PRACTICE EXAM 12: 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 new client provides a preparer with a copy of last year's return prepared by a different firm, showing a Schedule C business that the client says they no longer operate. What is the preparer's generally recommended first step regarding this discontinued business?

A. Ask the client specific questions to confirm whether the business was formally closed, sold, or merely inactive, since the correct current-year treatment depends on which of these actually occurred
B. Automatically continue reporting the same Schedule C on the current return exactly as it appeared on the prior-year return, without asking the client anything further
C. Automatically remove all mention of the business from the current return without asking the client any clarifying questions about what actually happened
D. Automatically report the business as sold for a $0 gain or loss, without first confirming with the client whether an actual sale occurred

2. A preparer receives a client's Form W-2 showing an employer name that does not match the employer identification number the client provided verbally during the intake interview. What is the preparer's generally recommended approach to this specific discrepancy?

A. Rely entirely on the client's verbal statement over the printed Form W-2, since a client's own memory is generally considered more reliable than any official document
B. Refuse to prepare the return at all until the client produces a third, entirely separate document to resolve the specific discrepancy
C. Rely on the actual information printed on the official Form W-2 itself, since the source document generally controls over the client's own unverified verbal recollection

D. Simply omit the wages shown on the Form W-2 from the return entirely, since the discrepancy cannot otherwise be resolved by the preparer

3. A preparer is asked by a client to claim a home office deduction for a room the client insists is used exclusively for business, despite the preparer noticing during a video call that the room also contains a bed and personal clothing. What is the preparer's generally recommended response to this situation?

A. Generally claim the deduction exactly as the client requests, since a preparer must always simply accept a client's own verbal assertions without question
B. Generally claim the deduction, but only at exactly half of the amount the client originally requested, as an unsupported compromise approach
C. Generally report the entire home as a qualifying business use area, rather than limiting the claimed deduction to the specific room in question
D. Generally decline to claim the deduction unless the client can substantiate the room's regular and exclusive business use, since the preparer has direct contrary evidence undermining the claim

4. A taxpayer's return is selected for correspondence audit, and the taxpayer asks the Enrolled Agent preparer whether the preparer can represent the taxpayer directly before the IRS in this examination. What generally determines whether this specific preparer may represent the client in the audit?

A. Generally, only the preparer who actually signed the specific original return under examination may ever represent that taxpayer in any IRS audit
B. Generally, an Enrolled Agent has full representation rights before the IRS for any taxpayer, regardless of whether that specific Enrolled Agent actually prepared the return under examination
C. Generally, no paid tax return preparer of any credential type may ever represent a taxpayer directly before the IRS during an examination
D. Generally, representation rights before the IRS exist only for attorneys and CPAs, with Enrolled Agents entirely excluded from any representation authority

5. A preparer discovers, while working on a client's current-year return, that the client's prior-year return, prepared by the same firm, omitted a significant amount of reportable income. What is the preparer's generally recommended obligation regarding this discovered prior-year omission?

A. Generally say nothing to the client at all about the prior-year omission, since a preparer's professional obligations only ever extend to the current-year return
B. Generally advise the client of the error and the consequences, and recommend the client file an amended return to correct the prior-year omission
C. Generally correct the prior-year error automatically and silently by simply adjusting figures on the current-year return without informing the client
D. Generally report the client directly to the IRS immediately, without first discussing the discovered error and its consequences with the client

6. A preparer's client insists on claiming a dependent that the preparer believes does not actually meet the qualifying child or qualifying relative tests based on the facts the client has provided. What is the preparer's generally recommended course of action in this situation?

A. Generally decline to claim the dependent on the return unless the client can provide facts that actually satisfy the applicable dependency tests
B. Generally claim the dependent exactly as the client requests, since a preparer must always simply follow every specific instruction given by a client
C. Generally claim the dependent, but only using a specific formal written disclaimer attached to the return absolving the preparer of all responsibility
D. Generally claim only half of the applicable dependent-related credits, as an unsupported, informal compromise between the client's request and the preparer's own doubts

7. A preparer is engaged to prepare an individual return and discovers during the engagement that the client also has an unfiled return from two years earlier. What is the preparer's generally recommended approach regarding the specific unfiled prior-year return?

A. Generally ignore the unfiled prior-year return entirely, since a preparer's engagement generally only ever covers the single specific tax year originally requested
B. Generally refuse to prepare the current-year return at all unless the client first independently resolves the unfiled prior-year return with a different preparer
C. Generally advise the client of the unfiled return and the general risks of continued nonfiling, and offer to also prepare and file that specific delinquent return
D. Generally report the client's specific unfiled return directly to the IRS immediately, without first discussing the situation directly with the client

8. A taxpayer's Circular 230 obligations as they relate to an Enrolled Agent preparer include the general standard the preparer must apply when determining whether a specific tax return position may be taken. What is this general Circular 230 standard for supporting a tax return position?

A. Generally, any position at all may be taken on a return as long as the client is the one who specifically requested that particular position be taken

B. Generally, a position may be taken only if the preparer is personally, absolutely certain the position would ultimately win outright if fully litigated in court

C. Generally, no specific standard at all applies to tax return positions, as long as the resulting return is filed by the applicable annual deadline

D. Generally, a position must have a realistic possibility of being sustained on its merits, or be adequately disclosed with a reasonable basis, to be properly reported

9. A preparer's client asks whether providing false information to a preparer that ultimately understates the client's tax liability on the filed return could result in penalties assessed against the client personally, separate from any preparer penalty. What is the general answer to this specific question?

A. No; once a paid preparer signs and files a return, the client generally bears absolutely no personal responsibility at all for any inaccurate information provided

B. No; only the preparer can ever be penalized for any inaccuracy on a filed return, regardless of what specific false information the client actually provided

C. Yes, but only if the client's false information was provided to the preparer in a signed, notarized written statement rather than simply given verbally

D. Yes; a taxpayer generally remains personally responsible for the accuracy of information reported on their own return and can generally face separate accuracy-related or fraud penalties

10. A preparer's engagement letter with a new individual client generally serves what primary general purpose in the preparer-client relationship?

A. To generally define and document the specific scope of services, mutual responsibilities, and fee arrangement agreed upon between the preparer and the client

B. To generally serve as the taxpayer's actual signed federal income tax return itself, functioning as a legally required substitute for Form 1040

C. To generally grant the preparer automatic, ongoing power of attorney authority to represent the client before the IRS in all future matters

D. To generally waive the client's own right to review the completed return at all before the preparer electronically files it with the IRS

11. A client asks a preparer whether an IRS transcript can generally be used to verify the amount and type of income the IRS itself has on record as having been reported to it under the client's own Social Security number. What is the general answer to this specific question?

A. No; IRS transcripts generally contain absolutely no income-related information at all, reflecting only a taxpayer's prior payment and filing history

B. Yes; a Wage and Income transcript generally compiles the income information reported to the IRS by third parties, such as employers and financial institutions, under that taxpayer's identifying number

C. Yes, but only for the taxpayer's very most recent tax year, since a Wage and Income transcript is never available for any earlier prior year

D. No; income information reported to the IRS by third parties is generally never accessible to the taxpayer under any circumstances, for any tax year

12. A preparer's client wants to know whether a paper-filed original individual tax return generally requires the taxpayer's own physical, wet-ink signature to be considered validly filed. What is the general answer regarding this specific paper-filing signature requirement?

A. No; a paper-filed original return generally never requires any taxpayer signature at all, regardless of the specific filing method ultimately used

B. Yes, but only the preparer's own signature is generally ever required, with the taxpayer's own personal signature never being a requirement on a paper return

C. Yes; a paper-filed original return generally requires the taxpayer's own actual signature, though certain specific alternative signature methods may apply to e-filed returns instead

D. No; only a corporate tax return generally ever requires an actual physical signature, with individual paper returns never requiring one under any circumstances

13. A preparer's client asks about the general difference between an IRS Notice CP2000 and a formal Notice of Deficiency regarding a proposed adjustment to a filed return. What is one general key distinction between these two specific types of IRS notices?

A. A CP2000 and a Notice of Deficiency are generally functionally identical documents in every respect, with no meaningful legal distinction between the two

B. A CP2000 is generally the more formal notice that starts the specific period for petitioning Tax Court, exactly the reverse of the correct treatment

C. A CP2000 generally proposes an adjustment based on a mismatch with third-party reported information and invites a response, while a Notice of Deficiency generally is a more formal notice that starts the specific period for petitioning Tax Court

D. A Notice of Deficiency is generally only ever issued for corporate returns, with individual taxpayers instead always receiving only a CP2000 notice

14. A preparer's client is concerned about the confidentiality of tax return information the client has shared with the preparer during the engagement. What is the general rule under Internal Revenue Code Section 7216 regarding a preparer's disclosure or use of this client tax return information?

A. Generally, a preparer may freely disclose or use any client's tax return information for any purpose at all, without ever needing any client consent whatsoever

B. Generally, Section 7216 applies only to information shared verbally by a client, with no protection at all extended to information contained in written documents

C. Generally, a preparer's own spouse is entirely exempt from all Section 7216 restrictions, regardless of that spouse's own lack of involvement in the engagement

D. Generally, a preparer may not disclose or use a client's tax return information for purposes other than preparing the return without the client's prior specific written consent

15. A preparer's client asks whether the IRS generally requires a specific, particular method of recordkeeping, such as a specific software program or a specific type of ledger, for a self-employed taxpayer to substantiate business income and expenses. What is the general answer to this question?

A. Generally no; the IRS does not require any one specific recordkeeping method, only that the records used are permanent, accurate, and clearly establish income, deductions, and credits

B. Generally yes; the IRS generally requires every self-employed taxpayer to use one single, specific, IRS-approved software program for all recordkeeping purposes

C. Generally yes; the IRS generally requires every self-employed taxpayer to maintain records using only a traditional, physical paper ledger, with digital records never accepted

D. Generally no; the IRS generally requires no recordkeeping of any kind at all from any self-employed taxpayer, regardless of the amount of income involved

16. A preparer's client asks about the general consequence of a preparer knowingly and willfully understating a client's tax liability on a return due to an unreasonable position. What is the general preparer penalty framework that could generally apply in this specific situation?

A. Generally, no preparer penalty of any kind exists under current law for understating a client's tax liability on a return, regardless of the preparer's own conduct
B. Generally, a preparer penalty under Internal Revenue Code Section 6694 could apply, with the specific penalty amount generally depending on whether the understatement was due to an unreasonable position or willful/reckless conduct
C. Generally, the only possible consequence for a preparer in this situation is automatic, mandatory imprisonment, with no lesser civil penalty option ever available
D. Generally, the client alone bears complete and sole responsibility in every case, with the preparer generally facing absolutely no possible penalty of any kind

17. A taxpayer received a Form 1099-K from a third-party payment processor reporting gross payment card and third-party network transactions, including amounts received from simply reselling a personal item at a loss. How is the amount reported for the sale of the personal item at a loss generally treated?

A. Generally not taxable income, since a loss on the sale of personal-use property is generally not deductible and gain would only be taxable if the item actually sold for more than its original cost
B. Generally fully taxable as ordinary income, exactly the same as income earned from operating an active trade or business
C. Generally taxable, but only at the specific 28% collectibles capital gains rate, regardless of the type of personal item actually sold
D. Generally excludable entirely from Form 1099-K reporting requirements, meaning the taxpayer need not report the transaction on the return at all

18. A taxpayer received a state tax refund in the current year for a prior year in which the taxpayer claimed the standard deduction rather than itemizing deductions. How is this specific state tax refund generally treated for federal income tax purposes?

A. Generally fully taxable as ordinary income, regardless of whether the taxpayer itemized deductions or claimed the standard deduction in the prior year

B. Generally taxable, but only at a special flat 10% rate reserved specifically for state tax refund income under current federal law

C. Generally not taxable, since the tax benefit rule generally only requires including a prior-year state refund in income to the extent the taxpayer received a federal tax benefit from deducting it, which did not occur here

D. Generally treated as a nontaxable return of capital, permanently reducing the taxpayer's basis in the underlying home rather than being excluded outright

19. A taxpayer received a Form 1099-R reporting a distribution from a qualified retirement plan coded as a direct rollover to another qualified retirement plan. How is this specific direct rollover distribution generally treated for federal income tax purposes?

A. Generally fully taxable in the current year, exactly the same as a distribution the taxpayer simply chose to keep rather than roll over

B. Generally not currently taxable, since a properly executed direct rollover between qualified retirement plans generally defers taxation until amounts are later actually distributed from the receiving plan

C. Generally taxable, but only at a specific reduced flat 10% rate reserved specifically for properly executed direct rollover transactions

D. Generally subject to the 10% early distribution penalty automatically, regardless of the taxpayer's age or the fact that a proper rollover actually occurred

20. A taxpayer received Social Security disability benefits during the year, and the taxpayer's combined income, consisting of AGI, tax-exempt interest, and half of Social Security benefits, exceeds the applicable upper threshold for the taxpayer's filing status. How is the taxable portion of these benefits generally determined?

A. Generally 100% of all Social Security disability benefits received are always fully taxable, regardless of the taxpayer's specific combined income level

B. Generally Social Security disability benefits are always entirely tax-exempt, regardless of the taxpayer's combined income level or any other specific factor

C. Generally exactly 50% of the benefits are taxable in every single case, regardless of how far the taxpayer's combined income actually exceeds any threshold

D. Generally up to 85% of the Social Security benefits may become taxable once combined income exceeds the applicable upper threshold, using the specific worksheet calculation

21. A taxpayer sold a rental property held for several years and, as part of the sale, was required under the terms of the sale to also transfer accumulated tenant security deposits currently held by the taxpayer to the new buyer. How are these specific transferred security deposits generally treated for the seller's income tax purposes?

A. Generally not taxable income to the seller at the time of transfer, since a tenant security deposit is generally treated as a liability rather than as the landlord's own taxable income
B. Generally fully taxable as ordinary rental income to the seller in the year the property is sold and the deposits are transferred to the buyer
C. Generally taxable as long-term capital gain to the seller, treated the same as the underlying sale of the rental property itself
D. Generally taxable as self-employment income to the seller, subject to self-employment tax in addition to any regular income tax owed

22. A taxpayer received a Form 1099-DIV reporting a nondividend distribution from a mutual fund, meaning a distribution paid from the fund's own capital rather than from its earnings and profits. How is this specific nondividend distribution generally treated?

A. Generally fully taxable immediately as ordinary dividend income, exactly the same as a regular dividend distribution paid from the fund's earnings and profits
B. Generally fully taxable immediately as short-term capital gain, regardless of how long the taxpayer has actually held the underlying mutual fund shares
C. Generally entirely and permanently tax-exempt, with no effect at all on the taxpayer's basis in the mutual fund shares held
D. Generally treated as a nontaxable return of capital that reduces the taxpayer's basis in the mutual fund shares, becoming taxable as capital gain only once basis is fully recovered

23. A taxpayer's employer provides a qualified employee discount on merchandise the employer sells to customers in the ordinary course of business. How is this specific qualified employee discount generally treated for federal income tax purposes, up to the applicable statutory limit?

A. Generally fully includible in the employee's taxable wages in every case, regardless of the size of the discount or any applicable statutory limit

B. Generally excluded from taxable wages entirely without any limit at all, regardless of how large the specific discount percentage actually is

C. Generally excluded from the employee's taxable wages up to the applicable statutory percentage limit, which is generally tied to the employer's own typical gross profit percentage on that merchandise

D. Generally treated as a taxable fringe benefit only if the employee is a majority shareholder in the specific employer providing the discount

24. A taxpayer received a lump-sum award from a qui tam whistleblower claim under a state, rather than federal, whistleblower statute, related to reporting fraud against a state government program. How is this specific whistleblower award generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since only awards paid under a federal whistleblower statute, rather than a state statute, are generally subject to any federal income taxation

B. Generally fully taxable as ordinary income, since whistleblower awards are generally taxable regardless of whether the underlying claim arose under a federal or a state statute

C. Generally taxable, but only at a specific reduced flat 15% capital gains rate, rather than being taxed at the taxpayer's own ordinary marginal tax rate

D. Generally treated as a nontaxable gift from the state government, since the award did not arise from any actual employment relationship with that government

25. A taxpayer's traditional 401(k) plan account includes both pretax elective deferrals and after-tax Roth 401(k) contributions the taxpayer separately elected to make. How are qualified distributions from the Roth 401(k) portion of this specific account generally treated, once the applicable requirements are met?

A. Generally fully taxable as ordinary income, exactly the same as a distribution from the pretax elective deferral portion of the same overall 401(k) account

B. Generally taxable only as to the original after-tax contributions themselves, with all accumulated earnings remaining entirely tax-free regardless of any holding period

C. Generally subject to the 10% early distribution penalty automatically, even if the taxpayer has actually satisfied every applicable qualified distribution requirement

D. Generally entirely tax-free, including both the original after-tax contributions and all accumulated earnings, once the applicable five-year holding period and age requirements are both satisfied

26. A taxpayer's investment portfolio includes a corporate bond purchased at a discount to its stated face value, generally referred to as market discount rather than original issue discount. How is this specific market discount generally treated when the bond is later sold or matures?

A. Generally treated entirely as long-term capital gain in every case, regardless of how long the taxpayer actually held the discounted bond before disposition

B. Generally treated as ordinary income to the extent of the accrued market discount at disposition, with any remaining gain generally treated as capital gain

C. Generally treated entirely as tax-exempt income, exactly the same tax treatment that generally applies to interest paid on a qualifying municipal bond

D. Generally treated entirely as self-employment income, subjecting the accrued market discount amount to self-employment tax upon the bond's disposition

27. A taxpayer's traditional IRA custodian mistakenly reports an excess contribution on Form 5498, and the taxpayer timely withdraws the excess contribution, along with any attributable earnings, before the applicable tax filing deadline. How is the timely withdrawn excess contribution amount itself generally treated?

A. Generally not taxable as a distribution, since a timely corrective withdrawal of an excess contribution is generally not treated as a taxable IRA distribution, though the attributable earnings portion remains separately taxable

B. Generally fully taxable as an ordinary IRA distribution, exactly the same as if the taxpayer had made a normal, non-excess retirement withdrawal instead

C. Generally subject to the 10% early distribution penalty automatically, even though the withdrawal was actually made before the applicable tax filing deadline

D. Generally treated as a nondeductible contribution that permanently remains in the account, rather than one that is properly withdrawn as a timely correction

28. A taxpayer's employer-sponsored group-term life insurance policy provides coverage of $75,000, provided at no cost to the employee. How is the cost of this specific employer-provided coverage generally treated for federal income tax purposes?

A. Generally, the entire cost of the full $75,000 coverage amount is always fully excludable from the employee's taxable wages, with no dollar limit applying at all

B. Generally, the entire cost of the full $75,000 coverage amount is always fully includible in the employee's taxable wages, with no exclusion available at all

C. Generally, the cost of coverage exceeding $50,000, calculated using the IRS's own uniform premium table, is generally includible in the employee's taxable wages

D. Generally, group-term life insurance coverage is entirely irrelevant for federal income tax purposes, since only actual policy payouts are ever taxable to anyone

29. A taxpayer received a payment from an employer specifically designated as a signing bonus for accepting a new job offer, with the payment made before the taxpayer actually began working for the new employer. How is this specific signing bonus generally treated for federal income tax purposes?

A. Generally entirely tax-exempt, since payments made before an employee actually begins working are generally treated as nontaxable gifts rather than as compensation

B. Generally fully taxable as ordinary wage income in the year received, regardless of the fact that the taxpayer had not yet actually begun working for the employer

C. Generally taxable only in the specific future year the employee actually begins working, rather than in the earlier year the signing bonus payment was actually received

D. Generally taxable, but only at the specific reduced flat 10% rate reserved specifically for signing bonus payments under current federal tax law

30. A taxpayer's traditional IRA holds a collectible asset, such as an antique, that the custodian permitted to be purchased within the account, contrary to the general rule prohibiting collectibles within an IRA. How is this specific prohibited collectible investment generally treated for tax purposes?

A. Generally treated as a fully tax-free transaction, since any asset actually permitted by the IRA's own custodian is automatically treated as a valid IRA investment

B. Generally treated as a nondeductible contribution that simply remains within the account indefinitely, rather than as any form of taxable distribution

C. Generally treated as a taxable distribution to the taxpayer, valued at the collectible's cost, in the year the prohibited collectible was actually acquired within the IRA

D. Generally treated as unrelated business taxable income to the IRA itself, rather than as any type of distribution to the taxpayer personally

31. A taxpayer's brokerage account reflects a wash sale adjustment on a Form 1099-B for a security sold at a loss and then repurchased within the statutory window. How does the resulting basis adjustment from this wash sale generally affect the taxpayer's eventual gain or loss on the replacement shares?

A. Generally, the disallowed loss simply disappears permanently with no effect at all on the basis of the replacement shares the taxpayer actually repurchased
B. Generally, the disallowed loss is instead immediately and fully deducted in the following tax year, rather than being added to the replacement shares' basis
C. Generally, the disallowed loss converts the replacement shares into fully tax-exempt property, regardless of any future gain realized upon their eventual sale
D. Generally, the disallowed loss is added to the basis of the replacement shares, generally reducing any future gain, or increasing any future loss, when those replacement shares are eventually sold

32. A taxpayer's Form 1099-INT reports interest earned on a certificate of deposit that matured during the year, along with a separate early withdrawal penalty the taxpayer incurred for redeeming a different, unrelated CD before its own stated maturity date. How is this specific early withdrawal penalty generally treated?

A. Generally deductible as an above-the-line adjustment to income, regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction for the year
B. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as any form of above-the-line adjustment to income
C. Generally not deductible at all under current law, regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction
D. Generally deductible only as a direct offset against the specific interest income earned from that exact same certificate of deposit, and no other income

33. A taxpayer's employer provides free on-site parking to all employees at a facility located in a downtown area with generally very high parking costs. How is the value of this specific employer-provided free parking generally treated for federal income tax purposes, up to the applicable monthly statutory limit?

A. Generally fully includible in the employee's taxable wages in every case, regardless of the applicable monthly statutory exclusion limit for qualified parking benefits

B. Generally excluded from taxable wages entirely without any dollar limit at all, regardless of how high the parking's actual fair market value happens to be

C. Generally excluded from the employee's taxable wages up to the applicable monthly statutory exclusion limit for qualified parking, regardless of the parking's own actual fair market value

D. Generally treated as self-employment income to the employee, subjecting the value of the parking benefit to self-employment tax in addition to any regular income tax

34. A taxpayer's traditional pension plan converts to a cash balance plan, and the taxpayer receives a lump-sum distribution representing the taxpayer's full accrued benefit under the new plan formula, which the taxpayer then properly rolls over into a traditional IRA. How is this specific properly executed rollover generally treated?

A. Generally not currently taxable, since a properly executed rollover of a qualified plan distribution into a traditional IRA generally defers taxation until amounts are later actually withdrawn from the IRA

B. Generally fully taxable in the current year, exactly the same as if the taxpayer had simply kept the lump-sum distribution rather than rolling it over

C. Generally taxable, but only at a specific reduced flat 10% rate reserved specifically for cash balance plan lump-sum distributions under current law

D. Generally subject to the 10% early distribution penalty automatically, regardless of the taxpayer's age or the fact that a proper rollover actually occurred

35. A taxpayer's Form 1099-MISC reports a payment received for serving as a member of a corporation's board of directors, a role in which the taxpayer is not otherwise an employee of that corporation. How is this specific director's fee income generally treated for federal income tax purposes?

A. Generally treated as ordinary wage income reportable on Form W-2, exactly the same treatment that generally applies to a regular corporate employee's own compensation

B. Generally treated as self-employment income reportable on Schedule C, generally subject to self-employment tax in addition to regular federal income tax

C. Generally entirely tax-exempt, since director's fees are generally treated as a nontaxable honorarium rather than as any form of taxable compensation

D. Generally treated as passive investment income, exactly the same treatment that generally applies to ordinary dividend income received from that same corporation

36. A taxpayer's savings bond portfolio includes Series I bonds, which pay interest based on a combination of a fixed rate and an inflation-adjusted rate. How is the interest earned on these specific Series I bonds generally treated for federal income tax purposes, absent a specific election to report it annually?

A. Generally fully taxable each year as it accrues, regardless of whether the taxpayer has made any specific election to report the interest annually
B. Generally entirely tax-exempt at the federal level in every case, exactly the same treatment that generally applies to interest paid on a qualifying municipal bond
C. Generally taxable only at the specific state level, with no federal income tax at all ever applying to interest earned on this specific type of savings bond
D. Generally deferred and not taxable until the bond is actually redeemed, disposed of, or reaches final maturity, whichever of these specifically occurs first

37. A taxpayer paid $6,000 in qualified out-of-pocket unreimbursed medical expenses during the year, and the taxpayer's AGI is $60,000. What amount of these expenses is generally deductible as an itemized medical expense deduction, applying the applicable 7.5% AGI floor?

A. The full $6,000, since the entire amount of qualified unreimbursed medical expenses is always fully deductible regardless of any AGI floor
B. $1,500, calculated as the $6,000 in qualified expenses reduced by $4,500, which is 7.5% of the taxpayer's $60,000 AGI
C. $4,500, calculated incorrectly as simply 7.5% of the taxpayer's AGI, without first properly subtracting that floor from total qualified expenses
D. $0, since qualified medical expenses are never deductible at all as an itemized deduction under any circumstances or income level

38. A taxpayer paid $9,500 in state and local property taxes and state income taxes combined during the year. How is this specific total amount generally limited for purposes of the itemized State and Local Tax (SALT) deduction under current law?

A. Generally not limited at all, since the full $9,500 combined amount is always fully deductible without regard to any specific statutory cap under current law

B. Generally limited only to property taxes, with state income taxes entirely and permanently excluded from itemized deduction eligibility under current law

C. Generally limited only to state income taxes, with property taxes entirely and permanently excluded from itemized deduction eligibility under current law

D. Generally limited to a specific statutory cap on the combined total of state and local income, sales, and property taxes claimed as an itemized deduction, regardless of the taxpayer's actual amount paid

39. A taxpayer donated a used vehicle to a qualified charity that subsequently sold the vehicle at auction for less than its fair market value at the time of donation. How is the taxpayer's charitable deduction generally limited in this specific vehicle donation situation?

A. Generally limited to the gross proceeds the charity actually received from selling the vehicle, rather than the vehicle's own fair market value at the time of donation

B. Generally allowed at the vehicle's own full fair market value at the time of donation, regardless of the lower amount the charity actually received from the subsequent sale

C. Generally allowed at exactly double the amount the charity actually received from selling the vehicle, as a specific incentive for this type of donation

D. Generally disallowed entirely, since no charitable deduction of any kind is ever available for the donation of a used vehicle under current law

40. A taxpayer's Form 1098 reports mortgage interest paid on acquisition debt for the taxpayer's primary residence, which was refinanced during the year for an amount exceeding the original acquisition debt, with the excess proceeds used to fund a child's wedding. How is interest on the excess refinanced amount generally treated?

A. Generally fully deductible as home mortgage interest, exactly the same treatment that generally applies to interest on the original acquisition debt amount itself

B. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as any form of home mortgage interest deduction

C. Generally not deductible as home mortgage interest, since interest is generally deductible only on the portion of debt that does not exceed the original acquisition debt amount refinanced

D. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized home mortgage interest deduction on Schedule A

41. A single taxpayer's AGI is $195,000, and the taxpayer contributed the maximum allowable amount to a traditional IRA. The taxpayer is also an active participant in an employer-sponsored retirement plan. How is the traditional IRA deduction generally affected by this specific combination of facts?

A. Generally entirely unaffected, since active participation in an employer-sponsored retirement plan generally has no bearing at all on the traditional IRA deduction

B. Generally entirely disallowed in full, regardless of the taxpayer's specific AGI level, simply because the taxpayer actively participates in any employer plan at all

C. Generally entirely allowed in full, regardless of the taxpayer's specific AGI level, as long as the taxpayer's employer plan is a 401(k) rather than a pension

D. Generally partially or fully phased out, since active participation in an employer plan generally subjects the traditional IRA deduction to a specific modified AGI phase-out range for the taxpayer's filing status

42. A taxpayer paid $3,000 in qualifying student loan interest during the year on a loan used solely for the taxpayer's own qualified higher education expenses. The taxpayer's modified AGI falls within the applicable phase-out range for the student loan interest deduction. How is the deduction generally treated?

A. Generally allowed in full up to the maximum annual statutory dollar cap, without regard to the taxpayer's modified AGI or any phase-out range at all

B. Generally limited to a partial deduction, phased out proportionally as the taxpayer's modified AGI rises within the applicable phase-out range, in addition to the separate overall annual dollar cap

C. Generally entirely disallowed in full, since falling anywhere within the applicable phase-out range automatically eliminates the deduction entirely

D. Generally allowed in full without any dollar limit at all, since student loan interest is generally not subject to any overall annual statutory cap

43. A taxpayer's total qualifying childcare expenses paid to a licensed daycare provider allow the taxpayer to work full-time, and the taxpayer has two qualifying children under age 13. What is the general maximum amount of qualifying expenses that may be used to calculate the Child and Dependent Care Credit with two or more qualifying persons?

A. Generally $3,000 in qualifying expenses, the same statutory cap that generally applies to a taxpayer with only a single qualifying person

B. Generally $12,000 in qualifying expenses, generally double the applicable statutory cap that actually applies to a taxpayer with two or more qualifying persons

C. Generally $6,000 in qualifying expenses, the applicable statutory cap for a taxpayer with two or more qualifying persons, before applying the applicable credit percentage

D. Generally no statutory dollar cap at all applies to qualifying expenses, regardless of the specific number of qualifying persons a taxpayer actually has

44. A taxpayer's total itemized deductions include $2,000 in gambling losses, and the taxpayer separately reported $1,200 in gambling winnings as other income for the year. How are the taxpayer's gambling losses generally treated for itemized deduction purposes?

A. Generally deductible as an itemized deduction, but limited to the amount of gambling winnings actually reported as income, meaning $1,200 of the $2,000 in losses here

B. Generally fully deductible as an itemized deduction for the entire $2,000 amount, without regard to the specific amount of gambling winnings actually reported

C. Generally not deductible at all under any circumstances, regardless of the specific amount of gambling winnings the taxpayer may have separately reported as income

D. Generally deductible as an above-the-line adjustment to income, rather than as an itemized deduction, regardless of the amount of winnings actually reported

45. A taxpayer's dependent child attends a qualifying postsecondary institution and incurs $5,000 in qualified tuition expenses for the year, and the family's modified AGI falls well within the full-credit range for the American Opportunity Credit. What is the general maximum American Opportunity Credit available for this specific $5,000 in expenses?

A. Generally $2,500, calculated as 100% of the first $2,000 in qualified expenses plus 25% of the next $2,000, up to the maximum credit amount available per eligible student

B. Generally $5,000, calculated as a full 100% credit rate applied to the entire amount of qualified tuition expenses paid, with no separate tiered calculation applying

C. Generally $1,000, calculated as a flat 20% credit rate applied to the entire amount of qualified tuition expenses paid for the year

D. Generally $0, since the American Opportunity Credit is generally entirely unavailable for any family whose modified AGI falls within the full-credit eligibility range

46. A taxpayer's total qualified business income deduction calculation involves a specified service trade or business, and the taxpayer's taxable income before the QBI deduction falls below the applicable lower threshold of the phase-in range for the taxpayer's filing status. How is the QBI deduction generally treated in this specific situation?

A. Generally entirely disallowed in full, regardless of the taxpayer's specific taxable income level, simply because the business is classified as a specified service trade or business

B. Generally calculated using the full standard QBI deduction rules without the specified service trade or business limitation applying at all, since taxable income falls below the applicable lower threshold

C. Generally limited to exactly 50% of the otherwise allowable QBI deduction amount, regardless of the taxpayer's specific taxable income level within any threshold range

D. Generally calculated using a completely different, unrelated deduction formula that applies exclusively and only to specified service trades or businesses

47. A taxpayer's total Adoption Credit calculation involves $18,000 in qualified adoption expenses paid during the year for the successful adoption of an eligible child, with the taxpayer's modified AGI well below the applicable phase-out threshold. How is the resulting Adoption Credit generally treated if it exceeds the taxpayer's current-year tax liability?

A. Generally fully refundable in the current year, meaning any unused portion of the credit is generally paid to the taxpayer even below zero current-year tax liability

B. Generally entirely and permanently forfeited in full if it exceeds the taxpayer's current-year tax liability, with no future carryforward option available at all

C. Generally nonrefundable, but any unused portion of the credit exceeding current-year tax liability may generally be carried forward for up to five subsequent tax years

D. Generally limited to a strict single one-year carryforward only, rather than the longer multi-year carryforward period actually available under current law

48. A taxpayer's total Earned Income Tax Credit eligibility calculation involves a taxpayer who has $12,000 of investment income for the year, consisting of interest, dividends, and capital gains combined, along with qualifying earned income from wages. How does this specific investment income amount generally affect EITC eligibility?

A. Generally has no effect at all on EITC eligibility, since only a taxpayer's earned income, and never investment income, is ever relevant to EITC eligibility

B. Generally reduces the available EITC amount proportionally based on the specific amount of investment income, rather than eliminating eligibility entirely

C. Generally increases the available EITC amount, since additional investment income is generally treated as increasing the taxpayer's total combined qualifying income

D. Generally disqualifies the taxpayer from claiming the EITC entirely for the year, since investment income exceeding the applicable annual statutory limit generally makes a taxpayer ineligible regardless of earned income

49. A taxpayer's total itemized deductions include unreimbursed expenses paid for the care of the taxpayer's own disabled spouse, allowing the taxpayer to work, in a situation where the spouse is not otherwise able to care for themselves. How are these specific care expenses generally treated?

A. Generally eligible only as a qualifying medical expense itemized deduction, since the Child and Dependent Care Credit generally never extends to any spouse under any circumstances

B. Generally eligible for the Child and Dependent Care Credit, since the credit generally extends to a spouse who is physically or mentally incapable of self-care, not solely to a qualifying child

C. Generally entirely nondeductible and noncreditable in every respect, since care expenses for any adult, including a taxpayer's own spouse, are never eligible for any tax benefit

D. Generally eligible only for the Credit for Other Dependents, rather than for the separate and distinct Child and Dependent Care Credit specifically

50. A taxpayer's total casualty loss for personal-use property, resulting from a fire in a location that was not declared a federal disaster area, is generally treated how for itemized deduction purposes under current law?

A. Generally not deductible at all, since current law generally limits the personal casualty loss itemized deduction to losses attributable to a federally declared disaster

B. Generally fully deductible, subject only to the standard $100 per-event floor and the 10% of AGI floor, regardless of any federal disaster declaration

C. Generally deductible only as a nonrefundable tax credit, rather than as any form of itemized personal casualty loss deduction on Schedule A

D. Generally deductible in full without any floor or limitation at all, since personal casualty losses are generally treated more favorably than business casualty losses

51. A taxpayer's total qualifying expenses for the Lifetime Learning Credit include $8,000 in tuition paid for the taxpayer's own graduate-level coursework, taken to maintain and improve skills in the taxpayer's current profession. What is the general maximum Lifetime Learning Credit available given this specific $8,000 in qualifying expenses?

A. Generally $8,000, calculated as a full 100% credit rate applied to the entire amount of qualified tuition expenses actually paid for the graduate coursework

B. Generally $1,600, calculated incorrectly using a flat 20% rate applied only to a $8,000 figure that has not been properly capped at the credit's own limit

C. Generally $0, since the Lifetime Learning Credit is generally entirely unavailable for any graduate-level coursework, regardless of the taxpayer's specific professional purpose

D. Generally $2,000, calculated as 20% of the first $10,000 in qualified expenses, applied here to the full $8,000 in actual qualifying expenses paid

52. A taxpayer's total unreimbursed employee business expenses, such as required uniforms and professional dues, were historically deductible as a miscellaneous itemized deduction subject to a 2% AGI floor before this deduction category was generally suspended under current law. How are these specific ordinary employee expenses generally treated today, absent a specific statutory exception?

A. Generally fully deductible as an above-the-line adjustment to income under current law, exactly the same treatment that now generally applies to these expenses

B. Generally fully deductible as an itemized deduction under current law, with no AGI floor at all now applying to this specific category of expense

C. Generally not deductible at all under current law, since the miscellaneous itemized deduction subject to the 2% AGI floor has generally been suspended, absent a specific exception such as for certain Armed Forces reservists or qualified performing artists

D. Generally converted into a fully refundable tax credit under current law, rather than remaining any form of itemized or above-the-line deduction

53. A taxpayer's total Foreign Tax Credit calculation involves $2,200 in foreign income taxes paid on foreign-source passive investment income, with the taxpayer electing the simplified election available for a de minimis amount of foreign tax paid. What is the general effect of this specific simplified election?

A. Generally disqualifies the taxpayer entirely from claiming any Foreign Tax Credit at all for the year, regardless of the specific amount of foreign tax actually paid

B. Generally allows the taxpayer to claim the Foreign Tax Credit directly without filing the otherwise generally required Form 1116, provided the foreign tax paid falls within the applicable simplified de minimis threshold

C. Generally requires the taxpayer to instead claim the foreign tax paid exclusively as an itemized deduction, rather than as any form of available tax credit

D. Generally doubles the otherwise allowable Foreign Tax Credit amount, as a specific incentive for taxpayers who elect this particular simplified reporting method

54. A taxpayer's total Saver's Credit eligibility calculation involves a taxpayer who contributed $1,500 to a traditional IRA during the year and has an AGI that falls within the applicable 10% credit-rate tier for the taxpayer's filing status. What is the general Saver's Credit amount for this specific contribution, before applying the applicable statutory contribution cap?

A. Generally $150, calculated as 10% of the taxpayer's $1,500 IRA contribution, since the taxpayer's AGI falls within the applicable 10% credit-rate tier for this contribution

B. Generally $750, calculated incorrectly using a 50% credit rate rather than the actual applicable 10% credit rate tier for this specific taxpayer

C. Generally $1,500, calculated as a full 100% credit rate applied to the entire IRA contribution amount, rather than the taxpayer's own applicable lower credit-rate tier

D. Generally $0, since the Saver's Credit is generally entirely unavailable to any taxpayer who has actually contributed to a traditional, rather than a Roth, IRA

55. A taxpayer's total Premium Tax Credit reconciliation on Form 8962 shows that advance payments of the credit made directly to the taxpayer's health insurance provider during the year exceeded the taxpayer's actual allowed credit based on the taxpayer's final household income. How is this specific excess advance payment amount generally treated?

A. Generally never needs to be repaid at all under any circumstances, regardless of the specific amount by which advance payments actually exceeded the allowed credit

B. Generally must be repaid in full without any limitation at all, regardless of the taxpayer's household income as a percentage of the federal poverty line

C. Generally converts automatically into an interest-free loan from the IRS, repayable over a fixed five-year period rather than as a single current-year repayment

D. Generally must be repaid by the taxpayer, subject to an applicable repayment limitation based on household income as a percentage of the federal poverty line, unless income exceeds 400% of that line

56. A taxpayer's total charitable contribution deduction for the year includes a $500 cash donation to a qualified charity, for which the taxpayer received a coffee mug valued at $15 as a token thank-you gift from the charity. How is the taxpayer's charitable deduction generally treated in this specific quid pro quo situation?

A. Generally deductible for the full $500, since a token benefit of only modest value generally does not reduce a charitable deduction under the applicable safe harbor rules

B. Generally deductible only for $15, since the value of any benefit actually received from a charity always caps the maximum deductible contribution amount

C. Generally entirely nondeductible, since receiving any benefit at all from a charity, regardless of its value, generally disqualifies the entire contribution from deduction

D. Generally deductible for $485, the $500 cash donation reduced by the $15 fair market value of the token benefit actually received in return from the charity

57. A taxpayer's total taxable income calculation involves comparing the taxpayer's regular tax liability against a separately computed Alternative Minimum Tax liability. What is the general rule determining which specific amount the taxpayer actually owes?

A. Generally, the taxpayer always simply owes the regular tax liability alone, with the separately computed AMT liability having no bearing at all on the amount actually owed

B. Generally, the taxpayer always simply owes the AMT liability alone, with the separately computed regular tax liability having no bearing at all on the amount actually owed

C. Generally, the taxpayer owes the regular tax liability plus any amount by which the tentative AMT liability exceeds the regular tax liability, effectively owing the higher of the two amounts

D. Generally, the taxpayer owes whichever of the two amounts happens to be lower, rather than the higher of the two separately computed tax liability figures

58. A taxpayer's total tax liability calculation for a dependent child's earned income, separate from any unearned income subject to the kiddie tax, is generally computed how under the general individual income tax rules?

A. Generally computed using the parent's own marginal tax rate, applied to the child's earned income, exactly the same treatment that applies to the child's unearned income

B. Generally entirely tax-exempt, since a dependent child's earned income is never subject to any federal income tax under any circumstances, regardless of the amount

C. Generally computed using the child's own individual tax rate schedule, applied to the child's own earned income, separate from the parent's marginal rate applicable to the child's unearned income

D. Generally computed using a single flat 37% rate applied to the child's entire earned income, regardless of the actual total amount of that earned income

59. A taxpayer's Schedule D shows a net long-term capital loss of $8,000 for the year, with no offsetting capital gains of any kind. What is the general annual limit on the amount of this net capital loss that may be deducted against the taxpayer's other ordinary income?

A. Generally limited to $3,000 per year against ordinary income, with any remaining unused loss generally carried forward to future tax years

B. Generally the entire $8,000 loss is fully deductible against ordinary income in the current year, without any annual dollar limit applying at all

C. Generally no portion of the loss at all may ever be deducted against ordinary income, regardless of the amount or the taxpayer's total other income

D. Generally limited to $10,000 per year against ordinary income, rather than the lower $3,000 annual limit that actually applies under current law

60. A taxpayer's total additional Medicare Tax liability is calculated using Form 8959, based on combined Medicare wages, self-employment income, and other compensation exceeding the applicable threshold for the taxpayer's filing status. What is the general Additional Medicare Tax rate applied to the amount exceeding this threshold?

A. Generally 2.9%, the same combined employer-and-employee Medicare tax rate that generally applies below the applicable filing-status threshold amount

B. Generally 0.9%, applied to the combined Medicare wages, self-employment income, and other compensation exceeding the applicable filing-status threshold

C. Generally 3.8%, the same rate that generally applies to the separate and distinct Net Investment Income Tax, rather than the Additional Medicare Tax

D. Generally 15.3%, the full combined self-employment tax rate, applied entirely to the amount exceeding the applicable filing-status threshold

61. A taxpayer's total income tax liability calculation for the year properly applies the taxpayer's correct filing status, which generally determines which of several factors relevant to computing that liability?

A. Generally determines only the specific due date of the taxpayer's return, with no bearing at all on the standard deduction, tax brackets, or credit eligibility

B. Generally determines the applicable standard deduction amount, the specific tax rate brackets that apply, and eligibility for certain credits and other tax benefits

C. Generally determines only whether the taxpayer must e-file rather than paper-file the return, with no bearing at all on any actual tax calculation

D. Generally has no bearing at all on any aspect of the taxpayer's tax liability calculation, serving only as a purely administrative demographic classification

62. A taxpayer's total tax liability calculation involves a specific tax credit for the elderly or the permanently and totally disabled, available to certain qualifying taxpayers who meet both age or disability requirements and specific income limitations. What is the general nature of this specific credit?

A. Generally a fully refundable credit, available without regard to any specific income limitation at all, as long as the taxpayer meets the applicable age or disability requirement

B. Generally an above-the-line deduction rather than any form of tax credit, reducing AGI directly instead of directly reducing the taxpayer's computed tax liability

C. Generally available to every taxpayer over a specific general age threshold, regardless of the taxpayer's income level or any other specific eligibility requirement

D. Generally a nonrefundable credit, calculated using a specific base amount reduced by certain other nontaxable income and by an AGI-based phase-out, subject to specific eligibility limitations

63. A taxpayer's estimated tax payment obligations for the current year are based in part on the taxpayer's prior-year tax liability, and the taxpayer's prior-year AGI exceeded $150,000. How does this specific prior-year AGI level generally affect the applicable estimated tax safe harbor percentage?

A. Generally has no effect at all on the applicable safe harbor percentage, with every taxpayer generally required to pay in the same fixed percentage regardless of prior-year AGI

B. Generally reduces the applicable safe harbor percentage to 50% of the prior-year tax liability, rather than increasing it above the standard percentage

C. Generally requires the taxpayer to pay in at least 110% of the prior-year tax liability, rather than the lower 100% safe harbor percentage that generally applies to lower-income taxpayers

D. Generally entirely eliminates the estimated tax safe harbor option altogether for any taxpayer whose prior-year AGI exceeded this specific $150,000 threshold

64. A taxpayer's total tax liability calculation involves the specific ordering rule for applying nonrefundable credits against the taxpayer's computed tax liability before any refundable credits are applied. What is the general reason this specific ordering rule matters?

A. Generally ensures nonrefundable credits are properly limited to reducing tax liability only down to zero, before any separately calculated refundable credit amount is applied and potentially paid out

B. Generally has no actual practical effect at all on the taxpayer's final total refund or balance due, regardless of the specific order credits are applied in

C. Generally ensures that only refundable credits, and never any nonrefundable credits, may ever actually be applied to reduce a taxpayer's computed tax liability

D. Generally exists solely for IRS internal administrative recordkeeping purposes, with no actual bearing at all on the taxpayer's own final calculated liability or refund

65. A taxpayer's Schedule D calculation nets an overall capital gain result that includes both a 0%/15%/20% preferential-rate long-term component and a 28% collectibles-rate component from the sale of coins held long-term. How are these two distinct components generally combined for tax computation purposes?

A. Generally the entire combined capital gain amount is taxed uniformly at a single blended rate, calculated as a simple average of the 28% and standard preferential rates

B. Generally each specific component is taxed at its own applicable separate rate, with the 28% collectibles-rate gain taxed at up to 28% and the remaining long-term gain taxed at the standard preferential rates

C. Generally the entire combined capital gain amount is taxed at the higher 28% collectibles rate, regardless of how much of the total gain came from non-collectible property

D. Generally the entire combined capital gain amount is taxed at the lower standard preferential rate, with the 28% collectibles-specific rate never actually applying at all

66. A taxpayer's total tax liability calculation properly reflects the general order of operations for computing federal income tax, starting from total income. What is the general correct sequence of this specific order of operations?

A. Generally total income, less adjustments to arrive at AGI, less the standard or itemized deduction and the QBI deduction to arrive at taxable income, then tax is computed, and credits are applied last
B. Generally credits are applied first, directly against total income, before any adjustments, deductions, or the actual tax computation itself ever occurs
C. Generally the standard or itemized deduction is applied directly against total income, before any adjustments to income are ever taken into account at all
D. Generally taxable income is computed first, entirely before AGI is ever calculated, reversing the actual correct general order of these two specific calculations

67. A taxpayer's total tax liability calculation involves a net operating loss the taxpayer wishes to apply against a prior tax year under a specific, narrow carryback exception that remains available under current law for certain types of losses. What is the general effect of a valid NOL carryback in this specific situation?

A. Generally has no effect at all on any prior tax year, since NOL carrybacks were entirely and permanently eliminated for absolutely every category of loss under current law
B. Generally requires the taxpayer to pay additional tax in the carryback year, rather than potentially generating any refund of tax previously paid in that year
C. Generally allows the taxpayer to file an amended return or a specific application for a refund of taxes previously paid in the applicable carryback year, based on the NOL offsetting income in that year
D. Generally applies automatically only to the taxpayer's very next future tax year, rather than to any specific prior tax year under any circumstances

68. A taxpayer's total tax liability calculation involves comparing use of the standard deduction against itemizing deductions, in a situation where the taxpayer is claimed as a dependent on another taxpayer's return and has both earned and unearned income. How is this dependent taxpayer's own standard deduction generally calculated?

A. Generally always equal to the full standard deduction amount available to any other non-dependent taxpayer of the same specific filing status, without any special limitation applying

B. Generally always equal to $0, since a taxpayer who is claimed as a dependent on another return is generally never entitled to any standard deduction at all

C. Generally always equal to a single fixed flat dollar amount, regardless of the dependent taxpayer's own specific amount of earned income for the year

D. Generally limited to the greater of a specific minimum flat dollar amount or the dependent's own earned income plus a specific additional amount, subject to the regular standard deduction cap for the dependent's filing status

69. A taxpayer's total tax liability calculation reflects a specific tax on early distributions from a qualified retirement plan taken before the applicable general exception age, absent any other specific statutory exception applying. What is the general rate of this specific additional tax on early distributions?

A. Generally 25%, applied to the taxable portion of the early distribution, in addition to the regular ordinary income tax also owed on that same distribution

B. Generally 10%, applied to the taxable portion of the early distribution, in addition to the regular ordinary income tax also owed on that same distribution

C. Generally 0%, since early distributions taken before the applicable general exception age are generally not subject to any additional tax at all under current law

D. Generally 50%, applied to the taxable portion of the early distribution, in addition to the regular ordinary income tax also owed on that same distribution

70. A taxpayer's total tax liability calculation involves the taxpayer's total tax credits exceeding the taxpayer's total nonrefundable tax liability before credits, where all of the taxpayer's credits claimed are strictly nonrefundable in nature. What is the general treatment of this specific excess nonrefundable credit amount?

A. Generally automatically refunded to the taxpayer in full, exactly the same treatment that generally applies to a refundable tax credit rather than a nonrefundable one

B. Generally automatically carried forward indefinitely to future tax years for every single type of nonrefundable credit, without any specific statutory carryforward provision required

C. Generally converts automatically into a fully refundable credit the following year, rather than remaining subject to the same original nonrefundable limitation
D. Generally lost entirely for the year, since a nonrefundable credit generally cannot reduce tax liability below zero and generally does not generate any refund on its own

71. A taxpayer's total tax liability calculation involves self-employment tax computed on Schedule SE, and the taxpayer wants to know the general treatment of one-half of this computed self-employment tax amount for federal income tax purposes. What is the general treatment of this specific one-half portion?

A. Generally deductible only as a miscellaneous itemized deduction subject to a 2% AGI floor, rather than as any form of above-the-line adjustment to income
B. Generally not deductible at all under current law, regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction for the year
C. Generally deductible as an above-the-line adjustment to income, regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction for the year
D. Generally deductible only as a nonrefundable tax credit, rather than as any form of above-the-line adjustment or itemized deduction of any kind

72. A taxpayer's total tax liability calculation reflects an underpayment penalty for failing to pay in sufficient estimated tax throughout the year, calculated generally using Form 2210. What is the general nature of this specific underpayment penalty for computation purposes?

A. Generally treated as an interest-based charge, calculated using the applicable federal short-term rate plus a specific statutory percentage, rather than as a fixed flat-dollar penalty amount
B. Generally treated as a single fixed flat-dollar penalty amount, identical for every taxpayer regardless of the specific amount of the underlying underpayment involved
C. Generally treated as a criminal penalty rather than any form of civil penalty, requiring a formal referral to the Department of Justice for prosecution
D. Generally treated as entirely nondeductible on any future tax return, but otherwise having no actual calculation method at all associated with the specific underpayment

73. A taxpayer's total tax liability calculation involves the taxable portion of a lump-sum distribution from a qualified retirement plan, where the taxpayer was born before a specific statutory date making a special averaging method potentially available. What is the general purpose of this specific ten-year forward income averaging method, where still available?

A. Generally allows the taxable portion of a qualifying lump-sum distribution to be entirely excluded from taxable income, rather than merely averaged over multiple years

B. Generally allows the taxable portion of a qualifying lump-sum distribution to be taxed at a single flat 10% rate, rather than through any actual averaging calculation

C. Generally allows the taxable portion of a qualifying lump-sum distribution to be taxed as though it were received over ten separate years, generally reducing the effective marginal rate applied

D. Generally requires the taxable portion of a qualifying lump-sum distribution to actually be paid out over ten separate future years, rather than as an immediate current lump sum

74. A taxpayer's total tax liability calculation involves a bargain sale of appreciated property to a qualified charity, meaning the taxpayer sold property to the charity for less than its full fair market value. How is this specific bargain sale generally treated for federal income tax purposes?

A. Generally treated entirely as a charitable contribution, with no portion at all treated as a sale, regardless of the amount of actual consideration the taxpayer received

B. Generally treated entirely as a taxable sale, with no portion at all treated as a charitable contribution, regardless of the discount from fair market value given

C. Generally treated as entirely tax-exempt, since transferring appreciated property to a qualified charity always eliminates any recognition of gain under current law

D. Generally treated as part sale and part charitable contribution, requiring the taxpayer to allocate basis between the two portions and recognize gain only on the actual sale portion

75. A self-employed taxpayer asks an Enrolled Agent for general guidance on choosing between a SEP-IRA and a Solo 401(k) for retirement savings, given the taxpayer has no employees other than the taxpayer's own spouse. What is one general factor an Enrolled Agent might discuss regarding this specific choice?

A. A SEP-IRA and a Solo 401(k) are generally functionally identical in every respect, with no meaningful difference at all in their respective contribution limit structures

B. A Solo 401(k) generally allows both an employee elective deferral and an employer profit-sharing contribution, potentially allowing greater total contributions at a given income level than a SEP-IRA alone

C. A SEP-IRA generally allows a much higher maximum total contribution at every income level than a Solo 401(k) could ever possibly allow under current law

D. Only a Solo 401(k), and never a SEP-IRA, is generally available at all to any self-employed taxpayer who has no employees other than a spouse

76. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of exercising incentive stock options versus nonqualified stock options granted by the taxpayer's employer. What is one general key tax distinction between these two specific types of stock options?

A. Generally, exercising an incentive stock option does not create regular taxable income at exercise, though it may generally create an AMT preference item, while exercising a nonqualified option generally creates ordinary income at exercise
B. Generally, both types of options are taxed in exactly the same way at exercise, with no meaningful distinction at all between an incentive option and a nonqualified option
C. Generally, exercising a nonqualified stock option is never taxable at all under any circumstances, while exercising an incentive stock option is always immediately fully taxable
D. Generally, only incentive stock options can ever actually be granted to a rank-and-file employee, with nonqualified options reserved exclusively for corporate officers

77. A taxpayer approaching the required minimum distribution age asks an Enrolled Agent about a Qualified Charitable Distribution as a potential planning strategy for satisfying part of the RMD while also supporting a favorite charity. What is the general tax advantage of this specific strategy?

A. A properly executed Qualified Charitable Distribution generally counts toward satisfying the taxpayer's RMD while being entirely excluded from the taxpayer's own taxable income, rather than merely generating a separate itemized deduction
B. A Qualified Charitable Distribution generally has no effect at all on satisfying the taxpayer's RMD, requiring the taxpayer to separately withdraw and report the full RMD regardless
C. A Qualified Charitable Distribution generally must first be included in the taxpayer's taxable income and then separately claimed as an itemized charitable deduction afterward
D. A Qualified Charitable Distribution is generally available only to a taxpayer who also itemizes deductions, with no benefit at all available to a taxpayer using the standard deduction

78. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of converting a personal residence into a rental property partway through the tax year. What is one general key consideration an Enrolled Agent should generally discuss regarding this specific conversion?

A. Generally, the property's basis for depreciation purposes is always simply its original purchase price, regardless of any decline in fair market value since acquisition

B. Generally, converting a personal residence to a rental property has no effect at all on the property's basis for any future depreciation deduction purposes

C. Generally, the property must first be formally sold and then separately repurchased before any rental depreciation deduction becomes available to the taxpayer at all

D. Generally, the property's basis for depreciation purposes is generally the lesser of its adjusted basis or its fair market value at the specific time of conversion to rental use

79. A taxpayer asks an Enrolled Agent for general guidance on the potential benefit of establishing a donor-advised fund for charitable giving, compared to making direct annual gifts to various individual charities. What is one general advantage of a donor-advised fund that the Enrolled Agent might generally discuss?

A. A donor-advised fund generally provides no charitable deduction at all until the funds are actually distributed out to the underlying individual charities

B. A donor-advised fund generally allows the taxpayer to claim an immediate charitable deduction in the year of contribution to the fund, while retaining advisory input over the timing and recipients of actual grants made from the fund later

C. A donor-advised fund generally requires the taxpayer to distribute the entire contributed amount to charity within the same single tax year as the contribution

D. A donor-advised fund generally eliminates the taxpayer's need to itemize deductions at all, since donor-advised fund contributions are always treated as above-the-line

80. A taxpayer asks an Enrolled Agent for general guidance on the general advisability of taking Social Security benefits early, at age 62, versus waiting until full retirement age or later. What is one general trade-off the Enrolled Agent should generally explain regarding this specific decision?

A. Claiming Social Security benefits at any age at all generally results in exactly the same identical monthly benefit amount, with no reduction or increase ever applying

B. Claiming Social Security benefits early generally has no effect at all on the eventual monthly benefit amount, regardless of the specific age benefits are first claimed

C. Claiming Social Security benefits before full retirement age generally results in a permanently reduced monthly benefit amount, while delaying claiming generally increases the eventual monthly benefit amount up to a specific maximum age

D. Delaying Social Security benefits generally always results in a permanently reduced monthly benefit amount, the exact reverse of the actual correct general treatment

81. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of a 529 college savings plan distribution used to pay for a beneficiary's qualifying K-12 tuition expenses, rather than postsecondary expenses. What is the general current-law treatment of this specific type of distribution?

A. Generally, a 529 plan distribution is never treated as tax-free unless used exclusively for postsecondary qualified higher education expenses under current law

B. Generally, a 529 plan distribution used for qualifying K-12 tuition, up to an applicable annual dollar limit, is generally treated as a tax-free qualified distribution under current law

C. Generally, a 529 plan distribution used for any K-12 expense at all is always fully taxable, regardless of any applicable annual dollar limit under current law

D. Generally, a 529 plan by its own definition can never legally be established at all for the benefit of a beneficiary who is not yet enrolled in college

82. A taxpayer asks an Enrolled Agent for general guidance on the potential benefit of establishing a health savings account contribution strategy that maximizes the annual contribution before the taxpayer transitions off a qualifying high-deductible health plan mid-year. What general consideration applies to this timing?

A. Generally, a taxpayer who is eligible for a qualifying HDHP for only part of the year is always automatically entitled to the full annual HSA contribution limit regardless of the actual number of eligible months

B. Generally, a taxpayer who loses HDHP eligibility mid-year automatically forfeits the ability to make any further HSA contribution at all for that entire tax year, even for the months of actual prior eligibility

C. Generally, HSA contribution limits for a taxpayer who is eligible for only part of the year are generally prorated based on the number of months of actual HDHP eligibility, subject to certain testing-period rules

D. Generally, HSA contribution limits are never affected at all by the specific number of months a taxpayer was actually enrolled in a qualifying HDHP during the year

83. A taxpayer asks an Enrolled Agent for general guidance on the tax consequences of a like-kind exchange involving real property held for investment, given that like-kind exchange treatment under current law has generally been limited to real property. What is the general tax benefit of a properly structured like-kind exchange?

A. Generally allows the taxpayer to defer recognition of gain on the exchanged real property, rather than immediately recognizing that gain in the year of the exchange

B. Generally allows the taxpayer to permanently and entirely eliminate all gain on the exchanged real property, rather than merely deferring recognition of that gain

C. Generally has no tax benefit at all under current law, since like-kind exchange treatment has generally been eliminated entirely for every category of property

D. Generally converts what would otherwise be capital gain into fully tax-exempt income, rather than merely deferring recognition of an otherwise taxable capital gain

84. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of converting a traditional IRA to a Roth IRA in installments across several years, rather than all in a single year. What is one general reason an Enrolled Agent might recommend this specific multi-year conversion strategy?

A. Spreading the conversion across multiple years generally has no effect at all on the taxpayer's marginal tax bracket in any of the specific years involved

B. Spreading the conversion across multiple years generally eliminates the conversion's taxability entirely, rather than merely potentially reducing the applicable marginal rate

C. Spreading the conversion across multiple years is generally required by law, since a single-year Roth conversion of any amount is generally entirely prohibited

D. Spreading the taxable conversion amount across multiple years can generally help avoid pushing the taxpayer into a substantially higher marginal tax bracket in any single conversion year

85. A taxpayer asks an Enrolled Agent for general guidance on the tax treatment of a backdoor Roth IRA strategy, used by a high-income taxpayer whose modified AGI exceeds the direct Roth IRA contribution phase-out threshold. What is the general mechanics of this specific strategy?

A. Generally involves making a fully deductible contribution directly to a Roth IRA, regardless of the taxpayer's modified AGI exceeding the applicable phase-out threshold

B. Generally involves the taxpayer's employer making the entire contribution directly to a Roth IRA on the taxpayer's behalf, rather than the taxpayer contributing personally

C. Generally involves converting an existing employer-sponsored 401(k) account directly into a personal traditional IRA, rather than into any Roth-type retirement account

D. Generally involves making a nondeductible contribution to a traditional IRA and then converting that contribution to a Roth IRA, a strategy that works around the direct Roth contribution income limitation

86. A taxpayer asks an Enrolled Agent for general guidance on the general advisability of paying down high-interest credit card debt versus contributing additional funds to a taxable brokerage investment account. What is one general factor the Enrolled Agent might discuss regarding this specific comparison?

A. Generally always recommend investing in the brokerage account first in every situation, regardless of the taxpayer's own specific credit card interest rate

B. Generally always recommend paying off any credit card debt at all first in every situation, regardless of the taxpayer's own specific realistic investment return expectations

C. Generally compare the credit card's own after-tax interest rate against the investment account's own realistically expected after-tax rate of return, since paying off high-interest debt is generally equivalent to earning a guaranteed return

D. Generally advise that credit card debt and investment returns are entirely unrelated financial considerations that should never actually be compared against one another

87. A taxpayer asks an Enrolled Agent for general guidance on the tax implications of a taxpayer's decision to take a hardship withdrawal from a 401(k) plan rather than a plan loan, given the taxpayer needs the funds for an immediate financial need. What is one general key distinction between these two options?

A. A 401(k) plan loan is generally not currently taxable if properly repaid according to the plan's terms, while a hardship withdrawal is generally currently taxable and generally cannot be repaid back into the plan

B. A 401(k) plan loan and a hardship withdrawal are generally treated identically for tax purposes, with no meaningful distinction at all between the two specific options

C. A hardship withdrawal is generally not currently taxable if properly repaid, while a plan loan is generally currently taxable and cannot be repaid, the exact reverse of the correct treatment

D. Neither a 401(k) plan loan nor a hardship withdrawal is ever taxable at all under any circumstances, regardless of the taxpayer's specific repayment behavior

88. A dual-status taxpayer became a U.S. resident alien partway through the tax year, after having been a nonresident alien for the earlier portion of the year. How is this specific dual-status taxpayer's income generally reported for that transition year?

A. Generally reported using standard resident alien rules for the entire full year, taxing worldwide income for the entire year regardless of the actual specific residency change date
B. Generally reported using dual-status rules, taxing worldwide income for the resident portion of the year and generally only U.S.-source income for the nonresident portion of the year
C. Generally reported using standard nonresident alien rules for the entire full year, taxing only U.S.-source income for the entire year regardless of the actual residency change
D. Generally exempt entirely from any U.S. federal income tax reporting requirement for that specific transition year, regardless of the amount or source of income received

89. A simple trust, as defined under the applicable trust income tax rules, is generally required to distribute all of its income currently to its beneficiaries and generally may not make distributions of trust principal. How is a simple trust's income generally taxed under this specific structure?

A. Generally taxed entirely to the trust itself using the trust's own separate, compressed tax rate schedule, rather than being passed through and taxed to the beneficiaries
B. Generally taxed to the beneficiaries who are entitled to receive the trust's income, rather than being taxed to the trust itself, since a simple trust generally distributes all its income currently
C. Generally entirely tax-exempt at both the trust and the beneficiary level, regardless of the actual specific amount of income the simple trust generates each year
D. Generally taxed at a single flat 37% rate applied uniformly, regardless of whether the income is taxed at the trust level or at the beneficiary level instead

90. A U.S. citizen taxpayer who is a bona fide resident of a foreign country for the entire tax year also owns a foreign corporation, potentially subjecting the taxpayer to specific additional reporting requirements under the Controlled Foreign Corporation rules. What is the general purpose of these specific additional CFC reporting requirements?

A. Generally intended to prevent U.S. shareholders of certain foreign corporations from indefinitely deferring U.S. taxation on specific categories of the foreign corporation's income
B. Generally intended solely to verify the taxpayer's own foreign residency status, with no actual bearing at all on the taxation of any foreign corporation's income
C. Generally intended to completely exempt any U.S. shareholder of a foreign corporation from all U.S. federal income tax reporting requirements of any kind
D. Generally intended to apply exclusively to foreign corporations that are also themselves publicly traded on a recognized U.S. stock exchange, and no others

91. A taxpayer's individual income tax return reflects income earned by the taxpayer as an independent contractor providing services exclusively to a single client for the entire year, under an arrangement the taxpayer believes may actually constitute an employer-employee relationship rather than independent contractor status. What is the general relevance of this specific worker classification distinction?

A. Generally irrelevant to the worker's own individual income tax return, since the total federal tax owed is always exactly identical regardless of the specific worker classification used
B. Generally relevant only for state law purposes, with the specific worker classification never having any bearing at all on any federal income tax return reporting
C. Generally relevant only to the client receiving the services, with no actual bearing at all on the individual worker's own personal tax return reporting requirements
D. Generally significant, since employee status generally shifts responsibility for withholding and half of Social Security and Medicare tax to the employer, while independent contractor status generally makes the worker responsible for self-employment tax

92. An estate's executor files Form 706, the federal estate tax return, for a decedent whose gross estate exceeds the applicable federal estate tax exemption amount for the year of death. What is the general relationship between this specific federal estate tax and the separate individual income tax system?

A. Generally simply an extension of the decedent's own final individual income tax return, using the identical Form 1040 rather than any separate estate tax return
B. Generally entirely replaces the requirement to file the decedent's own separate final individual income tax return for the year of the decedent's actual death
C. Generally a separate and distinct tax system from the individual income tax, generally imposed on the transfer of the decedent's property at death, rather than being an income tax on the estate's earnings

D. Generally taxed at exactly the same specific rate schedule that applies to the decedent's own individual income tax return for the year of death

93. A taxpayer's individual income tax return reflects income from a rental property located in a foreign country, owned directly by the U.S. citizen taxpayer. How is this specific foreign rental income generally treated for U.S. federal income tax purposes?

A. Generally included in the taxpayer's worldwide taxable income on the U.S. return, with a Foreign Tax Credit potentially available for any foreign income tax paid on that same rental income
B. Generally entirely excluded from the taxpayer's U.S. taxable income, since only foreign earned income from actual personal services, not rental income, is ever eligible for any exclusion
C. Generally taxed exclusively in the foreign country where the rental property is actually located, with no U.S. federal income tax reporting requirement at all
D. Generally taxed at a special flat 30% U.S. withholding rate, rather than being included as ordinary rental income subject to the taxpayer's regular marginal rate

94. A taxpayer's individual income tax return reflects a distribution received from a complex trust, as opposed to a simple trust, where the trustee has discretion over both income and principal distributions. How does this general discretionary distribution structure generally affect the taxability of amounts the beneficiary actually receives?

A. Generally, any distribution from a complex trust is always entirely tax-exempt to the beneficiary, regardless of the trust's own underlying distributable net income for the year
B. Generally, any distribution from a complex trust is always fully taxable as ordinary income to the beneficiary, regardless of the trust's own underlying income character
C. Generally, the character and taxability of a complex trust distribution is generally determined by the trust's distributable net income for the year, potentially including both ordinary income and capital gain components passed through via Schedule K-1
D. Generally, a complex trust's discretionary distribution structure has no bearing at all on the taxability of any amount the beneficiary actually receives from the trust

95. A taxpayer's individual income tax return reflects income earned as a statutory employee, a specific worker classification distinct from both a common-law employee and a true independent contractor. How is a statutory employee's income generally reported on that worker's own individual income tax return?

A. Generally reported exactly the same as a common-law employee's income, directly on Form 1040 as wages, with no separate Schedule C reporting available at all

B. Generally reported exactly the same as a true independent contractor's income, on Schedule C, but using a Form 1099-NEC rather than any Form W-2

C. Generally entirely exempt from federal income tax reporting, since statutory employee status is generally treated as a specific narrow category of tax-exempt worker

D. Generally reported on Schedule C, allowing the statutory employee to deduct related business expenses, even though the worker receives a Form W-2 rather than a Form 1099-NEC

96. A taxpayer's individual income tax return reflects income received as a resident of a U.S. territory other than Puerto Rico, such as Guam or the U.S. Virgin Islands, under a specific mirror-code or dual-filing tax system applicable to that particular territory. What is the general relevance of this specific territorial filing arrangement?

A. Generally has no relevance at all, since every single U.S. territory resident is generally required to file a standard Form 1040 directly and exclusively with the IRS

B. Generally requires the taxpayer to understand which specific jurisdiction, the territory or the IRS, actually has primary filing jurisdiction for that particular territory's specific residents, since the filing rules generally vary by specific territory

C. Generally requires the taxpayer to file only with the specific territory itself, with the IRS never having any involvement at all in any territorial resident's return

D. Generally exempts every territorial resident from any income tax filing requirement at all, regardless of the specific territory or the taxpayer's actual income level

97. A taxpayer's individual income tax return reflects income earned by a minister who receives both a cash salary and a separately designated parsonage or housing allowance from the minister's employing church. How is this specific designated housing allowance generally treated for federal income tax purposes?

A. Generally excludable from federal income tax to the extent used for actual qualifying housing expenses and not exceeding the fair rental value of the home, though generally still subject to self-employment tax

B. Generally fully includible in federal taxable income in every case, exactly the same treatment that generally applies to the minister's separate cash salary

C. Generally entirely excluded from both federal income tax and self-employment tax, regardless of the actual amount of qualifying housing expenses incurred
D. Generally taxable only at a specific reduced flat 10% federal rate, rather than being either fully includible or potentially excludable from taxable income

98. A taxpayer's individual income tax return reflects a distribution received from a foreign pension plan that does not qualify as a U.S. qualified retirement plan under the applicable Internal Revenue Code rules. How is this specific foreign pension distribution generally treated for U.S. federal income tax purposes?

A. Generally entirely tax-exempt in every case, since a foreign pension plan is generally treated as automatically equivalent to a qualified U.S. retirement plan under current law
B. Generally taxable to the U.S. citizen or resident taxpayer as ordinary income, subject to the specific terms of any applicable U.S. income tax treaty with the relevant foreign country
C. Generally taxed exclusively in the foreign country where the pension plan is actually located, with no U.S. federal income tax reporting requirement ever applying at all
D. Generally taxed at a single flat 30% U.S. withholding rate in every case, regardless of the specific terms of any applicable U.S. income tax treaty

99. A taxpayer's individual income tax return reflects income earned from a hobby activity that generates modest income but is not conducted with the requisite profit motive to be treated as a genuine trade or business. How are hobby expenses generally treated relative to the hobby's own reported income under current law?

A. Generally, hobby expenses are generally fully deductible up to the amount of the hobby's own reported income, exactly the same treatment that historically applied before current law changes
B. Generally, hobby income is generally entirely tax-exempt, since an activity lacking a genuine profit motive is generally treated as producing no taxable income at all
C. Generally, hobby expenses are generally not deductible at all under current law, absent a specific statutory exception, even though the hobby's own gross income generally remains fully taxable
D. Generally, hobby expenses are generally fully deductible as an above-the-line adjustment to income, regardless of the specific amount of the hobby's own reported income

100. A taxpayer's individual income tax return reflects a distribution received from a qualified tuition program, specifically a 529 plan, where the distribution exceeds the beneficiary's actual qualified education expenses for the year. How is this specific excess, non-qualified portion of the distribution generally treated?

A. Generally, the entire excess distribution amount, including both principal and earnings, is generally entirely tax-free regardless of whether it was actually used for qualifying education expenses

B. Generally, the entire excess distribution amount is generally subject to a flat 37% penalty tax, rather than the lower 10% penalty that actually applies only to the earnings portion

C. Generally, the excess distribution amount is generally treated as a nondeductible gift to the beneficiary, rather than as any form of currently taxable distribution

D. Generally, the earnings portion of the excess, non-qualified distribution is generally includible in taxable income and generally subject to an additional 10% penalty tax on that earnings portion

Answer Key and Explanations — Practice Exam 12

1. A — When a client indicates a previously reported business is no longer operating, a preparer should generally ask specific clarifying questions to determine whether the business was formally closed, sold, or simply became inactive, since each of these distinct situations carries genuinely different correct current-year tax reporting consequences for the return itself.

2. C — When a client's verbal statement conflicts with the information actually printed on an official source document like a Form W-2, a preparer should generally rely on the printed document itself, since it is the actual official record, though following up with the client about the discrepancy is still generally a reasonable additional step.

3. D — A preparer generally may not simply accept a client's assertion when the preparer has direct, credible evidence contradicting it; here, observing personal items indicating the room is not used exclusively for business, the preparer should generally decline to claim the deduction unless the client can substantiate genuine regular and exclusive business use.

4. B — An Enrolled Agent generally holds full, unlimited representation rights before the Internal Revenue Service, allowing representation of any taxpayer in any tax controversy matter at all, including examinations, appeals, and collection matters, regardless of whether that specific Enrolled Agent personally prepared the return that is currently under examination by the IRS itself.

5. B — Upon discovering an error on a client's previously filed return, a preparer generally has a professional obligation to advise the client promptly of the error and its consequences, and to recommend the client take corrective action, such as filing an amended return, though the decision whether to actually amend generally remains the client's own.

6. A — A preparer generally may not claim a dependent that the facts do not actually support, regardless of a client's insistence; the preparer should generally decline to claim the dependent unless the client can provide facts that genuinely satisfy the applicable qualifying child or qualifying relative tests under the governing rules.

7. C — When a preparer discovers an unfiled prior-year return during an engagement, the preparer should generally advise the client of the specific situation and the general risks of continued nonfiling, such as accruing penalties and interest, and generally offer to also prepare and file that delinquent return if the client wishes to proceed.

8. D — Under Circular 230, an Enrolled Agent generally may not sign a return taking a position unless the position has a realistic possibility of being sustained on its merits if challenged, or, absent that, is adequately disclosed on the return and has at least a reasonable basis supporting the position taken.

9. D — A taxpayer generally remains personally responsible for the accuracy of their own return, regardless of using a paid preparer, and can generally face separate accuracy-related or civil fraud penalties for providing false information that understates tax liability, independent of any separate penalty that might also apply to the preparer involved.

10. A — An engagement letter generally serves to define and document the specific scope of services to be provided, the mutual responsibilities of both the preparer and the client, and the applicable fee arrangement, helping to establish clear expectations and reduce the risk of misunderstanding between both parties involved in the engagement.

11. B — A Wage and Income transcript generally compiles the specific income and information return data, such as Forms W-2 and 1099, that third parties like employers and financial institutions have reported to the IRS under a given taxpayer's Social Security number, which is generally useful for verifying reported income figures accurately.

12. C — A paper-filed original individual income tax return generally requires the taxpayer's own actual signature to be considered validly filed, attesting under penalty of perjury to the return's accuracy, while an electronically filed return generally instead uses an alternative method, such as a self-selected PIN, to serve this same signature function.

13. C — A CP2000 notice generally proposes an adjustment based on a discrepancy between a filed return and third-party reported information, inviting the taxpayer to respond or agree, while a Notice of Deficiency is generally a more formal legal notice that starts the specific statutory period during which a taxpayer may petition the U.S. Tax Court.

14. D — Under Internal Revenue Code Section 7216, a tax return preparer generally may not disclose or use a client's tax return information for purposes other than preparing that specific return without first obtaining the client's knowing and voluntary written consent, with violations generally subject to criminal and civil penalties under the statute.

15. A — The IRS generally does not require a self-employed taxpayer to use any one specific recordkeeping method or system; the general requirement is only that whatever records are actually kept are permanent, accurate, and complete enough to clearly establish the taxpayer's income, deductions, and credits if the return is ever examined.

16. B — Internal Revenue Code Section 6694 generally imposes a preparer penalty for understating a client's tax liability, with a lower penalty amount generally applying to an unreasonable position and a higher penalty amount generally applying to willful or reckless conduct, reflecting the increasing severity of the preparer's own underlying culpability involved.

17. A — Proceeds from selling personal-use property at a loss are generally not taxable income, since a loss on the sale of personal-use property is generally not deductible, and the sale would only produce taxable gain if the item sold for more than the taxpayer's original cost basis, regardless of a Form 1099-K being issued.

18. C — Under the tax benefit rule, a state tax refund is generally included in federal taxable income only to the extent the taxpayer received a federal tax benefit from deducting the corresponding state taxes in the prior year. Since this taxpayer claimed the standard deduction and received no such benefit, the refund is generally not taxable.

19. B — A properly executed direct rollover, where funds move directly from one qualified retirement plan trustee to another without passing through the taxpayer's own hands, is generally not currently taxable, since the tax-deferred status of the funds generally continues uninterrupted until the funds are later actually distributed from the receiving plan.

20. D — Using the specific Social Security benefits worksheet, up to 85% of a taxpayer's Social Security benefits, including disability benefits, may become taxable once the taxpayer's combined income, generally AGI plus tax-exempt interest plus half of the benefits received, exceeds the applicable upper threshold set for that taxpayer's specific filing status.

21. A — A tenant security deposit is generally treated as a liability owed to the tenant rather than as the landlord's own income, so transferring accumulated deposits to a buyer as part of a property sale generally does not itself create taxable income to the seller, though the seller's separate gain on the property sale itself remains taxable.

22. D — A nondividend distribution is generally treated as a nontaxable return of the taxpayer's own invested capital, first reducing the taxpayer's basis in the mutual fund shares; only once the taxpayer's basis has been fully recovered does any additional nondividend distribution generally become taxable, typically treated as capital gain income instead.

23. C — A qualified employee discount on merchandise the employer sells to customers is generally excluded from the employee's taxable wages up to the applicable statutory limit, generally tied to the employer's typical gross profit percentage on that merchandise, with any discount amount exceeding that limit generally becoming taxable compensation to the employee.

24. B — A whistleblower award is generally fully taxable as ordinary income to the recipient, regardless of whether the underlying claim arose under a federal statute or a state statute, since the general taxability of this type of award does not depend on the specific governmental level of the statute under which the claim was actually brought.

25. D — A qualified distribution from the Roth 401(k) portion of an account, meeting the applicable five-year holding period and age or other qualifying event requirement, is generally entirely tax-free, covering both the taxpayer's original after-tax contributions and all accumulated earnings, unlike a distribution from the separate pretax elective deferral portion of the same account.

26. B — Accrued market discount on a bond purchased below its face value is generally treated as ordinary income, rather than capital gain, to the extent of the accrued market discount at the time of the bond's sale, redemption, or other disposition, with any additional gain beyond that accrued market discount amount generally treated as capital gain instead.

27. A — A timely corrective withdrawal of an excess IRA contribution, made before the applicable tax filing deadline including extensions, is generally not treated as a taxable distribution as to the excess contribution amount itself, though any earnings attributable to that excess contribution that are also withdrawn are generally separately taxable as ordinary income.

28. C — Employer-provided group-term life insurance coverage up to $50,000 is generally excludable from an employee's taxable wages, while the cost of coverage exceeding that $50,000 threshold, calculated using the IRS's own uniform premium cost table rather than the policy's actual cost, is generally includible in the employee's own taxable wages instead.

29. B — A signing bonus paid to induce a taxpayer to accept a new job offer is generally fully taxable as ordinary wage income in the year it is actually received by the taxpayer, regardless of whether the taxpayer had already begun actively working for the paying employer at the specific time the bonus payment was made.

30. C — Under the specific rule generally prohibiting IRAs from holding collectibles such as art, antiques, or similar items, the acquisition of a prohibited collectible within an IRA is generally treated as a taxable distribution to the IRA owner, valued at the collectible's cost, in the year the prohibited investment was actually made within the account.

31. D — Under the wash sale rule, a disallowed loss is generally added to the basis of the newly acquired replacement shares, which generally reduces any future gain, or increases any future loss, recognized when those specific replacement shares are eventually sold, effectively deferring rather than permanently eliminating the originally disallowed loss.

32. A — A penalty for early withdrawal of savings from a time deposit such as a certificate of deposit is generally deductible as an above-the-line adjustment to income, available regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction, reported directly on the taxpayer's Schedule 1 for the year the penalty was actually incurred.

33. C — Employer-provided qualified parking is generally excluded from an employee's taxable wages up to the applicable monthly statutory exclusion limit, regardless of the parking's own actual fair market value, with any value provided in excess of that monthly limit generally becoming includible in the employee's own taxable wages instead each month.

34. A — A properly executed rollover of a lump-sum distribution from a qualified pension plan, including a converted cash balance plan, into a traditional IRA is generally not currently taxable, since the tax-deferred status of the funds generally continues uninterrupted until the funds are later actually withdrawn from that specific receiving IRA account.

35. B — A director's fee received by an individual who is not otherwise an employee of the corporation is generally treated as self-employment income, reportable on Schedule C, and generally subject to self-employment tax in addition to regular federal income tax, since serving as a director is generally treated as a trade or business activity.

36. D — Absent a specific taxpayer election to report Series I savings bond interest annually as it accrues, the interest is generally deferred and not includible in taxable income until the bond is actually redeemed, otherwise disposed of, or reaches its final maturity date, whichever of these specific events actually occurs first.

37. B — Qualified unreimbursed medical expenses are generally deductible as an itemized deduction only to the extent they exceed 7.5% of the taxpayer's AGI for the year in question. Here, 7.5% of $60,000 is $4,500, so $6,000 minus $4,500 leaves $1,500 as the deductible medical expense amount allowed on the taxpayer's Schedule A.

38. D — Under current law, the itemized deduction for the combined total of state and local income, sales, and property taxes, generally referred to as the SALT deduction, is generally subject to a specific statutory dollar cap, regardless of the taxpayer's actual total amount paid, a preparer should verify the current applicable cap amount.

39. A — When a qualified charity sells a donated vehicle rather than using it directly in its own charitable activities, the taxpayer's charitable deduction is generally limited to the gross proceeds the charity actually received from that sale, rather than the vehicle's own fair market value at the time of the original donation, with specific substantiation required from the charity.

40. C — When refinanced mortgage debt exceeds the amount of the original acquisition debt being refinanced, interest on the excess amount is generally not deductible as home mortgage interest, since deductibility is generally limited to interest on debt used to buy, build, or substantially improve the home, and using the excess for a wedding does not meet that requirement.

41. D — When a taxpayer actively participates in an employer-sponsored retirement plan, the traditional IRA deduction is generally subject to a specific modified AGI phase-out range that depends on the taxpayer's filing status; at a sufficiently high AGI within or above that range, the deduction is generally partially or fully phased out.

42. B — The student loan interest deduction is generally subject to both an overall annual statutory dollar cap and a separate phase-out based on the taxpayer's modified AGI; when modified AGI falls within the applicable phase-out range, the otherwise allowable deduction is generally reduced proportionally rather than being either fully allowed or fully disallowed.

43. C — For purposes of the Child and Dependent Care Credit, the maximum amount of qualifying expenses that may be used in the credit calculation is generally capped at $3,000 for one qualifying person, or $6,000 for two or more qualifying persons, with the applicable credit percentage then applied to that capped expense amount.

44. A — Gambling losses are generally deductible only as an itemized deduction, and only to the extent of gambling winnings actually reported as income for the year; here, the taxpayer reported $1,200 in winnings, so only $1,200 of the $2,000 in total gambling losses is generally deductible, with the remaining $800 excess generally not deductible.

45. A — The American Opportunity Credit generally provides 100% of the first $2,000 in qualified education expenses plus 25% of the next $2,000, for a maximum credit of $2,500 per eligible student per year; with $5,000 in qualified tuition expenses here, the credit generally caps out at the full $2,500 maximum amount.

46. B — When a taxpayer's taxable income before the QBI deduction falls below the applicable lower threshold of the phase-in range for the taxpayer's filing status, the specified service trade or business limitation generally does not yet apply at all, and the QBI deduction is generally calculated using the full standard rules, regardless of the specific type of business.

47. C — The Adoption Credit is generally a nonrefundable credit, meaning it can reduce current-year tax liability only down to zero, but any unused portion of the credit exceeding that current-year liability may generally be carried forward and used to offset tax liability in up to five subsequent tax years, rather than being entirely forfeited.

48. D — The Earned Income Tax Credit generally imposes a specific annual statutory limit on the amount of investment income, such as interest, dividends, and capital gains, a taxpayer may have and still qualify for the credit; exceeding this specific limit generally disqualifies the taxpayer from claiming the EITC entirely for that year, regardless of qualifying earned income.

49. B — The Child and Dependent Care Credit generally extends beyond care for a qualifying child to also cover care for a taxpayer's spouse who is physically or mentally incapable of self-care, provided the care allows the taxpayer, and the taxpayer's spouse if also working, to be gainfully employed or actively seeking employment during the year.

50. A — Under current law, the itemized deduction for a personal casualty loss is generally limited to losses attributable to a federally declared disaster; a casualty loss from an event, such as a fire, that occurs in a location not declared a federal disaster area is generally not deductible at all as an itemized casualty loss deduction.

51. D — The Lifetime Learning Credit generally equals 20% of qualified education expenses, up to a $10,000 annual expense cap per tax return, for a maximum credit of $2,000. Applying the 20% rate to the $8,000 in actual qualifying expenses here yields $1,600, which is less than the maximum, so the allowable credit is $1,600.

52. C — Ordinary unreimbursed employee business expenses, historically deductible as a miscellaneous itemized deduction subject to a 2% AGI floor, are generally not deductible at all under current law, since this deduction category has generally been suspended, absent a specific statutory exception, such as the exceptions preserved for certain Armed Forces reservists, qualified performing artists, or fee-basis government officials.

53. B — A taxpayer whose foreign tax paid on passive income falls within the applicable simplified de minimis threshold may generally elect to claim the Foreign Tax Credit directly on the return without filing the otherwise generally required Form 1116, simplifying the credit claim process for a taxpayer with only a modest amount of foreign tax paid.

54. A — The Saver's Credit generally applies a credit rate of 50%, 20%, or 10%, depending on the taxpayer's AGI and filing status, to a capped amount of eligible retirement contributions; here, the taxpayer's AGI falls within the applicable 10% tier, so 10% of the $1,500 contribution yields a $150 Saver's Credit for the year.

55. D — When advance Premium Tax Credit payments exceed a taxpayer's actual allowed credit based on final household income, the excess amount generally must be repaid, though repayment is generally subject to a dollar limitation based on household income as a percentage of the federal poverty line, unless income exceeds 400% of that line.

56. D — A charitable contribution is generally deductible only to the extent it exceeds the fair market value of any benefit the donor actually receives in return, though a token benefit of sufficiently minimal value, within a specific safe harbor threshold, is generally disregarded, meaning the full $500 remains deductible here since a $15 token item generally falls within that safe harbor.

57. C — Under the Alternative Minimum Tax system, a taxpayer generally owes the regular tax liability plus any amount by which the separately computed tentative minimum tax exceeds that regular tax liability, meaning the taxpayer effectively pays the higher of the two amounts, ensuring the AMT operates as a genuine minimum tax floor.

58. C — A dependent child's earned income, such as wages from a part-time job, is generally taxed using the child's own individual tax rate schedule, distinct from the kiddie tax rules, which generally apply the parent's marginal tax rate only to the child's net unearned income above the applicable annual threshold, not to the child's separate earned income.

59. A — A net capital loss is generally deductible against ordinary income only up to $3,000 per year, with any remaining unused loss amount generally carried forward indefinitely to future tax years, where it may continue to offset capital gains and, subject to the same $3,000 annual limit, ordinary income in those future years.

60. B — The Additional Medicare Tax generally imposes an extra 0.9% tax, calculated on Form 8959, on the combined amount of Medicare wages, self-employment income, and other compensation exceeding the applicable threshold for the taxpayer's filing status, a separate tax from both the regular 2.9% combined Medicare tax rate and the distinct 3.8% Net Investment Income Tax.

61. B — A taxpayer's filing status generally determines several important factors in the overall tax liability calculation, including the applicable standard deduction amount, the specific tax rate bracket structure applying to taxable income, and eligibility for numerous credits and other tax benefits that generally vary by the taxpayer's own chosen filing status.

62. D — The Credit for the Elderly or the Disabled is generally a nonrefundable credit available to certain taxpayers who are age 65 or older, or who are permanently and totally disabled, calculated using a specific base amount that is generally reduced both by certain nontaxable income received and by an AGI-based phase-out, subject to specific statutory eligibility limitations.

63. C — For a taxpayer whose prior-year AGI exceeded the applicable higher-income threshold, generally $150,000, the estimated tax safe harbor based on prior-year liability generally requires paying in 110% of that prior-year tax liability, rather than the lower 100% safe harbor percentage that generally applies to taxpayers whose prior-year AGI fell at or below that threshold.

64. A — The general ordering rule of applying nonrefundable credits before refundable credits against a taxpayer's computed tax liability generally ensures that nonrefundable credits are properly limited to reducing liability only down to zero, since any unused nonrefundable amount is generally lost, while refundable credits are then applied afterward and can generate an actual refund below zero liability.

65. B — When a taxpayer's net long-term capital gain includes both a standard preferential-rate component and a 28% maximum-rate collectibles component, such as gain from long-held coins, each specific component is generally taxed at its own applicable separate maximum rate, rather than being blended together or defaulting entirely to either rate alone.

66. A — The general order of operations for computing federal income tax proceeds from total income, reduced by above-the-line adjustments to arrive at AGI, further reduced by the standard or itemized deduction and the QBI deduction to arrive at taxable income, at which point tax is computed from that taxable income, with credits then applied afterward to reduce the resulting tax liability.

67. C — For the narrow categories of losses that remain eligible for NOL carryback treatment under current law, a valid carryback generally allows the taxpayer to file an amended return, or a specific application for a tentative refund, seeking a refund of taxes previously paid in the applicable prior carryback year, based on the NOL offsetting that prior year's taxable income.

68. D — A taxpayer who is claimed as a dependent on another return generally has a standard deduction limited to the greater of a specific minimum flat dollar amount or the dependent's own earned income plus a specific additional dollar amount, though this calculated amount generally cannot exceed the regular standard deduction otherwise available for the dependent's own filing status.

69. B — Absent a specific statutory exception, a distribution from a qualified retirement plan taken before the applicable general exception age, generally age 59½, is generally subject to an additional 10%

early distribution tax on the taxable portion of the distribution, imposed in addition to the regular ordinary income tax also owed on that same distribution amount.

70. D — When a taxpayer's total nonrefundable credits exceed the tax liability they are being applied against, the excess amount is generally lost entirely for that year, since a nonrefundable credit generally cannot reduce liability below zero and does not itself generate a refund, unless a specific separate statutory carryforward provision happens to apply to that particular credit.

71. C — One-half of a taxpayer's computed self-employment tax is generally deductible as an above-the-line adjustment to income, available regardless of whether the taxpayer itemizes deductions or instead claims the standard deduction, reflecting the portion of self-employment tax that generally corresponds to the employer-equivalent share of the combined Social Security and Medicare tax.

72. A — The underpayment of estimated tax penalty is generally treated as an interest-based charge for computation purposes, calculated using the applicable federal short-term interest rate plus a specific statutory percentage, applied to the underpaid amount for the specific period it remained underpaid, rather than being assessed as a single fixed flat-dollar penalty amount.

73. C — For the narrow category of taxpayers eligible under the applicable birth-date requirement, ten-year forward income averaging generally allows the taxable portion of a qualifying lump-sum retirement distribution to be taxed as though received evenly over ten separate years, generally reducing the effective marginal tax rate actually applied to that distribution.

74. D — A bargain sale of appreciated property to a qualified charity is generally treated as part sale and part charitable contribution, requiring the taxpayer to allocate basis proportionally between the two portions and recognize gain only on the sale portion, while the discount from fair market value generally qualifies as a charitable deduction.

75. B — A Solo 401(k) generally allows a self-employed individual to make both an employee elective deferral contribution and a separate employer profit-sharing contribution, which can potentially allow a greater total retirement contribution at a given income level compared to a SEP-IRA, which generally allows only the equivalent employer-type contribution amount alone.

76. A — A key general distinction is that exercising an incentive stock option generally does not create regular taxable income at the time of exercise, though it may generally create an Alternative Minimum Tax preference item, while exercising a nonqualified stock option generally creates ordinary taxable income at exercise, equal to the difference between fair market value and the exercise price.

77. A — A properly executed Qualified Charitable Distribution, made directly from an IRA to a qualified charity, generally counts toward satisfying the taxpayer's required minimum distribution while being entirely excluded from the taxpayer's taxable income, a distinct general advantage over simply taking the RMD and then separately claiming an itemized charitable deduction, particularly for a taxpayer using the standard deduction.

78. D — When a personal residence is converted to rental use, an Enrolled Agent should generally advise the taxpayer that the property's basis for depreciation purposes is generally the lesser of its adjusted basis or its fair market value at the specific time of conversion, an important general distinction from simply using the original purchase price in every case.

79. B — A donor-advised fund generally allows a taxpayer to claim an immediate charitable deduction in the year the contribution is actually made to the fund, similar to the bunching strategy, while retaining advisory input over the specific timing and recipient charities of actual grants made from the fund in later years, offering both a current deduction and ongoing giving flexibility.

80. C — An Enrolled Agent should generally explain that claiming Social Security benefits before the taxpayer's full retirement age generally results in a permanently reduced monthly benefit amount, while delaying benefits beyond full retirement age generally increases the eventual monthly benefit amount, up to a specific maximum age, a general trade-off relevant to overall retirement income planning.

81. B — Under current law, a 529 college savings plan distribution used to pay for a beneficiary's qualifying K-12 tuition expenses, up to an applicable annual dollar limit per beneficiary, is generally treated as a tax-free qualified distribution, an expansion of the traditional 529 plan benefit that historically applied only to postsecondary qualified higher education expenses.

82. C — For a taxpayer eligible for a qualifying high-deductible health plan for only part of the year, the HSA contribution limit is generally prorated based on the actual number of months of HDHP eligibility, though a taxpayer eligible on December 1 may generally instead use the full annual limit under the last-month rule, subject to a subsequent testing-period requirement.

83. A — A properly structured like-kind exchange of real property held for investment or business use generally allows the taxpayer to defer recognition of gain that would otherwise be currently taxable, rather than eliminating the gain entirely, with the deferred gain generally carried forward through a reduced basis in the replacement property received in the exchange.

84. D — An Enrolled Agent might generally recommend spreading a Roth conversion across multiple years as a strategy to help avoid pushing the taxpayer into a substantially higher marginal tax bracket in any single conversion year, since converting the entire balance at once could generally cause a disproportionate amount of the conversion to be taxed at the taxpayer's higher marginal rates.

85. D — A backdoor Roth IRA strategy generally involves a high-income taxpayer first making a nondeductible contribution to a traditional IRA, since deductibility may be limited or unavailable, and then converting that traditional IRA contribution to a Roth IRA, a general strategy that works around the direct Roth IRA contribution income phase-out limitation that would otherwise apply.

86. C — An Enrolled Agent might generally discuss comparing the credit card's own after-tax interest rate against the investment account's own realistically expected after-tax rate of return, since paying off high-interest debt is generally economically equivalent to earning a guaranteed return equal to that interest rate, a comparison that often favors debt paydown when the interest rate is relatively high.

87. A — A key general distinction is that a 401(k) plan loan is generally not currently taxable if properly repaid according to the plan's own terms, while a hardship withdrawal is generally currently taxable as ordinary income in the year taken and generally cannot be repaid back into the plan, making the loan option generally more tax-advantageous when repayment is realistically feasible.

88. B — A dual-status taxpayer who changes residency status partway through the tax year generally reports income using dual-status rules, meaning worldwide income is generally taxed for the portion of the year the taxpayer was a resident alien, while generally only U.S.-source income is taxed for the earlier portion of the year the taxpayer was a nonresident alien.

89. B — Because a simple trust is generally required to distribute all of its income currently to its beneficiaries, that income is generally taxed to the beneficiaries who are entitled to receive it, rather than being taxed to the trust itself, consistent with the general pass-through taxation principle that applies to a properly structured simple trust under the fiduciary income tax rules.

90. A — The Controlled Foreign Corporation reporting rules are generally intended to prevent a U.S. shareholder of certain foreign corporations from indefinitely deferring U.S. taxation on specific categories of the foreign corporation's income by simply retaining that income offshore, generally requiring the U.S. shareholder to currently include certain categories of the foreign corporation's income on the shareholder's own U.S. return.

91. D — Worker classification as an employee versus an independent contractor is generally significant, since employee status generally shifts responsibility for income tax withholding and half of the combined Social Security and Medicare tax burden to the employer, while independent contractor status generally makes the worker solely responsible for both halves of that tax burden through self-employment tax.

92. C — The federal estate tax, reported on Form 706, is generally a separate and distinct tax system from the individual income tax, generally imposed on the transfer of a decedent's property at death based on the estate's total value, rather than functioning as an income tax on the estate's own earnings, reported separately on Form 1041.

93. A — A U.S. citizen's foreign rental income is generally included in the taxpayer's worldwide taxable income reported on the U.S. federal income tax return, consistent with the general U.S. taxation of citizens on worldwide income, though a Foreign Tax Credit is generally potentially available to help offset any foreign income tax the taxpayer also paid on that same specific rental income.

94. C — A complex trust's distribution to a beneficiary is generally taxed based on the trust's distributable net income for the year, with the specific character of that income, potentially including both ordinary income and capital gain components, generally passed through to the beneficiary via Schedule K-1, reflecting the trust's own discretionary authority over both income and principal distributions.

95. D — A statutory employee generally receives a Form W-2 from the employer, but with the statutory employee box checked, and generally reports the resulting income on Schedule C rather than directly as wages, allowing the statutory employee to deduct related trade or business expenses in a manner more similar to an independent contractor than to a typical common-law employee.

96. B — Filing arrangements for residents of U.S. territories other than Puerto Rico, such as Guam or the U.S. Virgin Islands, generally vary by specific territory, with some using a mirror-code system requiring filing with the territory itself; an Enrolled Agent should understand which jurisdiction has primary filing authority for that territory's residents.

97. A — A minister's properly designated parsonage or housing allowance is generally excludable from federal income tax to the extent actually used for qualifying housing expenses and not exceeding the home's fair rental value, though the allowance generally remains subject to self-employment tax for the minister's own Social Security and Medicare obligations.

98. B — A distribution from a foreign pension plan that does not qualify as a U.S. qualified retirement plan is generally taxable to a U.S. citizen or resident as ordinary income, though the specific tax treatment, including potential relief from double taxation, generally depends on the terms of any applicable U.S. income tax treaty with that foreign country.

99. C — Under current law, hobby expenses are generally not deductible at all, absent a specific narrow statutory exception, even though the gross income generated by a hobby activity generally remains fully includible in taxable income, a departure from historical treatment that once allowed hobby expenses to be deducted up to the amount of hobby income.

100. D — When a 529 plan distribution exceeds the beneficiary's actual qualified education expenses for the year, the earnings portion of that excess, non-qualified distribution is generally includible in taxable income and generally subject to an additional 10% penalty tax on the earnings portion, though the original principal contribution portion generally remains a tax-free return of the account owner's own basis.