subject to the applicable kiddie tax rules.

99. C — The general statute of limitations for filing a Form 1040-X to claim a refund is 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, meaning a taxpayer generally loses the ability to claim a refund once both of these specific windows have closed.

100. B — Under a specific statutory exclusion, income from sources within Puerto Rico earned by a bona fide resident of Puerto Rico for the entire tax year is generally excludable from federal gross income, a distinctive rule reflecting Puerto Rico's unique territorial relationship with the U.S. federal income tax system and its residents.